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 2018

FINANCIAL HIGHLIGHTS
(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Revenue	**7,373**	4,790
Gross Profit	**2,478**	1,505
Gross Profit Margin	**33.61%**	31.42%
Profit before Tax	**1,845**	953
Profit and Total Comprehensive Income for the Period	**1,365**	751
Profit and Total Comprehensive Income for the Period attributable to owners of the Company	**1,207**	710
Basic Earnings per Share (RMB)	**0.57**	0.34

	As at	
	30 June 2018	31 December 2017
Total Equity	**8,377**	7,312
Net Assets per Share (RMB)	**3.97**	3.46

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	*3*	**7,373,158**	4,789,657
Cost of sales		**(4,894,747)**	(3,284,215)
Gross profit		**2,478,411**	1,505,442
Other income	*4*	**49,144**	38,574
Distribution and selling expenses		**(180,878)**	(163,670)
Administrative expenses		**(395,789)**	(313,293)
Research and development expenses		**(66,924)**	(50,023)
Finance costs		**(38,547)**	(61,419)
Share of results of associates		**–**	(2,902)
Profit before tax		**1,845,417**	952,709
Income tax expense	*5*	**(480,250)**	(202,277)
Profit for the period	*6*	**1,365,167**	750,432
Profit attributable to:			
– Owners of the Company		**1,207,272**	710,402
– Non-controlling interests		**157,895**	40,030
		1,365,167	750,432
Earnings per share	*8*		
– Basic (RMB)		**0.57**	0.34
– Diluted (RMB)		**0.57**	0.34
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss:			
Fair value change an equity investments		**(6,500)**	–
Profit and total comprehensive income for the period		**1,358,667**	750,432
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		**1,200,772**	710,402
– Non-controlling interests		**157,895**	40,030
		1,358,667	750,432

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

	Notes	**30 June 2018 *RMB'000* (unaudited)**	31 December 2017 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**3,756,278**	3,804,155
Prepayments for purchase of property, plant and equipment		**50,937**	50,013
Prepaid lease payments		**459,793**	466,666
Intangible assets		**98,089**	81,647
Available-for-sale investments		**1,188,809**	1,221,292
Deferred tax assets		**192,504**	246,398
Goodwill		**123,420**	123,420
		5,869,830	5,993,591
Current assets			
Inventories		**1,048,592**	989,229
Properties for sale		**2,346,513**	1,805,943
Prepaid lease payments		**14,332**	14,754
Trade and other receivables	*9*	**1,871,817**	1,970,471
Pledged bank deposits		**99,367**	32,860
Bank balances and cash		**3,338,799**	1,471,116
		8,719,420	6,284,373

	Notes	30 June 2018 *RMB'000* (unaudited)	31 December 2017 *RMB'000* (audited)
Current liabilities			
Trade and other payables	*10*	**2,916,565**	2,345,168
Contract liabilities		**610,303**	359,918
Borrowings		**637,700**	1,076,021
Tax liabilities		**216,100**	94,485
Deferred income		**32,963**	25,359
		4,413,631	3,900,951
Net current assets		**4,305,789**	2,383,422
Total assets less current liabilities		**10,175,619**	8,377,013
Capital and reserves			
Share capital		**200,397**	200,397
Reserves		**7,261,114**	6,509,335
Equity attributable to the owners of the Company		**7,461,511**	6,709,732
Non-controlling interests		**915,857**	602,679
Total equity		**8,377,368**	7,312,411
Non-current liabilities			
Deferred income		**212,743**	227,721
Deferred tax liabilities		**76,308**	92,081
Borrowings		**1,509,200**	744,800
		1,798,251	1,064,602
		10,175,619	8,377,013

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company									
	Share Capital *RMB'000*	Share premium *RMB'000*	FVTOCI reserve *RMB'000*	Merger reserve *RMB'000* *(Note a)*	Capital reserve *RMB'000* *(Note b)*	Statutory Surplus reserve *RMB'000* *(Note c)*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2017 (audited)	200,397	1,224,924	–	(32,210)	102,040	737,882	3,154,975	5,388,008	298,243	5,686,251
Profit and total comprehensive income for the period	–	–	–	–	–	–	710,402	710,402	40,030	750,432
Transfer	–	–	–	–	460	–	–	460	86	546
Dividend paid	–	–	–	–	–	–	(1,120)	(1,120)	–	(1,120)
Balance at 30 June 2017 (unaudited)	200,397	1,224,924	–	(32,210)	102,500	737,882	3,864,257	6,097,750	338,359	6,436,109
Balance at 1 January 2018 (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)
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
Contributions from minority shareholders	–	–	–	–	143,583	–	–	143,583	276,612	420,195
Acquisition of further interest in a subsidiary from minority shareholders	–	–	–	–	(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)
Balance at 30 June 2018 (unaudited)	200,397	1,224,924	(26,309)	(32,210)	199,060	813,460	5,082,189	7,461,511	915,857	8,377,368

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 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**1,738,581**	371,745
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(379,594)**	(307,313)
Proceeds from disposals of property, plant and equipment	**54,965**	–
Purchase of intangible assets	**(22,419)**	(3,019)
Interest received	**8,313**	3,651
(Payment for)/Proceeds from release of pledged bank deposits	**(66,507)**	59,158
Changes of deposit for acquisition of an associate	**–**	59,800
Cash inflow from acquisition of a subsidiary	**–**	1,968
Cash refund from/(paid for acquisition of) available-for-sale investments	**6,174**	(120,000)
Acquisition of interest in a subsidiary from minority shareholders	**(120,389)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(519,457)**	(305,755)
FINANCING ACTIVITIES		
Proceeds from borrowings	**1,038,000**	272,000
Repayment of borrowings	**(711,921)**	(942,400)
Interest paid	**(38,547)**	(61,421)
Dividends paid	**(59,168)**	–
Capital contribution from non-controlling interests	**420,195**	–
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**648,559**	(731,821)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,867,683**	(665,831)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	**1,471,116**	2,082,361
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	**3,338,799**	1,416,530

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the amendments to International Financial Reporting Standards ("IFRSs").

IFRS 9	Financial Instruments; and
IFRS 15	Revenue from contracts with customers

The impact of the adoption of these standards and the nature and effect of the change in accounting policies are further described below.

IFRS 9 – Financial Instruments

IFRS 9 replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" that relate to the classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting.

In accordance with the transitional provisions in IFRS 9, the Group has taken the exemption under IFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in opening accumulated losses as at 1 January 2018. Accordingly, the information presented for 2017 has been presented, as previously reported, under IAS 39.

The amount by which each financial statement line item is affected by the adoption of IFRS 9 on the date of initial application is shown as follows:

	Carrying amount as at 31 December 2017 *RMB'000*	Effect of adoption of IFRS 9 *(note (ii))* *RMB'000*	Carrying amount as at 1 January 2018 *RMB'000*
Condensed consolidated statement of financial position (extract)			
Available-for-sale investments	1,221,292	(19,809)	1,201,483
Reserves (FVTOCI Reserve)	6,509,335	(19,809)	6,489,526

(i) Classification and measurement

From 1 January 2018, all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

– debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;

– debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income ("FVTOCI");

– all other debt investments and equity investments are subsequently measured at fair value through profit or loss ("FVTPL").

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

– the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in other comprehensive income; and

– the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment (see note (ii) below).

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

On 1 January 2018 (the date of initial application of IFRS 9), the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

	Original measurement category under IAS 39	**New measurement category under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
			RMB'000	*RMB'000*
Financial assets:				
Available-for-sale investments	At cost less impairment	FVTOCI	1,221,292	1,201,483

(ii) *impairment*

The impairment of financial assets has changed from the incurred loss model under IAS 39 to the expected credit loss model under IFRS 9. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognised. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses associated with debt instruments carried at amortised cost or FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires lifetime expected losses to be recognised from initial recognition of the receivables. The Group has established a provision matrix that is based on the Group's historical default experience, adjusted for factors that are specific to the debtors and an assessment of both the current as well as the forecast direction of conditions. The adoption of expected credit loss model had a negligible impact on the carrying amounts of the Group's receivables.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. Considering the nature of the Group's principal activities, the adoption of IFRS 15 does not have material impact on the Group's revenue recognition and IFRS 15 had no material impact on amounts and/or disclosures reported in these unaudited condensed consolidated financial statements.

Other than those new IFRSs mentioned above, the application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures in these condensed consolidated financial statements.

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 in 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.

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

Six Months ended 30 June 2018

	Polymers	Refrigerants	Organic Silicone	Dichloromethane: PVC and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	2,110,059	3,130,151	1,783,005	1,015,272	132,163	8,170,650	1,412,974	(2,210,466)	7,373,158
SEGMENT RESULTS	606,249	412,306	598,700	145,056	(47,365)	1,714,946	174,416	–	1,889,362
Unallocated corporate expenses									(5,398)
Finance costs									(38,547)
Share of results of associates									–
Profit before tax									1,845,417

Six month ended 30 June 2017

	Polymers	Refrigerants	Organic Silicone	Dichloromethane: PVC and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	1,417,108	1,215,491	1,129,495	796,873	99,335	4,658,302	131,355	–	4,789,657
Inter-segment sales	–	709,481	–	2,999	–	712,480	520,778	(1,233,258)	–
Total revenue – segment revenue	1,417,108	1,924,972	1,129,495	799,872	99,335	5,370,782	652,133	(1,233,258)	4,789,657
SEGMENT RESULTS	312,716	224,209	202,770	171,134	33,813	944,642	87,408	–	1,032,050
Unallocated corporate expenses									(15,020)
Finance costs									(61,419)
Share of results of associates									(2,902)
Profit before tax									952,709

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies as described in note 3. 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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(note)*	**25,319**	27,844
Bank deposits interest income	**8,313**	3,651
Others	**15,512**	7,079
	49,144	38,574

Notes:

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC enterprise income tax ("EIT")		
– Current year	**404,573**	98,830
– Under/(Over) provision in prior years	**1,332**	(2,095)
– Land Appreciation Tax ("LAT" *(note a)*)	**(13,771)**	10,250
	392,134	106,985
Deferred tax charge		
– Withholding tax for distributable profits of PRC subsidiaries *(note b)*	**37,340**	26,684
– Others	**50,776**	68,608
	88,116	95,292
Total income tax expense	**480,250**	202,277

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 RMB37,340,000 (six months ended 30 June 2017: RMB26,684,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the period.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Amortisation of intangible assets	**5,977**	5,624
Depreciation of property, plant and equipment	**362,467**	349,668
	368,444	355,292
Cost of inventories recognised as an expense	**4,579,184**	3,302,057
Amortisation of prepaid lease payments	**7,295**	6,853

7. DIVIDENDS

During the interim period ended 30 June 2018, a final dividend of HK$0.3 per share amounting to HK$633,507,000 in respect of the year ended 31 December 2017, equivalent to RMB515,168,000 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	
	2018	2017
	'000	*'000*
	(unaudited)	(unaudited)
Earning for the period attributable to owners of the Company for The purposes of basic and diluted earnings per share *(RMB)*	**1,207,272**	710,402
Weighted average number of ordinary shares for The purposes of basic and diluted earnings per share	**2,111,689**	2,111,689

9. TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**1,654,618**	1,628,794
Less: allowance for doubtful debts	**(3,863)**	(3,128)
	1,650,755	1,625,666
Prepayments for raw materials	**105,609**	43,106
Value added tax receivables	**21,062**	27,381
Dividend receivable	**–**	35,685
Deposits and other receivables	**94,391**	238,633
	1,871,817	1,970,471

Included in the trade receivables are bills receivable amounting to RMB1,262,385,000 at 30 June 2018 (31 December 2017: RMB1,350,000,000).

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.

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**1,243,384**	1,095,087
91-180 days	**360,882**	509,743
Above 180 days	**46,489**	20,836
	1,650,755	1,625,666

10. TRADE AND OTHER PAYABLES

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Trade payables *(note)*	**1,330,509**	1,263,298
Dividend payable	**534,110**	–
Receipt in advance from customers	**151,630**	161,515
Payroll payable	**337,226**	249,871
Payable for property, plant and equipment	**101,478**	267,703
Payable for properties for sale	**96,158**	–
Other tax payables	**112,190**	137,265
Other deposits in relation to property development project	**109,437**	58,000
Other payables and accruals	**143,827**	207,516
Total	**2,916,565**	2,345,168

Note:

Included in the trade payables are bills payable amounting to RMB136,000,000 (31 December 2017: RMB42,313,000). 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:

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Within 30 days	**714,706**	700,218
31-90 days	**445,790**	414,142
91-180 days	**84,785**	124,607
181-365 days	**61,625**	9,073
1-2 years	**14,257**	7,402
More than 2 years	**9,346**	7,856
	1,330,509	1,263,298

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2018, by capitalizing on the advantages of the Group's presence across the whole industry chain, scientific and technological innovation capability, abundant market experience and excellent production and operation management level and after overcoming the stress caused by various aspects of the domestic and international markets, the Group made great efforts on safety and environment protection, scientific and technological innovation and improvement in management level in line with policies on deleveraging, supply-side reform and environment protection, and realized tremendous increases in various operating indicators, which built a sound foundation for the good start in 2018.

I. In the first half of 2018, the Group continued to adhere to the safe and environmentally-friendly production, achieved high-quality growth in its results and created the best half-year performance in recent years through exerting the advantages in respect of the industrial chain and overcoming numerous difficulties. During the period under review, the Group recorded a revenue of RMB7,373,158,000, representing an increase of 53.94% as compared with the corresponding period of last year; gross profit margin was 33.61%, up by 2.18 percentage points as compared with the corresponding period of last year; and net profit amounted to RMB1,365,167,000, representing an increase of 81.92% as compared with the corresponding period of last year.

II. The Group insists on the safe and environmentally-friendly production. This development strategy is also one of the important reasons why the Group can maintain its leading position in the industry in recent years. In the first half of the year, the Group disciplined itself to strictly follow the national standards or beyond, taking sewage emissions and other pollution indicators for example. The Group has also made effective improvement in its systems, such as the pitfall troubleshooting and reporting process implemented in the first half of the year which enhanced the management's awareness about safety and environmental protection, and the pitfall-benchmarking-laws-and-regulations process which enhanced the front-line staff's awareness about safety and environmental protection. The Group also provided more training to comprehensively enhance its employees' safety and environmental protection awareness. Furthermore, the Group kept on promoting the advanced projects under the DuPont Management model, and put in place the "three-in-one" safety production responsibility system, i.e., territorial responsibility, regulatory responsibility and line responsibility, in order to build the safety culture of Dongyue Group from two aspects: safety risk management and control and employees' operational safety and incentives. The above measures had ensured the stable production and operation of the Group and provided a stable foundation for the overall growth of the Group's performance.

III. In terms of research and development, the Group was committed to the research and development and improvement of new technologies, new processes and new products, and facilitated the transformation and upgrading of the entire industry chain. Currently, the independent research and development of membrane functional materials of the Company had begun. Such independent research and development can improve its research and development efficiency and conduct marketization independently, which will help the Group to strive for greater profits. During the period under review, focusing on "two alternatives", the Group completed a total of 16 projects concerning new products, capacity expansion and transformation. Additionally, The Group cooperated with many well-known domestic research institutes to conduct and facilitate various cooperative projects.

IV. During the period under review, the Group further improved its intelligent and information system. The power supply system achieved the functions of "four remotes" (remote control, remote adjustment, remote measuring (telemetry) and remote communication), enabling remote management and control; the production facilities carried out intelligent transformation of APC advanced control technology and successfully achieved automatic and smooth operation; the on-line SAP-ERP system and new OA system had entered the commissioning stage, with the help of which, all the processes had been sorted and optimized and a complete blueprint scheme designed to integrate the official documents, communications, approval and other procedures, thus increasing the office efficiency and decreasing the operation risks; and the comprehensive application of MES also enabled our managers to obtain production data in a timely and accurate manner and improved the on-site production management.

V. During the period under review, the Group continued to improve various regulations and systems in connection with the internal control and strengthened the audit of financial risks. The construction and implementation of various systems had been completed, including the improvement in the fund management system, the approval system for fund payment matters and the expense reimbursement system, thus effectively reducing financial risks.

VI. During the period under review, Dongyue Chemical Park, the Group's the most important production base, being the only specialized chemical park in the first batch of 31 chemical parks in Shandong Province, was established as approved by the provincial government on June 26 2018. Such approval will help the Group to respond to national policies and promote project implementation, so as to obtain more development benefits arising from the future changes in the economic situation.

VII. As for the policies towards its employees, the Group has been always committed to promoting the interests of its employees and boosting their living standards. In the first half of the year, the wages of the Company's front-line employees had been increased to varying degrees, and the Company had formulated a remuneration policy, under which, the employee benefits will be linked to the Company's performance with benefits being shared. At the same time, the Company is also developing a more optimized employee welfare policy to attract talents and grow its professional teams.

Prospect

The policies in recent years and the development of the fluorosilicone industry require the Company to always get prepared for potential threats in the future. The management team of the Company is deeply aware that it cannot be complacent about the results and achievements already achieved. To this end, the Group has made the following strategic deployments for the second half of the year:

I. Continue to ensure safe and environmentally-friendly production. Safety and environmental protection serve as the guarantee for high-efficiency growth and the cornerstone of high-quality development. In the second half of the year, the Company will propel the effective implementation of various measures for safe production and environment protection management throughout the Group and introduce measures such as creating the Security Guard Award (安全衛士獎) and the Environmental Guard Award (環保衛士獎), with an aim to set up the incentive mechanism of safety and environmental protection and facilitate the normalization, standardization and systematization of the safety and environment protection efforts.

II. Adhere to the R&D-based policy. In the future, the Company will hold a group-wide scientific and technological innovation conference each year to recognize outstanding technical staff and scientific and technological workers for their contribution to scientific and technological innovation and progress. In addition, the Company will improve the intellectual property system to promote innovation and development. This is because the Group's research institution and all of its companies, the manpower and funds committed to and the R&D plans in respect of the scientific research will be included as the main assessment indicators. The science and technology will be employed as the support for the high-quality development of the Company.

III. Stay alerted to market risks and prepare for market changes. During the year, domestic and foreign policies have been changing constantly and market risks are high. The Company must be prepared to respond to market risks. In response to the market changes, the Company will stick to the client-oriented policy, keep a close eye on the market, amplify its market research efforts and augment its communications between clients and industry experts, so as to gain an insight into the market changes and take appropriate actions. More importantly, the Company should insist on cultivating its intrinsic competence in order to increase its ability to cope with various risks.

IV. In terms of capital operation, the Company will continue to stick to the "business + investment" strategy and effectively employ investment funds to make its business stronger. At present, the Company is carrying out a number of strategic deployments to expand the industrial chains and industrial scales of the fluorine and silicon sectors.

V. Deepen informationization and intelligent transformation. In the second half of the year, the Company will complete the acceptance of intelligent informationization planning project. In addition, in order to boost the entering-and-exiting efficiency for goods and avoid the risks in the measurement process, the Group will put in place an unattended measurement system using an all-in-one card.

The year of 2018 is a significant year to the Group. In the first half of this year, the Group has created a good start for the entire year and achieved satisfactory results; and in the second half of this year, the Group will make persistent efforts to achieve substantial growth and bring higher returns to investors for the years after.

Financial review

Results Highlights

For the six months ended 30 June 2018, the Group recorded revenue of approximately RMB7,373,158,000, representing an increase of 53.94% over RMB4,789,657,000 of the corresponding period last year. The gross profit margin increased to 33.61% (corresponding period of 2017: 31.43%) and the consolidated segment results margin* was 25.62% (corresponding period of 2017: 21.55%). The operating results margin** was 25.94% (corresponding period of 2017: 21.23%). During the period under review, the Group recorded profit before tax of approximately RMB1,845,417,000 (corresponding period of 2017: RMB952,709,000), and net profit of approximately RMB1,365,167,000 (corresponding period of 2017: RMB750,432,000), while consolidated profit attributable to the Company's owners was approximately RMB1,207,272,000 (corresponding period of 2017: RMB710,402,000). Basic earnings per share were RMB0.57 (corresponding period of 2017: RMB0.34). 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 2018 and the six months ended 30 June 2017:

	For the six months ended 30 June 2018			For the six months ended 30 June 2017		
Reportable and Operating Segments	**Revenue**	**Results**	**Segment Results Margin**	Revenue	Results	Segment Results Margin
	RMB'000	***RMB'000***		*RMB'000*	*RMB'000*	
Fluoropolymer	**2,030,656**	**606,249**	**29.85%**	1,417,108	312,716	22.07%
Refrigerants	**1,635,984**	**412,306**	**25.20%**	1,215,491	224,209	18.45%
Organic silicone	**1,783,005**	**598,700**	**33.58%**	1,129,495	202,770	17.95%
Dichloromethane, PVC and Liquid Alkali	**891,740**	**145,056**	**16.27%**	796,873	171,134	21.48%
Property development	**132,163**	**(47,365)**	**(35.84)%**	99,335	33,813	34.04%
Others	**899,610**	**174,416**	**19.39%**	131,355	87,408	66.54%
Total	**7,373,158**	**1,889,362**	**25.62%**	4,789,657	1,032,050	21.55%

Analysis of Revenue and Operating Results

During the period under review, the income, profit and gross profit margin of the Company saw increases to different extents. The Company recorded such good performance against the present domestic economic condition and the industry landscape, mainly thanks to its advantage in the industry chain, excellent production and operation management as well as its over-thirty-year experience in the sector. Despite the situation remained grim for the domestic fluorosilicone industry, the Company continued to manage to fully achieve both production and sales targets because of the above-mentioned advantages, thereby lifting its income and profit given the increase in industrial price. During the period under review, the most important segments of the Company including the fluoropolymer segment, the refrigerants segment and the organic silicone segment, recorded varying degrees of increases.

Fluoropolymer

As the Company's largest income contributor, the results of the fluoropolymer segment increased significantly during the first half of this year. During the period under review, the income from external sales of this segment increased by 43.30% from RMB1,417,108,000 of the corresponding period of last year to RMB2,030,656,000, accounting for 27.54% of the Group's income from external sales. The segment's results increased by 93.87% from RMB312,716,00 of the corresponding period of 2017 to RMB606,249,000, accounting for 32.09% (corresponding period of 2017: 30.30%) of the Group's total results. This segment has become the largest segment of the Group in terms of results. The products produced by this segment continued to be in short supply, the same as with that of last year, and the gap between supply and demand gradually widened, resulting in an upsurge in prices and therefore a significant increase in the results of this segment.

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.

This segment will be the key business sector for the Group's development in future, in light of its high barrier of technology, high added value of products, few enterprises in domestic market with a capability of production in large scale and heavy weight of enterprises in domestic markets relying on imports. In order to fill the domestic blank and to achieve "two alternatives", the Group will make great efforts on development of this business segment, expansion of capacity of products, research and development for high-end new products, improvement of product quality and catching up with the international leading production standards.

Refrigerants

During the period under review, the revenue from external sales of the refrigerant segment increased by 34.59% from RMB1,215,491,000 of the corresponding period of last year to RMB1,635,984,000, accounting for 22.19% (corresponding period of 2017: 25.38%) of the Group's total revenue from external sales. The results of the segment increased by 83.89% from RMB224,209,000 of the corresponding period of last year to RMB412,306,000, accounting for 21.82% (corresponding period of 2017: 21.72%) of the Group's total results. During the period, the products of this segment were affected by environmental protection policies. The prices of upstream raw materials fluctuated greatly, and the downstream demand continued to rise. The refrigerants products were in short supply, and the average price of products increased compared with the same period of last year.

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

During the period under review, the revenue from external sales of the organic silicone segment increased by 57.86% from RMB1,129,495,000 of the corresponding period of last year to RMB1,783,005,000, accounting for 24.18% (corresponding period of 2017: 23.58%) of the Group's total revenue from external sales. The segment's results increased by 195.26% from RMB202,770,000 of the corresponding period of last year to RMB598,700,000, accounting for 31.69% (corresponding period of 2017: 19.65%) of the Group's total results. In the first half of this year, the organic silicon segment maintained its strong upward market trend of last year. The market was in short supply and the gap between supply and demand was further widened, enabling product prices to increase substantially. This segment was the most prominent segment of the Group in terms of results growth in the past two years. It took merely two years for this segment to transform itself from the long-lasting slack segment into the second profitable segment and become one of the most important drivers for the substantial improvement in the Group's results in the past two years.

The products of the organic silicone segment mainly include 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", deeply processed silicone rubber products, and Raw Vulcanizate is a key raw material for producing Gross Rubber), and other by-products and high-end mid-stream and downstream products such as Gaseous Silica and Silicone Oils. Known as "Industrial MSG", organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, chemical 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 sale and the remaining portions are used to produce Silicone Rubbers and other organic silicone products for the segment.

Dichloromethane, PVC and Liquid Alkali

During the period under review, the revenue from external sales of the dichloromethane, PVC and liquid alkali segment increased by 11.90% from RMB796,873,000 of the corresponding period of last year to RMB891,740,000, accounting for 12.09% (corresponding period of 2017: 16.64%) of the Group's total revenue from external sales. The segment's results decreased by 15.24% from RMB171,134,000 of the corresponding period of last year to RMB145,056,000, accounting for 7.68% (corresponding period of 2017: 16.58%) of the Group's total results. Most products of the segment are basic chemical products, which are largely affected by the economic condition and policies. In the first half of this year, this segment's results showed a year-on-year downward trend given the less tense supply and demand relationship and the decreasing market price. In spite of such decrease in the results of this segment, it did not pose a significant impact on the overall results of the Company due to its low proportion of the Company's results.

The segment's main products are methane chloride, liquid alkali and PVC. Methane chloride includes dichloromethane, which is for sale 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

This segment currently owns four residential projects located in Huantai County, Zibo City, Shandong Province, Zhangdian District, Zibo City, Shandong Province, Licheng City, Shandong Province, and Zhangjiajie City, Hunan Province, respectively. Of which, some of the projects are under construction, while some of which have commenced sales and contributed a revenue of RMB132,163,000 to the Group during the first half of 2018. As most of the projects are under construction and the relevant costs have been invested during the period under review, hence the segment recorded a loss of RMB47,365,000.

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 segment's revenue increased by 584.87% to RMB899,610,000 from RMB131,355,000 of the corresponding period of last year. The segment's profit increased by 99.54% to RMB174,416,000 from RMB87,408,000 of the corresponding period of last year.

Distribution and Selling Expenses

During the period, the distribution and selling expenses increased by 10.51% to RMB180,878,000 from RMB163,670,000 of the corresponding period last year, which was mainly attributable to an increase in transportation cost incurred from (i) an increase in quantities sold during the period and (ii) an increase in unit transportation cost.

Administrative Expenses

During the period, the administrative expenses increased by 26.33% to RMB395,789,000 from RMB313,293,000 of the corresponding period last year, which was mainly attributable to (i) an increase in salary during the period; (ii) an increase in the depreciation expenses; and (iii) an increase in the written-off expenses of idle assets of the Company.

Finance Costs

During the period, the finance costs decreased by 37.24% to RMB38,547,000 from RMB61,419,000 of the corresponding period last year, which was mainly attributable to decrease in average monthly loan balances of the Group during the period under review, compared to the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2018, the Group's aggregate capital expenditure was approximately RMB898,184,000 (six months ended 30 June 2017: RMB305,623,000). 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 2018, the Group's total equity amounted to RMB8,377,368,000 representing an increase of 14.56% compared with 31 December 2017. As at 30 June 2018, the Group's bank balances and cash totaled RMB3,338,799,000 (31 December 2017: RMB1,471,116,000). The increase in bank balances and cash is attributable to (i) the growing and sound operating results of the Company, (ii) the new capital injected to Shandong Dongyue Organosilicon Materials Co., Ltd (the subsidiary of the Company) by the investors which amounted to RMB415,195,000 (The details of capital injection was disclosed in the Company's announcement dated 18 January 2018) and (iii) the increased borrowings near the interim period of 2018. The increased borrowings is mainly used in the financing of the construction of new operation projects to be carried out in the second half of this year. During the period under review, the Group generated a total of RMB1,738,581 (six months ended 30 June 2017: RMB371,745,000) net cash inflow from its operating activities. The significant increase in operating cash inflow is mainly attributable to the increased efforts by the Group on the recovery of debtors, the increased proportion of cash settlements of loans, and the improved in collection of the amount of bank acceptance bills due in the current period . The current ratio(1) of the Group as at 30 June 2018 was 1.98 (31 December 2017: 1.61).

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, 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 2018.

As at 30 June 2018, the borrowings of the Group totaled RMB2,146,900,000 (31 December 2017: RMB1,820,821,000). The gearing ratio(2) of the Group was -16.59% (31 December 2017: 4.56%). The negative gearing ratio as at 30 June 2018 represents the Group is "net cash" positive (i.e. has more cash & equivalents than its debt) which is usually a good sign.

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 2018, the Group has the property for sale with the aggregate carrying amount of approximately RMB322,868,000 (31 December 2017: RMB159,548,000) and bank deposits of RMB99,367,000 (31 December 2017: RMB32,860,000), which were pledged to secure the Group's borrowings and the bills payable of the Group.

There is no properties (31 December 2017: RMB5,337,000) and prepaid lease payments (31 December 2017: RMB2,701,000) was pledged to the borrowings as at 30 June 2018.

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 5,790 employees in total as at 30 June 2018 (31 December 2017: 5,862). 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 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 2018 (six months ended 30 June 2017: Nil).

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the current period, 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 2018.

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 2018 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 17 August 2018, 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 2018, 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.

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 2018, 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.

ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the Company's website at www.dongyuechem.com and the website of the HKSE at 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 2018.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 17 August 2018

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.