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**DONGYUE GROUP LIMITED**

**東岳集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 189)**

**ANNOUNCEMENT OF INTERIM RESULTS FOR 2019**

**FINANCIAL HIGHLIGHTS**

*(in RMB million, unless otherwise stated)*

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
Revenue	<b>6,047</b>	7,373
Gross Profit	<b>1,712</b>	2,478
Gross Profit Margin	<b>28.31%</b>	33.61%
Profit before Tax	<b>1,072</b>	1,845
Profit for the period	<b>950</b>	1,365
Profit for the Period attributable to owners of the Company	<b>837</b>	1,207
Basic Earnings per Share (RMB)	<b>0.40</b>	0.57
	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2019</b>	2018
Total Equity	<b>8,957</b>	9,392
Net Assets per Share (RMB)	<b>4.24</b>	4.45

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		<b>Six months ended 30 June</b>	
		<b>2019</b>	2018
		<b>RMB'000</b>	RMB'000
	<i>Notes</i>	<b>(unaudited)</b>	(unaudited)
Revenue	3	<b>6,046,967</b>	7,373,158
Cost of sales		<u><b>(4,334,970)</b></u>	<u>(4,894,747)</u>
Gross profit		<b>1,711,997</b>	2,478,411
Other income	4	<b>47,078</b>	49,144
Distribution and selling expenses		<b>(181,055)</b>	(180,878)
Administrative expenses		<b>(308,478)</b>	(395,789)
Research and development expenses		<b>(143,010)</b>	(66,924)
Finance costs		<u><b>(54,619)</b></u>	<u>(38,547)</u>
Profit before tax		<b>1,071,913</b>	1,845,417
Income tax expense	5	<u><b>(122,130)</b></u>	<u>(480,250)</u>
Profit for the period	6	<u><b>949,783</b></u>	<u>1,365,167</u>
Other comprehensive loss for the period:			
Item that will not be reclassified subsequently to profit or loss:			
Fair value change an equity investments		<u><b>(341,596)</b></u>	<u>(6,500)</u>
Profit and total comprehensive income for the period		<u><b>608,187</b></u>	<u>1,358,667</u>
Profit for the period attributable to:			
– Owners of the Company		<b>837,246</b>	1,207,272
– Non-controlling interests		<u><b>112,537</b></u>	<u>157,895</u>
		<u><b>949,783</b></u>	<u>1,365,167</u>
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		<b>495,650</b>	1,200,772
– Non-controlling interests		<u><b>112,537</b></u>	<u>157,895</u>
		<u><b>608,187</b></u>	<u>1,358,667</u>
Earnings per share	8		
– Basic (RMB)		<b>0.40</b>	0.57
– Diluted (RMB)		<u><b>0.40</b></u>	<u>0.57</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	<i>Notes</i>	<b>At 30 June 2019 RMB'000 (unaudited)</b>	At 31 December 2018 RMB'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		4,043,231	3,860,200
Right-of-use assets		694,464	–
Prepayments for purchase of property, plant and equipment		152,918	89,160
Prepaid lease payments		–	535,564
Intangible assets		80,936	82,237
Equity investments at fair value through other comprehensive income		1,609,798	1,801,394
Deferred tax assets		168,834	213,741
Goodwill		<u>123,420</u>	<u>123,420</u>
		<u><b>6,873,601</b></u>	<u>6,705,716</u>
<b>Current assets</b>			
Inventories		985,191	1,106,721
Properties for sale		3,058,570	3,033,638
Prepaid lease payments		–	15,766
Trade and other receivables	9	1,815,190	1,967,730
Tax receivables		16,384	–
Pledged bank deposits		223,820	363,133
Bank balances and cash		<u>3,388,451</u>	<u>3,331,147</u>
		<u><b>9,487,606</b></u>	<u>9,818,135</u>

		<b>At 30 June 2019</b>	At 31 December 2018
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Current liabilities</b>			
Trade and other payables	10	2,405,334	2,701,711
Contract liabilities		1,870,039	1,632,556
Borrowings		923,700	873,150
Dividend payable		650,400	–
Tax liabilities		–	296,488
Lease liabilities		3,995	–
Deferred income		25,391	21,636
		<u>5,878,859</u>	<u>5,525,541</u>
<b>Net current assets</b>		<u>3,608,747</u>	<u>4,292,594</u>
<b>Total assets less current liabilities</b>		<u>10,482,348</u>	<u>10,998,310</u>
<b>Capital and reserves</b>			
Share capital		200,397	200,397
Reserves		7,887,171	8,136,209
Equity attributable to the owners of the Company		8,087,568	8,336,606
Non-controlling interests		869,889	1,055,593
<b>Total equity</b>		<u>8,957,457</u>	<u>9,392,199</u>
<b>Non-current liabilities</b>			
Deferred income		269,893	285,782
Deferred tax liabilities		130,230	111,029
Borrowings		1,078,000	1,209,300
Lease liabilities		46,768	–
		<u>1,524,891</u>	<u>1,606,111</u>
		<u>10,482,348</u>	<u>10,998,310</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Attributable to owners of the Company										
	Share Capital RMB'000	Share premium RMB'000	Fair value through other comprehensive income ("FVTOCI") reserve RMB'000	Merger reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note c)	Share purchase reserve under employee option scheme RMB'000	Retained earnings RMB'000	Total RMB'000	non- controlling interests RMB'000	Total RMB'000
<b>Balance at 1 January 2018</b>											
(audited)	200,397	1,224,924	-	(32,210)	113,076	812,982	-	4,390,563	6,709,732	602,679	7,312,411
Adjustment on initial application of IFRS 9	-	-	(19,809)	-	-	-	-	-	(19,809)	-	(19,809)
Adjustment balance at 1 January 2018	200,397	1,224,924	(19,809)	(32,210)	113,076	812,982	-	4,390,563	6,689,923	602,679	7,292,602
Profit for the period	-	-	-	-	-	-	-	1,207,272	1,207,272	157,895	1,365,167
Other comprehensive expenses:											
Fair value change on equity interests	-	-	(6,500)	-	-	-	-	-	(6,500)	-	(6,500)
Transfer	-	-	-	-	529	478	-	(478)	529	99	628
Capital contribution from non- controlling interests	-	-	-	-	143,583	-	-	-	143,583	276,612	420,195
Acquisition of further interest in a subsidiary from non-controlling interests	-	-	-	-	(58,128)	-	-	-	(58,128)	(62,260)	(120,388)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(59,168)	(59,168)
Dividends declared	-	-	-	-	-	-	-	(515,168)	(515,168)	-	(515,168)
<b>Balance at 30 June 2018 (unaudited)</b>	<u>200,397</u>	<u>1,224,924</u>	<u>(26,309)</u>	<u>(32,210)</u>	<u>199,060</u>	<u>813,460</u>	<u>-</u>	<u>5,082,189</u>	<u>7,461,511</u>	<u>915,857</u>	<u>8,377,368</u>
<b>Balance at 1 January 2019 (audited)</b>	200,397	1,224,924	(72,711)	(32,210)	198,731	962,016	-	5,855,459	8,336,606	1,055,593	9,392,199
Profit and total comprehensive income for the year	-	-	-	-	-	-	-	837,246	837,246	112,537	949,783
Fair value change on equity interests	-	-	(341,596)	-	-	-	-	-	(341,596)	-	(341,596)
Transfer	-	-	-	-	871	-	-	-	871	314	1,185
Purchase of existing issued shares	-	-	-	-	-	-	(109,939)	-	(109,939)	-	(109,939)
Dividends declared	-	-	-	-	-	-	-	(635,619)	(635,619)	-	(635,619)
Dividends paid to minority shareholder	-	-	-	-	-	-	-	-	-	(298,556)	(298,556)
<b>Balance at 30 June 2019 (unaudited)</b>	<u>200,397</u>	<u>1,224,924</u>	<u>(414,307)</u>	<u>(32,210)</u>	<u>199,602</u>	<u>962,016</u>	<u>(109,939)</u>	<u>6,057,086</u>	<u>8,087,569</u>	<u>869,888</u>	<u>8,957,457</u>

*Notes:*

- (a) Merger reserve arose in group reorganisation completed in 2006.
- (b) On 16 November 2007, the Company repurchased all of the 275,000,000 previously issued ordinary shares of US\$0.1 each and these repurchased ordinary shares were cancelled with all of the authorised but unissued share capital as of that date. On the same date, the authorised share capital was increased to HK\$400,000,000 by the creation of 4,000,000,000 new ordinary shares of HK\$0.1 each. 275,000,000 new ordinary shares of HK\$0.1 each were then issued to the shareholders existing on 15 November 2007. The excess of the repurchased amount over the nominal amount of new shares issued was credited directly to the capital reserve.

The acquisitions of additional interest from non-controlling shareholders of subsidiaries were recognised as transactions with non-controlling interests and the corresponding discount/premium were credited/debited directly against capital reserve.

- (c) In accordance with the Company Law of People's Republic of China ("PRC") and the relevant Articles of Association, the PRC subsidiaries of the Company are required to appropriate amount equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to the statutory surplus reserve.

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation is not required. According to the Company Law of the PRC, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>1,268,936</u></b>	<b><u>1,738,581</u></b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(561,830)	(379,594)
Proceeds from disposals of property, plant and equipment	10,939	54,965
Purchase of intangible assets	(29,642)	(22,419)
Payment for right-of-use assets	(101,765)	–
Share purchase under employee option scheme	(109,939)	–
Interest received	14,417	8,313
Proceeds from/(Payment for) release of pledged bank deposits	139,313	(66,507)
Dividend income from available-for-sale investments	10,800	–
(Payment for)/Refund from available-for-sale investments	(150,000)	6,174
Acquisition of interest in a subsidiary from minority shareholders	–	(120,389)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(777,707)</u></b>	<b><u>(519,457)</u></b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	450,000	1,038,000
Repayment of borrowings	(530,750)	(711,921)
Interest paid	(54,619)	(38,547)
Dividends paid	(298,556)	(59,168)
Capital contribution from non-controlling interests	–	420,195
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>	<b><u>(433,925)</u></b>	<b><u>648,559</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>57,304</b>	<b>1,867,683</b>
<b>CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR</b>	<b><u>3,331,147</u></b>	<b><u>1,471,116</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		
represented by:		
<b>Bank balances and cash</b>	<b><u><u>3,388,451</u></u></b>	<b><u><u>3,338,799</u></u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2019*

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases—incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

**a. New definition of a lease**

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from that use.



The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

**b. Lessee accounting and transitional impact**

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment and land use right. For an explanation of how the Group applies lessee accounting.

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.51%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- (iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	<b>1 January 2019</b> <i>RMB'000</i>
Operating lease commitments at 31 December 2018	67,107
Less: total future interest expenses	<u>(14,412)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	<u>52,695</u>
Total lease liabilities recognised at 1 January 2019	<u><u>52,695</u></u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 <i>RMB'000</i>	Capitalisation of operating lease <i>RMB'000</i>	Reclassification of lease prepayments <i>RMB'000</i>	Carrying amount at 1 January 2019 <i>RMB'000</i>
<b>Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:</b>				
Right-of-use assets	–	52,695	551,330	604,025
Prepaid lease prepayments	535,564	–	(535,564)	–
<b>Total non-current assets</b>	<b>6,705,716</b>	<b>52,695</b>	<b>15,766</b>	<b>6,774,177</b>
Prepaid lease payments	15,766	–	(15,766)	–
<b>Total current assets</b>	<b>9,818,135</b>	<b>–</b>	<b>(15,766)</b>	<b>9,802,369</b>
Lease liabilities (current)	–	3,907	–	3,907
<b>Current liabilities</b>	<b>5,525,541</b>	<b>3,907</b>	<b>–</b>	<b>5,529,448</b>
<b>Net current assets/liabilities</b>	<b>4,292,594</b>	<b>(3,907)</b>	<b>(15,766)</b>	<b>4,272,921</b>
<b>Total assets less current liabilities</b>	<b>10,998,310</b>	<b>48,788</b>	<b>–</b>	<b>11,047,098</b>
Lease liabilities (non-current)	–	48,788	–	–
<b>Total non-current liabilities</b>	<b>1,606,111</b>	<b>48,788</b>	<b>–</b>	<b>1,654,899</b>
<b>Net assets</b>	<b>9,392,199</b>	<b>–</b>	<b>–</b>	<b>9,392,199</b>

**c. Impact on the financial result, segment results and cash flows of the Group**

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of comprehensive income, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result and cash flows for the interim period ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	Interim period ended 30 June 2019			Interim period ended 30 June 2018 Compared to amounts reported for the interim period ended 30 June 2018 as if under IAS 17	
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C) RMB'000	Hypothetical amounts for the interim period ended 30 June 2019 as if under IAS 17 (D=A+B-C) RMB'000	2018 Compared to amounts reported for the interim period ended 30 June 2018 as if under IAS 17 RMB'000
<b>Financial result for interim period ended 30 June 2019 impacted by the adoption of IFRS 16:</b>					
Profit from operations	1,126,532	2,395	(3,120)	1,125,807	1,883,964
Finance costs	(54,619)	1,189	-	(53,430)	(38,547)
Profit before taxation	1,071,913	3,584	(3,120)	1,072,377	1,845,417
Profit for the year	<u>949,783</u>	<u>3,584</u>	<u>(3,120)</u>	<u>950,247</u>	<u>1,365,167</u>

	Interim period ended 30 June 2019			Interim period ended 30 June 2018 Compared to amounts reported for the interim period ended 30 June 2018 as if under IAS 17	
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B) RMB'000	Hypothetical amounts for the interim period ended 30 June 2019 as if under IAS 17 (C=A+B) RMB'000	Hypothetical amounts for the interim period ended 30 June 2019 as if under IAS 17 (C=A+B) RMB'000	2018 Compared to amounts reported for the interim period ended 30 June 2018 as if under IAS 17 RMB'000
<b>Line items in the consolidated cash flow statement for interim period ended 30 June 2019 impacted by the adoption of IFRS 16:</b>					
Net cash generated from operating activities	1,268,936	(3,121)	1,265,815	1,265,815	1,738,581
Capital element of lease rentals paid	(1,932)	1,932	-	-	-
Interest element of lease rentals	(1,189)	1,189	-	-	-
Net cash generated from/(used in) financing activities	<u>(433,925)</u>	<u>3,121</u>	<u>(430,804)</u>	<u>(430,804)</u>	<u>648,559</u>

*Note 1:* The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

*Note 2:* In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

**d. Leasehold investment property**

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of IFRS 16 does not have a significant impact on the Group’s financial statements as the Group previously elected to apply IAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

**e. Lessor accounting**

In addition to leasing out the investment property referred to in paragraph d. above, the Group does not lease out any other assets as the lessor of operating leases.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group’s financial statements in this regard.

**3. SEGMENT INFORMATION**

The Group’s operations are organised based on the different types of products and property development. Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of products and property development. This is the basis upon which the Group is organised.

The Group’s operating and reportable segments are as follows:

- Polymers;
- Refrigerants;
- Organic silicone;
- Dichloromethane, PVC and liquid alkali;

- Property development – development of residential properties at Shandong Province, the PRC.
- Other operations – manufacturing and sales of side-products of refrigerants segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

#### Six months ended 30 June 2019

	Polymers RMB'000	Refrigerants RMB'000	Dichloromethane		Property development RMB'000	Reportable segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
			Organic Silicone RMB'000	PVC and liquid alkali RMB'000					
External sales	1,858,999	1,527,608	1,371,546	785,793	352,992	5,896,938	150,029	-	6,046,967
Inter-segment sales	-	918,238	-	3,795	-	922,033	438,512	(1,360,545)	-
Total revenue – segment revenue	<u>1,858,999</u>	<u>2,445,846</u>	<u>1,371,546</u>	<u>789,588</u>	<u>352,992</u>	<u>6,818,971</u>	<u>588,541</u>	<u>(1,360,545)</u>	<u>6,046,967</u>
SEGMENT RESULTS	<u>300,241</u>	<u>332,988</u>	<u>252,739</u>	<u>153,879</u>	<u>35,697</u>	<u>1,075,544</u>	<u>76,229</u>	<u>-</u>	1,151,773
Unallocated corporate expenses									(25,241)
Finance costs									(54,619)
Profit before tax									<u>1,071,913</u>

#### Six months ended 30 June 2018

	Polymers RMB'000	Refrigerants RMB'000	Dichloromethane		Property development RMB'000	Reportable segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
			Organic Silicone RMB'000	PVC and liquid alkali RMB'000					
External sales	2,030,656	1,635,984	1,783,005	891,740	132,163	6,473,548	899,610	-	7,373,158
Inter-segment sales	79,403	1,494,167	-	123,532	-	1,697,102	513,364	(2,210,466)	-
Total revenue – segment revenue	<u>2,110,059</u>	<u>3,130,151</u>	<u>1,783,005</u>	<u>1,015,272</u>	<u>132,163</u>	<u>8,170,650</u>	<u>1,412,974</u>	<u>(2,210,466)</u>	<u>7,373,158</u>
SEGMENT RESULTS	<u>606,249</u>	<u>412,306</u>	<u>598,700</u>	<u>145,056</u>	<u>(47,365)</u>	<u>1,714,946</u>	<u>174,416</u>	<u>-</u>	1,889,362
Unallocated corporate expenses									(5,398)
Finance costs									(38,547)
Profit before tax									<u>1,845,417</u>

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies as described in note 2. Segment results represent the results of each segment without allocation of unallocated other income, central administration costs, directors' salaries, share of result of associates and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. No segment information on assets and liabilities is presented as such information is not reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

#### 4. OTHER INCOME

	<b>Six months ended 30 June</b>	
	<b>2019</b> <i>RMB'000</i> <b>(unaudited)</b>	<b>2018</b> <i>RMB'000</i> <b>(unaudited)</b>
Government grants ( <i>note</i> )	<b>20,372</b>	25,319
Bank deposits interest income	<b>15,037</b>	8,313
Dividend income	<b>10,800</b>	–
Others	<b>869</b>	15,512
	<b><u>47,078</u></b>	<b><u>49,144</u></b>

*Note:*

The government grants are mainly for the expenditures on research activities which are recognised as expenses in the period in which they are incurred.

#### 5. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2019</b> <i>RMB'000</i> <b>(unaudited)</b>	<b>2018</b> <i>RMB'000</i> <b>(unaudited)</b>
PRC enterprise income tax ("EIT")		
– Current year	<b>171,650</b>	404,573
– (Over)/Under provision in prior years	<b>(97,835)</b>	1,332
– Land Appreciation Tax ("LAT" ( <i>note a</i> ))	<b>(15,792)</b>	(13,771)
	<b><u>58,023</u></b>	<b><u>392,134</u></b>
Deferred tax charge		
– Withholding tax for distributable profits of PRC subsidiaries ( <i>note b</i> )	<b>26,360</b>	37,340
– Others	<b>37,747</b>	50,776
	<b><u>64,107</u></b>	<b><u>88,116</u></b>
Total income tax expense	<b><u>122,130</u></b>	<b><u>480,250</u></b>

Notes:

- (a) LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.
- (b) According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No.1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax asset/liability of RMB26,360,000 (six months ended 30 June 2018: RMB37,340,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the period.

## 6. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

Profit and total comprehensive income for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Amortisation of intangible assets	31,405	5,977
Depreciation of property, plant and equipment	<u>302,607</u>	<u>362,467</u>
	<u>334,012</u>	<u>368,444</u>
Cost of inventories recognised as an expense	4,160,116	4,579,184
Depreciation assets of right-of-use/Release of prepaid lease payments	<u>8,931</u>	<u>7,295</u>

## 7. DIVIDENDS

During the interim period ended 30 June 2019, a final dividend of HK\$0.35 per share amounting to HK\$739,091,309 in respect of the year ended 31 December 2018, equivalent to RMB635,619,000 has been declared and the amount has been paid as at the date of interim report.



## 8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2019 '000 (unaudited)	2018 '000 (unaudited)
Earning for the year attributable to owners of the Company for The purposes of basic and diluted earnings per share (RMB)	<u>837,246</u>	<u>1,207,272</u>
Weighted average number of ordinary shares for The purposes of basic and diluted earnings/(loss) per share	<u>2,111,689</u>	<u>2,111,689</u>

## 9. TRADE AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
	Trade receivables	1,256,342
Less: allowance for doubtful debts	<u>(4,988)</u>	<u>(2,853)</u>
	1,251,354	1,484,856
Prepayments for raw materials	234,657	222,709
Value added tax receivables	68,575	76,142
Deposits and other receivables	<u>260,604</u>	<u>184,023</u>
	<u>1,815,190</u>	<u>1,967,730</u>

Included in the trade receivables are bills receivable amounting to RMB912,754,000 at 30 June 2019 (31 December 2018: RMB1,249,734,000).

Customers are generally granted with credit period of less than 90 days for trade receivables. Bills receivables are generally due in 90 days or 180 days. The following is an aging analysis of trade receivables, net of allowance for doubtful debts presented based on the invoice date, also approximate the date of revenue recognition, which are recognised by the Group at the end of the reporting period.

	<b>30 June 2019 RMB'000 (unaudited)</b>	31 December 2018 RMB'000 (audited)
Within 90 days	708,089	1,297,163
91-180 days	527,812	174,479
180-365 days	15,453	13,214
	<u>1,251,354</u>	<u>1,484,856</u>

## 10. TRADE AND OTHER PAYABLES

	<b>30 June 2019 RMB'000 (unaudited)</b>	31 December 2018 RMB'000 (audited)
Trade payables ( <i>note</i> )	1,547,058	1,620,043
Receipt in advance from customers	136,913	133,019
Payroll payable	344,678	405,741
Payable for property, plant and equipment	45,094	161,564
Other tax payables	33,262	90,556
Construction cost payables for properties under development for sale	113,015	112,742
Other payables and accruals	185,314	178,046
	<u>2,405,334</u>	<u>2,701,711</u>
Total	<u>2,405,334</u>	<u>2,701,711</u>

*Note:*

Included in the trade payables are bills payable amounting to RMB222,000,000 (31 December 2018: RMB237,055,000). Bills payable are secured by the Group's pledged bank deposits.

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The following is an analysis of trade payables by age, presented based on invoice date:

	<b>30 June 2019 RMB'000 (unaudited)</b>	31 December 2018 RMB'000 (audited)
Within 30 days	812,743	822,980
31-90 days	439,240	595,215
91-180 days	172,073	141,672
181-365 days	39,245	41,282
1-2 years	77,908	11,728
More than 2 years	5,849	7,166
	<u>1,547,058</u>	<u>1,620,043</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

After experiencing a significant increase in the past two years, the operating results of the Group has declined during the period under review. From the overall situation, changes in domestic and overseas economic conditions have posed great impact on the results for the period. During the first half of the year, the growth rate of domestic economy has been slowing, while the international trade situation was worrying since trade conflicts between China and the United States has further exerted pressure on the economy. Under the influence of various factors, the market demand for fluorosilicone in the first half of the year was not stable and the product prices fluctuated to a larger extent, resulting in a greater impact on the Group's results during the first half of this year. Despite all these challenges, the Group was still able to obtain the following achievements:

1. For production, the Group was operating with stability. Amid the volatile market condition, utilization rate of devices reached a relatively high level and the upstream and the downstream of the supply chain cooperated smoothly which guaranteed the stability of production and laid a foundation for market development for the Group. In respect of sales, the Group seized the market and managed to balance the production and sales of its products. Sales volume of certain major products even slightly increased in a generally weak environment. Although the market was difficult, the Group actively implemented strategies for production and sales to further strengthen the Group's leading position in the industry.
2. Regarding safety and environmental protection, the Group maintained a serious and cautious attitude. In the first half of the year, the Group joined hands with various capable third-party institutions in order to facilitate multi-dimensional management enhancement and improvement to the Group's safety, environmental protection, occupational safety and other aspects so as to effectively ensure the efficient operation of the supply chain of the Group. During the period, the Group established a comprehensive professional assessment mechanism which covers aspects including behavioural safety, equipment safety, process safety, electrical instrument safety and environmental protection management, gradually forming a safety and environmental protection management culture for Dongyue of "to review instead of pushing hard; to explain rules with examples". Meanwhile, the Group has also vigorously put its effort in emission reduction. Water discharges of the Group decreased continuously and some of our subsidiaries achieved the goal of "zero" discharge of waste water.
3. In terms of technology, the Group has always adhered to independent innovation and vigorously improved its research and development capabilities. During the period, the Group's research and development expenses increased significantly year-on-year. In terms of the achievement of research and development, the Group completed 12 projects of technological transformation, environmental protection and automation upgrading, and expanded 2 production projects. It applied for 9 patents and obtained 11 patents. The improvement of technology has reduced the

unit consumption of various major products in the first half of the year, and the consumption of raw materials and electricity consumption has decreased year-on-year. This has played an important role in reducing costs and increasing efficiency, and has played a buffering role in the decline in performance caused by market factor. At the same time, the research and development of new products also laid a solid foundation for the future market development, among which, the high-density low-pore pressure chlorinated ion-exchange membrane and ETFE resin have passed the scientific and technological achievements appraisal of the Petrochemical Union, which also demonstrated the leading position of the Group in the industry.

4. During the period, some subsidiaries of the Group established branches in Beijing and Shanghai and built R&D centers. This initiative is conducive to attracting professionals and expanding the R&D team. In addition, the “621” Climbing Plan launched by the Group has established joint laboratories with 13 universities in the first half of this year, and has carried out more than 20 cooperation projects. In the current period, it has hired and integrated 116 educated talents including academicians, academic leaders, professors, and doctors. We have reserved talents and technology for the development of the group.
5. In terms of internal control, the Group’s improved internal control system functions have been fully utilized in recent years. During the period, the Group’s internal auditing efforts were strengthened, errors were timely corrected. The Group enhanced risk prevention and control, created an auditing supervision model and an auditing service system under the new format, and effectively fulfilled the auditing supervision function to ensure the stable development of the Group.
6. The Group has further improved itself in terms of automatization and informatization. During the period, upon adjustment by the automatization system, the self-control rate and the stability rate of devices of the Group were generally enhanced. Abnormal vehicle breakdown and impacts on production caused by malfunction of factors such as craft, electricity, meter, equipment were reduced significantly; informatized management for unattended weighbridge and hazardous chemicals vehicles was put into operation, enhancing measurement efficiency and lowering transportation risks.
7. Besides, many subsidiaries of the Group were recognized as high and new technology enterprise, which are encircled to enjoying preferential tax rate policies, saving a large amount of taxes for the Group.

## Prospect

During the period under review, the Group strengthened its leading position in the industry by leveraging its advantages in industry chain, park economy, safety and environmental protection as well as information management. However, the current economic and industry situation is still grim. In response to this, the Group has made the following strategic deployments for the second half of the year:

1. The industry market condition for the year is not optimistic and demand remains sluggish. Therefore, the Group's market strategy will first be to maintain a stable operation, maintain a quality assurance supply and maintain quality and core customers. On the basis of maintaining stable operation, the Group will also pay attention to market trends, continue to increase marketing efforts, seize the market and increase market share. In the second half of the year, the Group will launch an activity of "innovative increment" to access the incentive task index increment, new market application increment and gross profit increment, formulate innovative marketing measures and improve our ability to respond to the market. In addition, the Group will also strengthen customer management in the context of trade wars and secure customers.
2. Safety and environmental protection requirements remain stringent this year, and ensuring that the production of safety and environmental protection products are still a prerequisite condition for normal production and operation. Although the cost of safety and environmental protection is relatively high, the Group will not slacken its efforts in this respect and will continue to increase its efforts in managing safety and environmental protection to ensure the normal operation of the Company's production and operation. In this regard, the Group will further promote the Dupont Security Management project to achieve systematic and standardized management.
3. The Group will propel research and development efforts, build new production technologies and cost competition advantages around technological innovation and product innovation, and continue to enhance the proportion of new products, new markets and new applications in operating income as the target and support for long-term development. The Group will improve product conversion rate through technological transformation, improve equipment operation efficiency, reduce manufacturing costs, promote the application of high-efficiency energy-saving technologies, and achieve green development. For the existing products, the Group will improve the product quality through technological transformation and accelerate the substitution of imported products. For the research and development of new products, the Group will seize market opportunities, develop new products in the market, and occupy the market by taking advantage of trade barriers. This will not only achieve the purpose of market development, but also improve the industrial structure of the Group to high-end and high. Value-added product transformation. The Group will formulate research project management system, R&D market information management system, R&D institution financial management system, and scientific and technological innovation incentive system to improve R&D motivation and quality.

4. In response to risk management, the Group will increase the coverage of risk control, strengthen internal control construction, and improve internal control self-evaluation standards and systems with a risk-oriented approach. The Group will also speed up the upgrading and application of ERP informatization, achieve network of services both inside and outside the Group, utilize information technology to reduce loopholes, avoid violation of laws and regulations, and utilize ERP system to supplement audit to achieve “full process management”, and improve the business process through internal comprehensive review. The Group will adopt “zero tolerance” treatment for violations of laws and regulations, and combine audit supervision with legal sanctions to seriously investigate and punish violations.
5. Amid industry downturn, improving management and exploring ways to saving resources would be an important measure for enterprises to respond to the industry downturn. The Company will promote cost reduction, explore ways to saving resources and save energy to increase efficiency. Persons-in-charge at all levels shall strictly control expenses, implement the system solemnly, formulate measures to reduce costs and increase efficiency, tiding over crisis.

2019 is a relatively tough year for the fluorosilicone industry, but the tough environment can reflect the competitiveness of companies in the industry. Dongyue will continue to focus on developing the fluorosilicone industry. Leveraging advantages in various aspects such as industry chain, park economy, safety and environmental protection as well as technological innovation, we will stand firm amid adversity, strive to create promising profits for our shareholders in return to our shareholders’ long-term trust and support for Dongyue.

## **Financial review**

### ***Results Highlights***

For the six months ended 30 June 2019, the Group recorded revenue of approximately RMB6,046,967,000, representing an decrease of 17.99% over RMB7,373,158,000 of the corresponding period last year. The gross profit margin decreased to 28.31% (corresponding period of 2018: 33.61%) and the consolidated segment results margin\* was 19.05% (corresponding period of 2018: 25.62%). The operating results margin\*\* was 18.63% (corresponding period of 2018: 25.99%). During the period under review, the Group recorded profit before tax of approximately RMB1,071,913,000 (corresponding period of 2018: RMB1,845,417,000), and net profit of approximately RMB949,783,000 (corresponding period of 2018: RMB1,365,167,000), while the profit and total comprehensive income was approximately RMB608,187,000 (corresponding period of 2018: RMB1,358,667,000). The decrease in profit and total comprehensive income is mainly attributable to a decrease in fair value in an equity investment, in addition to a decrease in profit during this period. Basic earnings per share were RMB0.40 (corresponding period of 2018: RMB0.57). The unaudited consolidated results of the Group have been reviewed by the Audit Committee and the external auditor of the Company.

\* Consolidated Segment Results Margin = Consolidated Segment Results ÷ Revenue × 100%

\*\* Operating Results Margin = (Profit before Tax + Finance Costs + Share of Results of Associates) ÷ Revenue × 100%

## Segment Revenue and Operating Results

Set out below is the comparison, by reportable and operating segments, of the Group's revenue and results for the six months ended 30 June 2019 and the six months ended 30 June 2018:

Reportable and Operating Segments	For the six months ended 30 June 2019			For the six months ended 30 June 2018		
	Revenue RMB'000	Results RMB'000	Segment Results Margin	Revenue RMB'000	Results RMB'000	Segment Results Margin
Fluoropolymer	1,858,999	300,241	16.15%	2,030,656	606,249	29.85%
Refrigerants	1,527,608	332,988	21.80%	1,635,984	412,306	25.20%
Organic silicone	1,371,546	252,739	18.43%	1,783,005	598,700	33.58%
Dichloromethane, PVC and Liquid Alkali	785,793	153,879	19.59%	891,740	145,056	16.27%
Property development	352,992	35,697	10.11%	132,163	(47,365)	(35.84)%
Others	150,029	76,229	50.81%	899,610	174,416	19.39%
Total	<u>6,046,967</u>	<u>1,151,773</u>	<u>19.05%</u>	<u>7,373,158</u>	<u>1,889,362</u>	<u>25.62%</u>

## Analysis of Revenue and Operating Results

During the period under review, due to the changes in domestic and international economic conditions and downturn in industry landscape, the results of most of the Group's segment declined to a certain extent year-on-year. Therefore, apart from the property development segment, the revenue of the external sales of major business segments of the Group declined to varying degrees. In terms of segment performance, only the property development segment and the dichloromethane, PVC and Liquid Alkali segment have increased, and other segments have declined to varying degrees. The declined of Fluoropolymer segment and the organic silicone segment were relatively more obvious.

### Fluoropolymer

The fluoropolymer segment has also experienced declining results during the period and was one of the two segments with significant declines in the main business segments. During the period under review, the income from external sales of Fluoropolymer decreased by 8.45% from the same period of last year to approximately RMB1,858,999,000 (the first half of 2018: approximately RMB2,030,656,000), accounting for 30.74% of the total revenue (the first half of 2018: 27.54%), which has been one of the Group's largest income contributors in recent years. The results of the segment decreased by 50.48% from approximately RMB606,249,000 from the same period of last year to approximately RMB300,241,000. Since the second half of last year, the demand for downstream Fluoropolymer has gradually cooled down, which returned the ultra-high price from the first half of last year to a stable

rate. The decrease in product price during the period under review was not very significant. However, the overpriced products of this segment in the first half of the year led to a year-on-year decline in price, which resulted in a year-on-year decline in terms of result.

The raw materials of the fluoropolymer segment are R22 and R142b produced by the Group. R22 is used to produce TFE (a fluorocarbon) which is, in turn, used to produce PTFE (a synthetic fluoropolymer with strong resistance to temperature changes, electrical insulation, and ageing and chemical resistance that is used as a coating material and can also be further processed into high-end fine chemicals and be widely applied in chemicals, construction, electrical and electronics and automotive industries) and HFP (an important organic fluorochemical monomer, which can be used to produce various fine chemicals). Furthermore, the refrigerants segment of the Group supplied R22 and R142b as the raw materials for producing a variety of downstream fluoropolymer fine chemicals, including FEP (fluorinated ethylene propylene, modified materials of PTFE, produced with HFP added in TFE, mainly used in the lining for wire insulation layers, thin-walled tubes, heat shrinkable tubes, pumps, valves and pipes), FKM (fluorine rubber, a specialized fluorinated material mainly used in the fields of aerospace, automotive, machinery and petrochemical industries because of its superior mechanical property and excellent resistance to oil, chemicals and heat), PVDF (the fluorocarbon polymerized from VDF which is produced from R142b, mainly used in a fluorine coating resin, fluorinated powder coating resin and lithium battery electrode binding material) and VDF, of which Shandong Huaxia Shenzhou New Materials Co., Ltd. (“Huaxia Shenzhou”) has been engaged in the production. In addition, the membrane functional materials mainly operated by Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd., which was newly established by the Group, are classified into this segment.

### ***Refrigerants***

During the period, the income from external sales of the refrigerant segment decreased by 6.62% from RMB1,635,984,000 of the corresponding period of last year to approximately RMB1,527,608,000, accounting for 25.26% of the total revenue (the first half of 2018: 22.19%). The results of the segment recorded approximately RMB332,988,000 (the first half of 2018: approximately RMB412,306,000), representing a year-on-year decrease of 19.24%. The price of the products in this segment in the first half of the year recorded varying degrees of decreases, of which the decrease of R22 is relatively lower, which can be attributable to the quota restriction, while the drop of other refrigerants is relatively higher. During the period, downstream refrigerants manufacturers cleared inventory backlogs, and therefore the demand for refrigerants reduced and the price was in turn lowered. The price of the products has decreased, whereas the price of their raw materials has not decreased by the same proportion, resulting in a decline in the results of this segment.

The refrigerant segment’s products mainly include traditional refrigerants (mainly R22) and new green and environment-friendly refrigerant products (mainly R32, R125, R134a and R410a). The products are sold to both domestic and international customers, with some products being supplied to the fluoropolymer segment as raw materials. Being the core product of this segment, R22 is the most widely used refrigerant in China and is generally used in household appliances. R22 also serves as the key raw material for our several main products (such as PTFE and HFP) produced by the fluoropolymer segment. R125 and R32 are the key refrigerant mixtures for some mixed green refrigerants (such as



R410a) to replace R22. R134a is mainly used for air conditioners of automobile, while R152a is used as a refrigerant, blowing agent, aerosol and cleaning agent. R142b serves as a refrigerant, temperature control medium, intermediate of aviation propellant and raw materials for producing VDF.

### ***Organic Silicone***

After experiencing significant growth over the past years, the results of organic silicone relatively declined during the period. During the period, the revenue from external sales of the organic silicone segment decreased by 23.08% from RMB1,783,005,000 of the corresponding period of last year to approximately RMB1,371,546,000, while the proportion of revenue decreased from 24.18% of the corresponding period of last year to 22.68%. The results of the segment recorded approximately RMB252,739,000 (the first half of 2018: approximately RMB598,700,000), representing a year-on-year decrease of 57.79%. Affected by the domestic and international economic and trading conditions, the downstream demand for organic silicone has tightened. Since the fourth quarter of last year, the market price of organic silicone products has showed a significant decrease, while the price of raw materials did not show a corresponding year-on-year decrease, resulting in a significant decline in the results of this segment.

The organic silicone segment mainly includes the production and sales of DMC (upstream organic silicone intermediates that are used as raw materials to produce deep processed mid-stream and downstream silicone products, such as silicone oils, silicone rubber and silicone resins), 107 Silicone Rubber, Raw Vulcanizate and Gross Rubber (collectively referred to as “Silicone Rubbers”, deep processed organic silicone rubber products, where Raw Vulcanizate is a key material for producing Gross Rubber), and other by-products and other high-end downstream products, such as Gaseous Silica and Silicone Oils. Named as “Industrial MSG”, organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals stabilizers, lubricants and sealants and is a key ingredient in industrial processes. The segment produces silicone monomers with silicone powder and the Group’s self-produced chloromethane and further processes them into silicone intermediates (mainly DMC). Certain portion of the silicone intermediates are for sales and the remaining portion is used to produce Silicone Rubbers and other organic silicone products for this segment.

### ***Dichloromethane, PVC and liquid alkali***

The revenue from external sales of the dichloromethane, PVC and liquid alkali segment decreased by 11.88% from approximately RMB891,740,000 of the corresponding period of last year to approximately RMB785,793,000, accounting for an increase from 12.09% of the corresponding period of last year to 12.99% of the total revenue. The results of the segment increased from approximately RMB145,056,000 of the corresponding period of last year to approximately RMB153,879,000, representing an increase of 6.08%. Most products of the segment are basic chemical products, which were largely affected by the economic conditions and policies. As the domestic and international economic conditions for the period were not optimistic, the product price of this segment was also greatly affected, which led to a decrease in the revenue of the external sales; the price of raw materials has also fallen sharply with the market. Therefore, the results of the segment have increased slightly.

The segment's main products are methane chloride, liquid alkali and PVC. Methane chloride includes dichloromethane, which is for sales and mainly used to produce antibiotics and served as a foaming mode for polyurethane. Other ingredients of methane chloride are used as a raw material for production in the refrigerant segment and the organic silicone segment. Liquid alkali is a basic chemical product for the production of methane chloride and used in the textile, power and materials industries. The PVC (a thermoplastic polymer) produced by the segment is mainly used in the construction industry to replace traditional building materials. The basic raw material for producing PVC is hydrogen chloride, which is generated during production of refrigerants. Therefore, the production of PVC has boosted the economic value created by the self-sufficient industry chain.

### ***Property development***

As at the date hereof, this segment included four property projects, which are located in Huantai County, Zibo City, Shandong Province, Zhangdian District, Zibo City, Shandong Province, Yucheng City, Shandong Province, and Zhangjiajie City, Hunan Province, respectively. Some of the projects are under construction, while some have commenced sales. During the period under review, the income from external sales of this segment recorded approximately RMB352,992,000, and the results of the segment recorded approximately RMB35,697,000. The property projects of this segment were not launched on a large scale in the corresponding period of last year, but for this year, most of the projects were officially open for sales, leading to a significant increase in the results of this segment.

### ***Others***

This segment includes the revenue from the production and sale of other by-products from the Group's operating segments, such as Ammonium Bifluoride, Hydrofluoric Acid and Bromine. During the period under review, the income from external sales of this segment decreased by 83.32% from RMB899,610,000 of the corresponding period of last year to approximately RMB150,029,000. The profit of this segment decreased by 56.29 from RMB174,416,000 of the corresponding period of last year to approximately RMB76,229,000.

### ***Distribution and Selling Expenses***

During the period, the distribution and selling expenses increased slightly by 0.1% to RMB181,055,000 from RMB180,878,000 of the corresponding period last year. Excluding a decrease in the products prices, the sales volume increased during the period leading to subtle increase in the distribution and selling expense.

### ***Administrative Expenses***

During the period, the administrative expenses decreased by 22.06% to RMB308,478,000 from RMB395,789,000 of the corresponding period last year, which was mainly attributable to (i) a decrease in the provision of staff bonus during the period; and (ii) a decrease in the written-off expenses of idle assets of the Company.

### ***Finance Costs***

During the period, the finance costs increased by 41.69% to RMB54,619,000 from RMB38,547,000 of the corresponding period last year, which was mainly attributable to increase in average monthly loan balances of the Group during the period, compared to the corresponding period last year.

### ***Capital Expenditure***

For the six months ended 30 June 2019, the Group's aggregate capital expenditure was approximately RMB591,472,000 (six months ended 30 June 2018: RMB898,184,000). The Group's capital expenditure mainly for the construction of factories, equipment, production line for the new operation projects of the Group.

### ***Liquidity and Financial Resources***

The Group's financial position is sound with healthy working capital management and strong operating cash flow. As at 30 June 2019, the Group's total equity amounted to RMB8,957,457,000 representing a decrease of 4.63% compared with 31 December 2018. As at 30 June 2019, the Group's bank balances and cash totaled RMB3,388,451,000 (31 December 2018: RMB3,331,147,000). During the period under review, the Group generated a total of RMB1,268,936,000 (six months ended 30 June 2018: RMB1,738,581,000) net cash inflow from its operating activities. The decrease in operating cash inflow is mainly attributable to a decrease in revenue during the period. The current ratio<sup>(1)</sup> of the Group as at 30 June 2019 was 1.61 (31 December 2018: 1.78).

Taking the above figures into account, together with the available bank balances and cash, the unutilized banking credit facilities and support from its bank as well as its sufficient operational cash flows, the management is confident that the Group will have adequate resources to settle any debts and to finance its daily operational and capital expenditures.

### ***Capital Structure***

During the period, save as disclosed in the section headed "Employee Option Scheme" in this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. The number of issued shares of the Company is 2,111,689,455 as at 30 June 2019.

As at 30 June 2019, the borrowings of the Group totaled RMB2,001,700,000 (31 December 2018: RMB2,082,450,000). The gearing ratio<sup>(2)</sup> of the Group was -18.32% (31 December 2018: -15.33%). The negative gearing ratio as at 30 June 2019 represents the Group is "net cash" positive (i.e. has more cash & equivalents than its debt).

## ***Group Structure***

During the period under review, there has been no material change in the structure of the Group.

*Notes:*

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

## ***Charge on Assets***

As at 30 June 2019, the Group has the certain property, plant and equipment and lease prepayments with the aggregate carrying amount of approximately RMB10,422,000 (31 December 2018: RMB10,747,000) and bank deposits of RMB111,000,000 (31 December 2018: RMB82,700,000), which were pledged to secure the Group's borrowings and the bills payable of the Group.

The bank deposits of RMB112,820,000 (31 December 2018: RMB280,433,000) were pledged to the contract liabilities of deposits from pre-sale of properties of the Group.

## ***Exposure to Fluctuations in Exchange Rates and Related Hedges***

The Group's functional currency is RMB with most of the transactions settled in RMB. However, foreign currencies (mainly the United States dollar) were received/paid when the Group earned revenue from overseas customers and when settling purchases of machinery and equipment from the overseas suppliers.

In order to reduce the risk of holding foreign currencies, the Group normally converts the foreign currencies into RMB upon receipt while taking into account its foreign currencies payment schedule in the near future.

## ***Employees***

The Group employed 5,808 employees in total as at 30 June 2019 (31 December 2018: 5,876). The Group implemented its remuneration policy and bonus based on the performance of the Group and its employees. The Group provided benefits such as medical insurance, employee option scheme and pensions to ensure competitiveness.

### ***Interim Dividend***

The Board of Directors (the “Board”) did not declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## **OTHER INFORMATION**

### **Purchase, Sale or Redemption of the Company’s Listed Securities**

During the current period, save as disclosed in the section headed “Employee Option Scheme” in this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

### **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) contained in Appendix 10 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the HKSE. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2019 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

### **Audit Committee**

The Audit Committee of the Company was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. The existing Audit Committee comprises Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yang Xiaoyong and Mr. Yue Rundong, all being independent non-executive Directors.

The Audit Committee met with the management and external auditors on 14 August 2019, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group’s interim results for the six months ended 30 June 2019, which have been reviewed by the Group’s external auditors, before proposing them to the Board for approval.

### **Remuneration Committee**

The Company has established a Remuneration Committee with written terms of reference to consider for the remuneration for Directors and senior management of the Company and other related matters. The Remuneration Committee comprises Mr. Yang Xiaoyong (Chairman) and Mr. Ting Leung Huel, Stephen, who are independent non-executive Directors, and Mr. Zhang Jianhong who is an executive Director.

## **Nomination Committee**

The Company established a Nomination Committee with written terms of reference on 18 March 2012 to be responsible for the appointment of new Director(s) of the Company and other related matters. Mr. Zhang Jianhong was appointed as the chairman of the Nomination Committee and Mr. Ting Leung Huel, Stephen and Mr. Yang Xiaoyong were appointed as the members of the Nomination Committee.

## **Corporate Governance Committee**

The Corporate Governance Committee was established by the Board with written terms of reference with effect from 21 March 2013 to be responsible for the corporate governance of the Company and other related matters. Mr. Zhang Jianhong was appointed as the chairman of the Corporate Governance Committee and Mr. Liu Chuanqi and Mr. Zhang Bishu were appointed as the members of the Corporate Governance Committee.

## **Risk Management Committee**

The Risk Management Committee was established by the Board with written term of reference with effect from 13 August 2015 to be responsible for the risk management of the Company and other related matters. Mr. Ting Leung Huel, Stephen was appointed as the chairman of the Risk Management Committee, Mr. Yang Xiaoyong and Mr. Yue Rundong were appointed as the members of the Risk Management Committee.

## **Risk management and internal control**

The Board of Directors is responsible for assessing and determining the nature and extent of the risks that the Group is willing to accept in reaching its strategic objectives and to ensure that the Group has established and maintained appropriate and effective risk management and internal control systems. The Board of Directors has supervised the management's design, implementation and monitoring of risk management and internal control systems. The Board confirmed that it is responsible for establishing risk management and internal control systems for the Group and will continue to monitor the system and ensure to review the effectiveness of the risk management and internal control systems of the Company and its principal subsidiaries at least once a year.

The Company has also appointed an independent consulting firm as its internal control adviser to conduct an internal review of the Group, and to provide recommendations to the Company.

The Company's Board of Directors, Audit Committee and Risk Management Committee have also confirmed that they have reviewed the effectiveness of the risk management and internal control systems of the Group and its principal subsidiaries, covering all important monitoring aspects of the Group, including strategic, financial, operational and compliance monitoring.

The Company has also conducted procedures of risk management, which mainly include:

- 1) Identify risk and form risk list;
- 2) Based on the possibility of various types of potential risks and the concerns of the management of the Group, combined with the risk of financial losses, make risk assessment on the impact of operational efficiency, sustainable development capacity and reputation, and prioritize them;
- 3) Identify risk management measures for significant risks, conduct evaluations of the design of risk management measures, and improve the deficiencies through formulating measures;
- 4) Develop risk management manuals for risk management, identify the responsibilities for the management, Board of Directors, Audit Committee and Risk Management Committee in risk management, and continuously monitor risk management;
- 5) The management has reported to the Audit Committee and Risk Management Committee on the review and assessment of risk management, major risk factors and related response measures.

### **Compliance with the Code on Corporate Governance Practices**

The HKSE has promulgated the Hong Kong Code on Corporate Governance Practices (the “Code”) which came into effect for listed issuers’ first financial year commencing on or after 1 January 2005. Afterwards, the HKSE has made revision to the Code (“the Revised Code”) which becomes effective from 1 January and 1 April 2012 and 1 September 2013.

Throughout the six months ended 30 June 2019, save as disclosed below, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for Code Provision A.2.1.

#### ***Code Provision A.2.1***

There was a deviation from Code Provision A.2.1 of the Code:

Provision Code A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Jianhong is both the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning. Further, the Board considers that this structure will not impair the balance of power, which has been closely monitored by the Board, which comprises experienced and high caliber individuals. The Board has full confidence in Mr. Zhang and believes that the current arrangement is beneficial to the business prospect of the Group.

## **Employee Option Scheme**

On 27 December 2018, the Company adopted an employee option scheme (the “Employee Option Scheme”) which shall be valid and effective for a term of five (5) years. The purposes of the Employee Option Scheme are (i) to recognize the contributions by certain employees or consultants of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

Pursuant to the Employee Option Scheme, Shandong Dongyue Future Enterprise Management Consulting Services Co., Ltd., a wholly-owned subsidiary of the Company, as the trustee (the “Trustee”) will purchase existing Shares from the market out of cash contributed by the Group of not more than HK\$800,000,000 in total at all material times and hold such Shares on trust for the relevant employees or consultants of the Group selected by the Board (the “Selected Employees”). The Board may, from time to time, at its absolute discretion grant to any Selected Employee the right to purchase the relevant Shares (the “Option”). The Selected Employee may, when exercising the Option, elect the number of Shares which he wishes to (i) be transferred and/or (ii) sell and receive the difference, if any, between the sale price of the Shares and the exercise price of the Option.

During the six months ended 30 June 2019, Shares in the amount of RMB109,939,000 (approximately HK\$125,229,525) have been purchased by the Trustee under the Employee Option Scheme. No Options have been granted under the Employee Option Scheme up to the date of this report.

The Employee Option Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

Further details of the Employee Option Scheme are set out in the Company’s announcement dated 27 December 2018.

## **ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT**

This interim results announcement is published on the Company’s website at [www.dongyuechem.com](http://www.dongyuechem.com) and the website of the HKSE at [www.hkexnews.hk](http://www.hkexnews.hk). The Interim Report will also be available at the websites of the Company and the HKSE and will be dispatched to shareholders of the Company before the end of September 2019.

By Order of the Board  
**Dongyue Group Limited**  
**Zhang Jianhong**  
*Chairman*

The PRC, 15 August 2019

*As at the date of this announcement, the directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Zhang Zhefeng, Mr. Zhang Bishu and Mr. Zhang Jian as executive directors, and Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Yue Run Dong as independent non-executive directors.*