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DONGGUANG CHEMICAL LIMITED

東光化工有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1702)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

The board (the “**Board**”) of directors (“**Directors**”) of Dongguang Chemical Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2024 (the “**Reporting Period**”). The relevant financial figures for the corresponding period in 2023 or other dates/periods are also set out in this announcement for comparative purposes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	1,337,234	1,619,754
Cost of sales		(1,193,807)	(1,495,341)
Gross profit		143,427	124,413
Other income	5	14,492	9,849
Other losses, net	6	(7,837)	(6,571)
Administrative expenses		(21,474)	(24,553)
Distribution expenses		(2,190)	(1,818)
Finance costs	8	(979)	(985)
Profit before income tax	9	125,439	100,335
Income tax expenses	10	(35,644)	(25,878)
Profit for the period		89,795	74,457
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		6,055	9,099
Total comprehensive income for the period attributable to owners of the Company		95,850	83,556
Profit/(loss) for the period attributable to:			
– Owners of the Company		90,126	70,775
– Non-controlling interest		(331)	3,682
		89,795	74,457
Total comprehensive income/(expense) for the period attributable to:			
– Owners of the Company		96,181	79,874
– Non-controlling interest		(331)	3,682
		95,850	83,556
		RMB cents	RMB cents
Earnings per share for profit attributable to the owners of the Company			
– Basic	12	14.5	11.4
– Diluted	12	14.5	11.4

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

		At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
	Notes		
Non-current assets			
Property, plant and equipment	13	846,348	867,340
Investment property		6,863	7,155
Right-of-use assets		152,322	110,358
Unlisted equity investment at fair value through other comprehensive income		40	40
Prepayment for equipment and land lease	16	479	450
Deferred tax assets		145	81
Total non-current assets		1,006,197	985,424
Current assets			
Inventories	14	82,396	114,774
Trade receivables	15	5,568	4,130
Prepayments, deposits and other receivables	16	181,353	193,946
Note receivables		884	–
Financial assets at fair value through profit or loss		–	31
Cash and bank balances		758,077	797,780
		1,028,278	1,110,661
Assets classified as held for sale		5,126	5,126
Total current assets		1,033,404	1,115,787
Current liabilities			
Trade payables	17	50,072	68,674
Deferred revenue		1,947	826
Contract liabilities	5	53,372	104,969
Other payables and accruals	18	72,910	93,344
Financial liabilities at fair value through profit of loss		311	–
Lease liabilities		98	90
Income tax payable		4,568	26,203
Amount due to a non-controlling shareholder of a subsidiary	20(a)	40	40
Total current liabilities		183,318	294,146
Net current assets		850,086	821,641

		At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Non-current liabilities			
Lease liabilities		28,922	27,951
Deferred revenue		10,248	2,344
Deferred tax liabilities		3,196	9,602
		<hr/>	<hr/>
Total non-current liabilities		42,366	39,897
		<hr/>	<hr/>
Net assets		1,813,917	1,767,168
		<hr/>	<hr/>
Capital and reserves attributable to owners of the Company			
Share capital	19	392	392
Reserves		1,809,106	1,758,106
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,809,498	1,758,498
		<hr/>	<hr/>
Non-controlling interests		4,419	8,670
		<hr/>	<hr/>
Total equity		1,813,917	1,767,168
		<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Dongguang Chemical Limited (the “**Company**”) was incorporated in the Cayman Islands on 26 July 2013 as an exempted company with limited liability under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Stock Exchange of Hong Kong Limited. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the “**Group**”) are principally engaged in manufacturing and selling urea in the People’s Republic of China (the “**PRC**”).

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”), issued by the International Accounting Standards Board (“**IASB**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim condensed consolidated financial statements were authorised for issue on 27 August 2024.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2023 annual financial statements, except for those that relate to new standards or amendments effective for the first time for periods beginning on or after 1 January 2024. Details of any changes in accounting policies are set out in note 3. The adoption of the new and revised International Financial Reporting Standards (the “**IFRSs**”) have no material effect on these interim condensed consolidated financial statements.

The preparation of these interim condensed consolidated financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the interim condensed consolidated financial statements and their effect are disclosed in note 4.

These interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2023 annual financial statements. These interim condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with the IFRSs and should be read in conjunction with the 2023 consolidated financial statements.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value.

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

3. CHANGES IN IFRSs

The IASB has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

- Amendment to IFRS 16, Lease Liability in a Sale and Leaseback
- Amendments to IAS 1, Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
- Amendments to IAS 7 and IFRS 7, Supplier Finance Arrangements

The new or amended IFRSs that are effective from 1 January 2024 did not have any significant impact on the Group's accounting policies.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2023 annual financial statements.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold by the Group, after deducting relevant taxes. In the following table, revenue is disaggregated by primary geographical market, major products and timing of revenue recognition.

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Primary geographical market		
– PRC	1,337,234	1,619,754
Major products		
– Sales of urea	1,159,211	1,372,940
– Sales of methanol	66,498	72,649
– Sales of liquid ammonia	3,165	363
– Sales of carbon dioxide	11,975	14,043
– Sales of LNG	13,820	17,247
– Sales of compound fertiliser	28,094	38,547
– Sales of vehicle urea solution	54,471	103,965
	1,337,234	1,619,754
Timing of revenue recognition		
– At a point in time	1,337,234	1,619,754
Other income is presented as follows:		
Government grants	976	1,830
Bank interest income	9,488	3,355
Others	4,028	4,664
	14,492	9,849

The following table provides information about contract liabilities from contracts with customers.

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Contract liabilities	<u>53,372</u>	<u>104,969</u>

Contract liabilities mainly relate to the advance consideration received from customers. During the six months ended 30 June 2024, RMB104,969,000 (year ended 31 December 2023: RMB80,380,000) of the contract liabilities that was included in the balance at the beginning of the period has been recognised as revenue from performance obligation satisfied during the period when the goods were sold.

6. OTHER LOSSES, NET

Other losses, net has been arrived at:

	Six months ended 30 June 2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
(Loss)/Gain on investment recognised at fair value through profit or loss	(1,435)	1,498
Fair value gain/(loss) on investment recognised at fair value through profit or loss	189	(320)
Foreign exchange losses	(6,591)	(10,613)
Gain on written off of trade payable	<u>–</u>	<u>2,864</u>
	<u>(7,837)</u>	<u>(6,571)</u>

7. SEGMENT INFORMATION

Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is manufacturing and selling urea and by-products. The Group's assets and capital expenditure are principally attributable to this business component.

8. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expense in relation to:		
Lease liabilities	<u>979</u>	<u>985</u>

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Auditors' remuneration	368	368
Cost of inventories sold recognised as expense	1,193,807	1,495,341
Depreciation of property, plant and equipment	65,312	64,158
Depreciation of right-of-use assets	1,813	1,773
Depreciation of investment property	292	425
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	49,640	46,333
– Discretionary bonuses	7,306	6,120
– Retirement benefit scheme contributions	7,012	8,773
	<u>63,958</u>	<u>61,226</u>

10. INCOME TAX EXPENSES

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – PRC		
Current tax	36,314	22,377
Withholding tax on dividends	5,800	5,500
Deferred tax		
Credited for the period	(6,470)	(1,999)
	35,644	25,878

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, Samoa and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands, Samoa and British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income arising in Hong Kong during the six months ended 30 June 2024 and 2023.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiary of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the “**New Corporate Income Tax Law**”).

Besides, according to the Notice on Implementing the Policy of Inclusive Tax Relief for Small and Micro Enterprises (“**SMEs**”), released by the Ministry of Finance on January 2021, qualified SMEs with annual taxable income below RMB1 million per year are entitled to a preferential EIT rate of 10% on 25% of their income. Whereas, qualified SMEs with taxable income from RMB1 to 3 million are entitled to a preferential EIT rate of 10% on 50% of their income, one of the subsidiaries is entitled to the preferential tax rate for the period ended 30 June 2024 and 2023.

11. DIVIDENDS AND DISTRIBUTION

During the six months ended 30 June 2024, a final dividend of HK8 cents per ordinary share, absorbing a total amount of approximately HK\$49,675,520 (equivalent to approximately RMB45,181,000) in respect of the year ended 31 December 2023 was approved at the Annual General Meeting held on 23 May 2024. Such final dividend was declared and paid to the shareholders of the Company. The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic and diluted earnings per share	<u>90,126</u>	<u>70,775</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>620,944,000</u>	<u>620,944,000</u>

Basic and diluted earnings per share are the same since there was no potential dilutive ordinary shares outstanding during the six months ended 30 June 2024 and 2023.

13. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the six months ended 30 June 2024, additions to property, plant and equipment approximately amounted to RMB44,320,000 (six months ended 30 June 2023: RMB42,690,000).

14. INVENTORIES

	At	At
	30 June	31 December
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Raw materials	49,148	61,238
Finished goods	29,904	50,045
Parts and spares	<u>3,344</u>	<u>3,491</u>
	<u>82,396</u>	<u>114,774</u>

15. TRADE RECEIVABLES

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Trade debtors	<u>5,568</u>	<u>4,130</u>

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period. The balances with trade debtors were not past due as at 30 June 2024 and 31 December 2023.

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Within 3 months	<u>5,568</u>	<u>4,130</u>

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Other tax recoverable	117,515	90,546
Prepayments for equipment	479	450
Prepayments to coal suppliers	26,753	18,209
Prepayments to employees	1,924	1,390
Deposits	5,757	55,662
Other prepayments and other receivables	<u>34,772</u>	<u>33,507</u>
	187,200	199,764
Less: impairment loss on other receivables	<u>(5,368)</u>	<u>(5,368)</u>
	<u>181,832</u>	<u>194,396</u>

Represented by:

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Current portion	181,353	193,946
Non-current portion	<u>479</u>	<u>450</u>
	<u>181,832</u>	<u>194,396</u>

17. TRADE PAYABLES

Trade payables are non-interest bearing and normally have a credit period of 0 to 90 days.

An ageing analysis of the Group's trade payables, based on the invoice dates is as follows:

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
0 to 90 days	29,146	48,137
91 to 180 days	851	3,410
181 to 365 days	3,764	671
Over 365 days	<u>16,311</u>	<u>16,456</u>
	<u>50,072</u>	<u>68,674</u>

18. OTHER PAYABLES AND ACCRUALS

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Accruals	14,287	22,381
Other payables (<i>note</i>)	<u>58,623</u>	<u>70,963</u>
	<u>72,910</u>	<u>93,344</u>

Note:

Other payables mainly represented payables with construction and manufacturing equipment companies for the purpose of plant improvements, equipment replacements and repairs and maintenance.

19. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount <i>RMB'000</i>
Authorised share capital:			
As at 1 January 2023, 31 December 2023, 1 January 2024 and 30 June 2024			
Ordinary shares at US\$0.0001 each	<u>500,000,000</u>	<u>50,000,000</u>	<u>340,499</u>
Issued share capital:			
As at 1 January 2023, 31 December 2023, 1 January 2024 and 30 June 2024	<u>620,944</u>	<u>62,094</u>	<u>392</u>

20. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) Amount due to a non-controlling shareholder of a subsidiary is unsecured, non-interest bearing and repayable on demand.

(b) **Compensation of key management personnel of the Group**

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	703	655
Retirement benefit scheme contributions	8	8
	<u>711</u>	<u>663</u>
Total compensation paid to key management personnel	<u>711</u>	<u>663</u>

21. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Commitments for the acquisition of property, plant and equipment and leasehold land: – contracted for but not provided	<u>20,819</u>	<u>5,243</u>

22. CONTINGENT LIABILITIES

As at 30 June 2024 and 31 December 2023, neither the Group nor the Company had any significant contingent liabilities.

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in the interim condensed consolidated financial statements, no significant event took place subsequent to 30 June 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2024, the supply and demand pattern of China's urea market was relatively stable. Agricultural demand remains the main driver, especially with the advent of the spring planting season. However, due to the slowdown in global economic growth and the adjustment of the industry, the demand for urea products for industrial use has grown slowly.

During the Reporting Period, in the face of multiple challenges in the market, the Group successfully implemented a number of strategies to maintain competitiveness and growth potential, and achieved solid results, demonstrating strong market performance and technological strength. The Group's net profit increased by approximately RMB15.3 million or 20.5% from approximately RMB74.5 million for the six months ended 30 June 2023 to approximately RMB89.8 million for the Reporting Period. The increase in net profit of the Group was mainly due to an increase in overall gross profit and gross profit margin which was primarily due to the decrease in costs of sales mainly as a result of the decrease in raw materials costs. The decrease in raw material costs was mainly due to the decrease of the average purchase price of coals (being the major raw material for production of the Group's urea products) during the Reporting Period. The Group's revenue decreased by approximately RMB282.6 million or 17.4% from approximately RMB1,619.8 million for the six months ended 30 June 2023 to approximately RMB1,337.2 million for the Reporting Period, mainly due to the decrease in the average selling price of the Group's urea products to approximately RMB2,019 per tonne, representing a decrease of approximately 8.8% from approximately RMB2,213 per tonne for the corresponding period in 2023. In addition, during the Reporting Period, the average selling price of the Group's vehicle urea solution products was approximately RMB979 per tonne, representing a decrease of approximately 47.8% from approximately RMB1,876 per tonne for the corresponding period in 2023. As a result, the Group's revenue generated from the sales of vehicle urea solution decreased by approximately RMB49.5 million or 47.6% from approximately RMB104.0 million for the six months ended 30 June 2023 to approximately RMB54.5 million for the Reporting Period.

In terms of technological innovation, the Group actively promotes the upgrading and improvement of its product lines to meet increasingly stringent market standards and customer needs. Technological innovation and the improvement of product quality have not only consolidated the Group's competitive position in the market, but also enhanced customer loyalty and market reputation. The Group's technical transformation projects in the first half of 2024 include (i) the urea system energy conservation and carbon reduction improvement project, which consists of the use of new energy-saving equipment to replace the original equipment for urea production, to achieve the purpose of energy saving, carbon reduction and cost reduction; and (ii) the granulation tower dust recovery and upgrading project, which replaces the original dust recovery device with a new high-efficiency granulation tower exhaust gas purification system, so as to achieve ultra-low emissions of dust and ammonia, while enhancing the Group's image, and bring positive environmental and social benefits.

The Group strives to improve the level of refined management and energy efficiency. With its outstanding performance in green and low-carbon production, the Group was awarded the "2023 Benchmark for Raw Material, Fuel and Power Consumption in the Ammonia Industry" (fixed layer intermittent coal gasification of synthetic ammonia); 2023 Water Efficiency "Leader" Enterprise (Nitrogen Fertilizer) and 2023 Nitrogen Fertilizer, Methanol Industry Advanced Unit of Energy Conservation and Emission Reduction awards, by the China Nitrogen Fertilizer Industry Association in July 2024. Adhering to the principles of green development, the Group remains committed to prioritizing energy conservation and carbon reduction, promoting circular development, maximizing resource utilization, and implementing cleaner production practices. These efforts aim to advance the sustainable development of our Group and enhance the shareholder value over the longer term.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Six months ended 30 June 2024 RMB'000	Six months ended 30 June 2023 RMB'000	% Change +/(-)
Urea	1,159,211	1,372,940	(15.6)%
Vehicle urea solution	54,471	103,965	(47.6)%
Methanol	66,498	72,649	(8.5)%
Other products	57,054	70,200	(18.7)%
Total	1,337,234	1,619,754	(17.4)%

Urea

During the Reporting Period, the sales volume of urea decreased by approximately 7.4% as compared to the six months ended 30 June 2023. Revenue from urea decreased by approximately RMB213.7 million, or 15.6%, from approximately RMB1,372.9 million for the six months ended 30 June 2023 to approximately RMB1,159.2 million for the Reporting Period, as the average selling price of the Group's urea products decreased by approximately RMB194 per tonne, or 8.8%, from approximately RMB2,213 per tonne for the six months ended 30 June 2023 to approximately RMB2,019 per tonne for the Reporting Period, mainly due to the downward adjustment of the market selling prices of coal chemical related products during the Reporting Period.

Vehicle urea solution

Revenue from vehicle urea solution decreased by approximately RMB49.5 million, or 47.6%, from approximately RMB104.0 million for the six months ended 30 June 2023 to approximately RMB54.5 million for the Reporting Period, mainly due to the decrease in the average selling price because of the slow down in the vehicle urea solution demand during the Reporting Period. The average selling price of the Group's vehicle urea solution products decreased by approximately RMB897 per tonne, or 47.8%, from approximately RMB1,876 per tonne for the six months ended 30 June 2023 to approximately RMB979 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB6.1 million, or 8.4%, from approximately RMB72.6 million for the six months ended 30 June 2023 to approximately RMB66.5 million for the Reporting Period, as the sales volume of methanol decreased by approximately 14.0% for the Reporting Period as compared to the six months ended 30 June 2023. However, the average selling price of the Group's methanol products increased by approximately RMB103 per tonne, or 6.1%, from approximately RMB1,686 per tonne for the six months ended 30 June 2023 to approximately RMB1,789 per tonne for the Reporting Period, mainly due to the increase of energy prices during the Reporting Period.

Other products

Other products include carbon dioxide, liquid ammonia, compound fertiliser and LNG. Revenue from other products decreased by approximately RMB13.1 million, or 18.7%, from approximately RMB70.2 million for the six months ended 30 June 2023 to approximately RMB57.1 million for the Reporting Period, mainly due to the decrease in revenue of the Group's compound fertiliser during the Reporting Period. The decrease in revenue of compound fertiliser was due to decrease in market demand in the Reporting Period.

Cost of sales

The Group's cost of sales decreased by approximately RMB301.5 million, or 20.2%, from approximately RMB1,495.3 million for the six months ended 30 June 2023 to approximately RMB1,193.8 million for the Reporting Period, primarily due to the decrease in raw material costs, and such decrease was partially offset by the increase in labour cost, electricity cost and manufacturing overhead costs during the Reporting Period.

Gross Profit and Gross Profit Margin

	Six months ended 30 June 2024		Six months ended 30 June 2023		Change	
	Gross Profit/ (Loss)	Margin	Gross Profit/ (Loss)	Margin		
	RMB'000	%	RMB'000	%	RMB'000	%
Urea	148,038	12.8	138,627	10.1	9,411	6.8
Vehicle urea solution	983	1.8	12,037	11.6	(11,054)	(91.8)
Methanol	(14,291)	(21.5)	(40,214)	(55.4)	25,923	(64.5)
Other products	8,697	15.2	13,963	19.9	(5,266)	(37.7)
	<u>143,427</u>	<u>10.7</u>	<u>124,413</u>	<u>7.7</u>	<u>19,014</u>	<u>15.3</u>
Total	143,427	10.7	124,413	7.7	19,014	15.3

The Group's gross profit increased by approximately RMB19.0 million, or 15.3%, from approximately RMB124.4 million for the six months ended 30 June 2023, to approximately RMB143.4 million for the Reporting Period, primarily due to the decrease in the Group's costs of sales mainly as a result of the decrease in raw materials costs. The decrease in raw material costs was mainly due to the decrease of the average purchase price of coals (being the major raw material for production of the Group's urea products) during the six months ended 30 June 2024. As a result of the percentage decrease of the Group's cost of sales being greater than the percentage decrease of the Group's revenue during the Reporting Period, the Group's gross profit margin increased from approximately 7.7% for the six months ended 30 June 2023 to approximately 10.7% for the Reporting Period.

Other income

Other income increased by approximately RMB4.7 million, or 48.0%, from approximately RMB9.8 million for the six months ended 30 June 2023, to approximately RMB14.5 million for the Reporting Period, primarily due to increase in bank interest income in the Reporting Period.

Other losses, net

Other losses (net) increased by approximately RMB1.2 million, or 18.2%, from approximately RMB6.6 million for the six months ended 30 June 2023, to approximately RMB7.8 million for the Reporting Period, primarily due to the loss on investment recognised at fair value through profit or loss for the Reporting Period.

Administrative expenses

Administrative expenses decreased by approximately RMB3.1 million, or 12.6%, from approximately RMB24.6 million for the six months ended 30 June 2023 to approximately RMB21.5 million for the Reporting Period, primarily due to the decrease in repairs and maintenance expenses for the Reporting Period.

Distribution expenses

Distribution expenses increased by approximately RMB0.4 million, or 22.2%, from approximately RMB1.8 million for the six months ended 30 June 2023 to approximately RMB2.2 million for the Reporting Period, primarily due to increase in staff costs.

Finance costs

There was no material fluctuation for finance costs between the Reporting Period and the six months ended 30 June 2023.

Taxation

Income tax expenses increased by approximately RMB9.7 million, or 37.5%, from approximately RMB25.9 million for the six months ended 30 June 2023 to approximately RMB35.6 million for the Reporting Period primarily due to the increase in profit before income tax.

Profit for the period

Profit for the period increased by approximately RMB15.3 million, or 20.5%, from approximately RMB74.5 million for the six months ended 30 June 2023 to approximately RMB89.8 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB19.0 million, increase in other income of approximately RMB4.7 million and the decrease in administrative expenses of approximately RMB3.1 million. The increase in profit for the Reporting Period was partially offset by the increase in other losses (net) of approximately RMB1.2 million and increase in taxation of approximately RMB9.7 million.

CAPITAL STRUCTURE

As at 30 June 2024, the Group had net assets of approximately RMB1,813.9 million (as at 31 December 2023: approximately RMB1,767.2 million), comprising of non-current assets of approximately RMB1,006.2 million (as at 31 December 2023: approximately RMB985.4 million), and current assets of approximately RMB1,033.4 million (as at 31 December 2023: approximately RMB1,115.8 million), which primarily consist of cash and bank balances amounted to approximately RMB758.1 million (as at 31 December 2023: approximately RMB797.8 million). Moreover, inventories amounted to approximately RMB82.4 million (as at 31 December 2023: approximately RMB114.8 million) and prepayments, deposits and other receivables amounted to approximately RMB181.4 million (as at 31 December 2023: approximately RMB193.9 million) are also major current assets. The Group recorded a net current asset position of approximately RMB850.1 million as at 30 June 2024 (as at 31 December 2023: approximately RMB821.6 million). Major current liabilities are trade payables amounted to approximately RMB50.1 million (as at 31 December 2023: approximately RMB68.7 million), other payables and accruals amounted to approximately RMB72.9 million (as at 31 December 2023: approximately RMB93.3 million) and contract liabilities amounted to approximately RMB53.4 million (as at 31 December 2023: RMB105.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2024, the Group had cash and bank balances of approximately RMB758.1 million (as at 31 December 2023: approximately RMB797.8 million) and had no interest-bearing bank borrowings (as at 31 December 2023: Nil).

As at 30 June 2024, as the Group had no interest-bearing bank borrowings and had no bank and other borrowings repayable within five years, the gearing ratio for the Group (which is calculated based on bank and other borrowings of the Group divided by equity attributable to owners of the Company) was 0% (as at 31 December 2023: 0%). The Group would serve its debts primarily by cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment obligations whilst supporting its working capital requirements and future expansion.

PROSPECTS

Looking ahead, China's urea market will continue to face multiple challenges and opportunities. It is expected that in the second half of the year, the market will continue to be affected by low economic growth, energy price volatility and domestic policy adjustments, and producers will need to remain flexible in response to market changes while strengthening environmental protection measures to comply with national standards. Demand from the agricultural sector will remain the main support for the market, while demand for industrial use urea is likely to fluctuate due to changes in global economic conditions. Under the main theme of green energy saving, the fertilizer industry has entered a critical period of transformation and development, and national policy will continue to encourage the enhancement of scientific and technological innovation capabilities, the development of environmentally friendly and efficient new chemical fertilizers, and it is expected that high-end, differentiated and green products will become a new trend in the development of the industry.

In addition, under the development trend of “low-carbon and green”, the urea industry has been a key-focus industrial area, and China continues to introduce policies to guide the upgrading and transformation of the industry to eliminate outdated production capacity and reduce urea production costs. The green and low-carbon transformation of the industry will also provide broad development opportunities for enterprises, and the characteristics of green, low-carbon and environmentally friendly products have become widely recognized by the market, and the industrial chain advantages of companies that have realized the layout of resources will be further highlighted. The Group will actively follow the development trend of the industry, continuously improve the production process, reduce production costs, improve product quality, and maximize the efficiency of raw materials and energy utilization while effectively achieving energy conservation and emission reduction, so as to comprehensively enhance synergetic benefits.

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign exchange risk during the Reporting Period arising from various currency exposures mainly to the extent of its bank balances in currency denominated in Hong Kong dollars.

The Group does not have a formal foreign currency hedging policy nor conducts hedging exercise to reduce its foreign currency exposure. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should it be necessary.

CAPITAL COMMITMENTS

As at 30 June 2024, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB20.8 million (as at 31 December 2023: RMB5.2 million).

CHARGE ON ASSETS

As at 30 June 2024 and 31 December 2023, there was no charge over any assets of the Group.

CONTINGENT LIABILITIES

As at 30 June 2024, the Group did not have any material contingent liabilities (as at 31 December 2023: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2024, the Group employed a total of 1,302 employees (as at 31 December 2023: 1,292 employees). The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the Reporting Period, the total staff costs (including directors' emoluments) amounted to approximately RMB64.0 million (six months ended 30 June 2023: RMB61.2 million). The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, for their contribution to the Group.

EVENTS AFTER THE REPORTING PERIOD

There is no event that will have material impact on the Group from the end of the Reporting Period to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries or associated companies of the Company during the Reporting Period.

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Company during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the Reporting Period.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “**Audit Committee**”) consists of the independent non-executive Directors, namely Mr. Ng Sai Leung, Mr. Liu Jincheng and Ms. Lin Xiuxiang. Mr. Ng Sai Leung is the Chairman of the Audit Committee.

The Audit Committee has reviewed and discussed with the management of the Group on the interim results of the Group for the Reporting Period, including the accounting treatment, principles and practices adopted by the Group, and discussed financial related matters, with no disagreement.

The interim results of the Group for the Reporting Period have been reviewed by the Company’s auditor, BDO Limited, in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

CORPORATE GOVERNANCE

The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) set out in Part 2 of Appendix C1 to the Listing Rules. The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has complied with the code provisions set out in Part 2 of the CG Code throughout the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct of the Company governing Directors’ securities transactions throughout the Reporting Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.dg-chemical.com. The interim report for the Reporting Period will be despatched to the shareholders of the Company and will be published on the aforesaid websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to thank the management and all staff for their hard work and dedication, as well as the shareholders of the Company and customers of the Group for their support.

By order of the Board
Dongguang Chemical Limited
東光化工有限公司
Wang Chunmeng
Chairman

The PRC, 27 August 2024

As at the date of this announcement, the Board comprises Mr. WANG Chunmeng, Mr. WANG Zhihe, Mr. SUN Zushan and Mr. XU Xijiang as executive directors; Ms. CHEN Jimin as non-executive director; Ms. LIN Xiuxiang, Mr. LIU Jincheng and Mr. NG Sai Leung as independent non-executive directors.