



東岳集團有限公司

DONGYUE GROUP LIMITED

(於開曼群島註冊成立之有限公司)

(Incorporated in the Cayman Islands with limited liability)

股份代號 Stock Code: 0189

2017

Interim Report
中期報告 



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Corporate Information

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Dongyue International Fluoro
Silicone Material Industry Park
Zibo City
Shandong Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

WEBSITE ADDRESS

www.dongyuechem.com

DIRECTORS

Executive Directors

Mr. ZHANG Jianhong (*Chairman and Chief Executive Officer*)
Mr. FU Kwan
Mr. LIU Chuanqi
Mr. ZHANG Jian
Mr. ZHANG Bishu
Mr. ZHANG Zhefeng (*Vice President and Chief Financial Officer*)

Independent Non-Executive Directors

Mr. TING Leung Huel, Stephen
Mr. YANG Xiaoyong
Mr. YUE Rundong

COMPANY SECRETARY

Ms. CHUNG Tak Lai

AUTHORIZED REPRESENTATIVES

Mr. FU Kwan
Ms. CHUNG Tak Lai

AUDIT COMMITTEE

Mr. TING Leung Huel, Stephen (*Chairman*)
Mr. YANG Xiaoyong
Mr. YUE Rundong

REMUNERATION COMMITTEE

Mr. YANG Xiaoyong (*Chairman*)
Mr. TING Leung Huel, Stephen
Mr. ZHANG Jianhong

NOMINATION COMMITTEE

Mr. ZHANG Jianhong (*Chairman*)
Mr. TING Leung Huel, Stephen
Mr. YANG Xiaoyong

CORPORATE GOVERNANCE COMMITTEE

Mr. ZHANG Jianhong (*Chairman*)
Mr. LIU Chuanqi
Mr. FENG Jianjun (*resigned on 2 May 2017*)
Mr. ZHANG Bishu (*appointed on 2 May 2017*)

RISK MANAGEMENT COMMITTEE

Mr. TING Leung Huel, Stephen (*Chairman*)
Mr. YANG Xiaoyong
Mr. YUE Rundong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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Industrial and Commercial Bank of China Limited
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Zibo Huantai
Shandong Province PRC

Bank of China Limited
Huantai Branch
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Agricultural Bank of China Limited
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INVESTOR RELATIONS CONSULTANT

Investor Connect Advisory
12th Floor, Infinitus Plaza
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Sheung Wan, Hong Kong

AUDITOR

Elite Partners CPA Limited
Certified Public Accountants

EXTERNAL LEGAL ADVISOR

Norton Rose Fulbright Hong Kong

STOCK CODE

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Management Discussion and Analysis

Business Review

In the first half of 2017, domestic and overseas economic conditions as well as pressure in respect of environmental protection posed great impact on the development of fluorosilicone industry. During the period under review, the recovery of international economic situation and increasing pressure in respect of international environmental protection contributed to an increase in the demand for domestic fluorosilicone chemical products; domestically, the grim situation of environmental protection generated certain effects on the production of fluorosilicone industry. In light of such a market situation, Dongyue seized opportunities and, riding on its leadership position in the industry, achieved good performance by grabbing market share based on the situation of environmental protection, yielding satisfactory results at Dongyue's 30th anniversary.

- I. In the first half of 2017, conforming the economic and environmental protection situation, the Group took advantage of its position leading in the industry to seize market share, giving rise to a substantial increase in its results. During the period under review, the Group recorded revenue of approximately RMB4,789,657,000, representing an increase of 25.12% as compared with the corresponding period of last year; gross profit margin was 31.43%, up by 10.76 percentage points as compared with the corresponding period of last year; and profit before tax amounted to RMB952,709,000, representing an increase of 114.53% as compared with the corresponding period of last year.
- II. During the period under review, the substantial increase in the Group's results was mainly attributable to the significant increase in the price of fluorosilicone products as a result of the short supply of products resulting from greater pressure over production and marketing in the fluorosilicone industry under the effects of domestic environmental protection policy. By leveraging this opportunity, the Group implemented its environment-friendly production strategy which had been adhered to by the Group all the time to carry out production in accordance with higher environment production standards with a view to achieving production and marketing of products at full capacity and capturing the market successfully, to ultimately bring about more revenue for the Group.
- III. While expanding the market, the Group continued to adhere to independent research and development and plotted out the future centering on "two alternatives". During the period, the Company completed research and development for 5 new product projects and 1 technical improvement project. In addition, 12 new product projects and 11 technical improvement projects were in progress. In the first half of the year, the Group submitted a total of 9 patent applications and obtained 5 patent rights.
- IV. Thanks to the enhancement of the Group's informatisation and automation in 2016, the Group upgraded its intelligent management and control to a new level. During the period under review, the Group set up an intelligent management and control centre which subjected the Group's production and operation to centralise management and control, and became a milestone of the informatisation and automation construction of the Group.
- V. In the first half of the year, the Group engaged a professional internal control team to review its internal control and conduct detailed streamlining for its internal control process, which enhanced the overall internal control level and reduced management risks of the Group.

Prospect

Given the current economic and environmental protection, the Group's income, profit and profit margin saw increase in the first half of 2017. The Group's major objective for the second half of the year will still be enhancement of profitability. In view of the increasing pressure in respect of environmental protection, the Group will make the following strategic deployments depending on the specific conditions:

- I. The Group will implement safe and environment-friendly production in accordance with higher standards. The "DuPont Safety Management" system has been introduced to deepen the concept of safe and environment-friendly production for all the staff of the Group. In terms of safety, the Group will expedite the construction of a standard and professional occupational health centre to improve the health care conditions; in respect of environmental protection, the Group will put more efforts on environmental protection at source and implement strict management and control of process to propel emission reduction, striving to achieve the goal of "zero" emission. In light of the increasing pressure in terms of safety and environmental protection, this initiative is conducive to the stabilisation of production, guaranteeing market competitiveness and enhancement of market share of products.
- II. Insisting on market-oriented, the Group will accomplish return visit to customers, market and strategic partners, aiming to realise the goal of "three increases", i.e. "increase in sales", "increase in gross profit" and "increase in payment collection". As for supply, the Group will strictly control costs and complete the automated upgrade of purchase to improve the purchase efficiency.
- III. The Group will further increase investment in research and development to build standardised intermediate test bases, enabling such bases to accommodate modernised R&D and application experiments; and set up various reaction databases, analysis databases and application databases for research of products; the Group will proactively engage in the research of catalysts, initiators, ingredients for formula, etc. which are used by the Company's existing products to generate high added value, high quality and high yield; and stress and increase incentive measures for R&D achievements.
- IV. With the intelligent management and control centre, the Group will further promote informatisation and automation reform to reduce management costs and risks.

The management of the Group is conscious of the pressure and challenges in the market in the first half of 2017, and is of the view that the market situation during the period is a hard-won opportunity for the Group, by virtue of which the Group recorded satisfactory results in the first half of the year. As such, in the second half of the year, the management of the Group will seize this opportunity to further enhance the Group's competitiveness in the market in accordance with the strategy established to maintain its leading position in the industry and create stable and considerable returns for investors.

Financial review

Results Highlights

For the six months ended 30 June 2017, the Group recorded revenue of approximately RMB4,789,657,000, representing an increase of 25.12% over RMB3,828,078,000 of the corresponding period last year. The gross profit margin increased to 31.43% (corresponding period of 2016: 20.67%) and the consolidated segment results margin* was 21.55% (corresponding period of 2016: 14.19%). The operating results margin** was 21.23% (corresponding period of 2016: 13.98%). During the period, the Group recorded profit before tax of approximately RMB952,709,000 (corresponding period of 2016: RMB444,092,000), and net profit of approximately RMB750,432,000 (corresponding period of 2016: RMB319,232,000), while consolidated profit attributable to the Company's owners was approximately RMB710,402,000 (corresponding period of 2016: RMB308,512,000). Basic earnings per share were RMB0.34 (corresponding period of 2016: RMB0.15). 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 2017 and the six months ended 30 June 2016:

Reportable and Operating Segments	For the six months ended 30 June 2017			For the six months ended 30 June 2016		Segment Results Margin
	Revenue RMB'000	Results RMB'000	Segment Results Margin	Revenue RMB'000	Results RMB'000	
Fluoropolymer	1,417,108	312,716	22.07%	1,095,402	152,053	13.88%
Refrigerants	1,215,491	224,209	18.45%	831,283	123,350	14.84%
Organic silicone	1,129,495	202,770	17.95%	832,540	30,856	3.71%
Dichloromethane, PVC and Liquid Alkali	796,873	171,134	21.48%	526,988	23,325	4.43%
Property development	99,335	33,813	34.04%	453,163	187,439	41.36%
Others	131,355	87,408	66.54%	88,702	26,132	29.46%
Total	4,789,657	1,032,050	21.55%	3,828,078	543,155	14.19%

Analysis of Revenue and Operating Results

During the period under review, the consolidated profit attributable to the Company's owners increased by 130.27% from RMB308,512,000 of the corresponding period of last year to RMB710,402,000. The substantial increase was attributable to the increase in price of varying degrees as a result of the short supply of products in the fluorosilicone chemical industry under the effects of domestic and international economies and pressure on environmental protection during the period under review. Nevertheless, building on its environmentally production technologies, the Group achieved full production capacity and promising sales performance, attained greater market share and brought in more revenue, leading to a substantial surge in results during the period.

During the period under review, except the property development segment, all other segments recorded varying degrees of increases in both revenue and results.

Fluoropolymer

This segment has become the No. 1 segment in terms of revenue, and the largest business sector of the Group. During the period under review, the short supply and the price surge of upstream raw materials (including R22) led to a sharp price rise of products in the fluoropolymer segment. The increase in the results of the fluoropolymer segment was one of the pivotal factors driving the substantial growth of the Group's overall results. During the period, the revenue from external sales of the fluoropolymer segment increased by 29.37% from RMB1,095,402,000 of the corresponding period of last year to RMB1,417,108,000, accounting for 29.59% (corresponding period of 2016: 28.61%) of the Group's total revenue from external sales. The segment's results increased by 105.66% from RMB152,053,000 of the corresponding period of last year to RMB312,716,000, accounting for 30.30% (corresponding period of 2016: 27.99%) of the Group's total revenue.

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 petro-chemical 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. Other fluorinated fine chemicals, including PPVE, PSVE and HFPO, are another major manufacturing segments of Huaxia Shenzhou.

This segment will be the key business sector for the Group's development in future, especially Huaxia Shenzhou 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 portion of business, expansion of capacity of products, research and development for high-end new products, improvement of quality of products and catching up with international leading standard for production.

Refrigerants

During the period under review, the revenue from external sales of the refrigerant segment increased by 46.22% from RMB831,283,000 of the corresponding period of last year to RMB1,215,491,000, accounting for 25.38% (corresponding period of 2016: 21.72%) of the Group's total revenue from external sales. The results of the segment increased by 81.77% from RMB123,350,000 of the corresponding period of last year to RMB224,209,000, accounting for 21.72% (corresponding period of 2016: 22.71%) of the Group's total results. During the period, under the effects of the environmental policies, the upstream raw materials of refrigerants products were in short supply and it was difficult to process pollution-carrying by-products, causing hindrance on production, short supply in the market and sharp rise of price in the refrigerant industry. Relying on the advantages of the entire industrial chain, the Company minimised the effects of the aforementioned factors and reached full production capacity and higher sales volume, driving a significant increase in both revenue and results.

The refrigerant segment's products mainly include traditional refrigerants (mainly R22), 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 several of our 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 35.67% from RMB832,540,000 of the corresponding period of last year to RMB1,129,495,000, accounting for 23.58% (corresponding period of 2016: 21.75%) of the Group's total revenue from external sales. The segment's results increased by 557.15% from RMB30,856,000 of the corresponding period of last year to RMB202,770,000, accounting for 19.65% (corresponding period of 2016: 5.68%) of the Group's total results. The organic silicone segment made a turnaround from loss in 2016. During the period under review, the breakthrough in increase of results became one of the important drivers for the improvement in the Group's results. The increase was attributable to the environmental pressure and the phasing-out of obsolete capacity within the industry after years of losses.

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 51.21% from RMB526,988,000 of the corresponding period of last year to RMB796,873,000, accounting for 16.64% (corresponding period of 2016: 13.77%) of the Group's total revenue from external sales. The segment's results increased by 633.69% from RMB23,325,000 of the corresponding period of last year to RMB171,134,000, accounting for 16.58% (corresponding period of 2016: 4.29%) of the Group's total revenue. Most products of the segment are basic chemical products. Due to the improvement of economic situation and the growing environmental pressure, the segment also recorded a substantial increase in the product price.

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 business chain.

Property Development

The Project comprises, among others, the residential portion of two adjacent parcels of land. They are located to the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, PRC with a total site area of 189,381 square meters. The residential portion occupies 157,187 square meters, comprising 23 residential buildings with a total GFA of approximately 296,000 square meters to be developed in five phases.

As at June 30, 2017, most residential units of the Project had been sold out and there were only few houses unsold at the beginning of the period. Therefore, during the period under review, there was a sharp drop in the revenue and results of the segment. During the period under review, the Project's revenue decreased by 78.08% from RMB453,163,000 of the corresponding period of last year to RMB99,335,000, and the proportion of the Project's revenue in the Group's total revenue also decreased from 11.84% of the corresponding period of last year to 2.07%; the segment's results decreased by 81.96% to RMB33,813,000 from RMB187,439,000 of the corresponding period of last year, with the proportion in the Group's total results down from 34.51% of the corresponding period of last year to 3.28%.

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 48.09% to RMB131,355,000 from RMB88,702,000 of the corresponding period of last year. The segment's profit increased by 234.49% to RMB87,408,000 from RMB26,132,000 of the corresponding period of last year.

Distribution and Selling Expenses

During the period, the distribution and selling expenses merely increased by 19.12% to RMB163,670,000 from RMB137,402,000 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 84.10% to RMB313,293,000 from RMB170,174,000 of the corresponding period last year, which was mainly attributable to (i) an increase in salary during the period; (ii) an increase in foreign exchange losses recorded; 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 31.28% to RMB61,419,000 from RMB89,378,000 of the corresponding period last year, which was mainly attributable to the substantial decrease in the amount of the borrowings of the Group compared to the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2017, the Group's aggregate capital expenditure was approximately RMB305,623,000 (six months ended 30 June 2016: RMB163,628,000). The Group's capital expenditure mainly for the acquisition of fixed assets for the Group's expansion of operations.

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 2017, the Group's total equity amounted to RMB6,436,109,000 representing an increase of 13.18% compared with 31 December 2016. As at 30 June 2017, the Group's bank balances and cash totaled RMB1,416,530,000 (31 December 2016: RMB2,082,361,000). The decrease in bank balances and cash is attributable to the stable and sound operating results of the Company during the period. Thus, the Company reduced its size of borrowings and its bank balance and cash, in order to reduce its finance cost. During the period under review, the Group generated a total of RMB371,745,000 (six months ended 30 June 2016: RMB588,075,000) cash inflow from its operating activities. The acquisition of Shandong Boda Real Estate Development Co., Ltd through bonds acquisition has affected the current operating cash inflow of the Company in a certain extent. The current ratio⁽¹⁾ of the Group as at 30 June 2017 was 1.34 (31 December 2016: 1.16).

As at 30 June 2017, the Company's balances of bills receivable amounted to RMB939,360,000 (31 December 2016: RMB882,106,000). The Company usually settles external purchases through bills receivable directly. As at 30 June 2017, the balances of bills receivables and bank balances and cash reached RMB2,355,890,000 (31 December 2016: RMB2,964,467,000), which was sufficient to meet the working capital needs of the Company.

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 2017.

As at 30 June 2017, the borrowings of the Group totaled RMB2,059,300,000 (31 December 2016: RMB2,792,700,000). The gearing ratio⁽²⁾ of the Group was 9.54% (31 December 2016: 10.22%).

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 2017, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB8,431,000 (31 December 2016: RMB8,669,000), and bank deposits of RMB47,545,000 (31 December 2016: RMB106,703,000), which were pledged to secure the Group's borrowings and the bills payable 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 5,587 employees in total as at 30 June 2017 (31 December 2016: 5,660). 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 2017 (six months ended 30 June 2016: Nil).

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 2017.

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 2017 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 28 August 2017, 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 2017, 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.

However, risk management and internal control systems are designed to manage rather than eliminate the risk of failing to reach a business goal, and to make reasonable, not absolute, warranties of no significant misrepresentation or loss.

Set out below is the Company's procedures and internal controls for handling and distributing inside information:

- The Company acknowledges its obligations under the Securities and Futures Ordinance and the Listing Rules. The first principle is that the information should be immediately published when the Company is aware of and/or when the related decision is made, unless such inside information falls under the Safe Harbour Provisions under the Securities and Futures Ordinance;
- In dealing with the matters, adhere to the Guidelines on Disclosure of Inside Information promulgated by the Securities and Futures Commission in June 2012 and the "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the SEHK in 2008; and
- Unauthorized use of confidential or inside information has been expressly prohibited in the internal system.

The Company has set up internal audit function. The Board has reviewed the effectiveness of risk management and internal control systems during the Reporting Period and considered them to be effective and adequate. The Board will continuously improve and monitor the effectiveness of risk management and internal control systems.

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 2017, 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 (the "Code"), 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.

Share Options

Share Option Scheme

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 16 November 2007 (the "Scheme"), the Company may grant to, among others, the Directors of the Company and employees of the Group, for the recognition of their contribution of the Group, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for Shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the date on which dealings in the Shares first commence on the HKSE unless further shareholders' approval had been obtained pursuant to the conditions set out in the Scheme. The total number of Shares in issue and to be issued upon exercise of all option under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

The offer for the grant of options (the "Offer") must be taken up within 28 days from the date of Offer, with a payment of HK\$1.00 as consideration. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the HKSE's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate, exceed 208,000,000 which represents 10% of the total issued share capital as at the listing date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

All share options granted under the Scheme have expired on 2 June 2016. There was no outstanding share options as at 30 June 2017.

DIRECTORS

The Directors during the six months ended 30 June 2016 and up to date of this report were:

Executive Directors

Mr. Zhang Jianhong (*Chairman and Chief Executive Officer*)

Mr. Fu Kwan

Mr. Liu Chuanqi

Mr. Zhang Jian

Mr. Zhang Bishu

Mr. Zhang Zhefeng (*Vice President and Chief Financial Officer*)

Independent Non-Executive Directors

Mr. Ting Leung Huel, Stephen

Mr. Yang Xiaoyong

Mr. Yue Rundong

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Other than as disclosed in the section headed "Share Options" in this report, at no time during the six months ended 30 June 2017 was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executives' interests and short positions in the Shares, underlying Shares and debentures

As at 30 June 2017, the interests or short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Mr. Zhang Jianhong	Corporate interest ¹	178,277,273 (L)	8.44 (L)
	Beneficial interest	7,147,636 (L)	0.34 (L)
Mr. Fu Kwan	Corporate interest ²	616,646,818 (L)	29.20 (L)
Mr. Liu Chuanqi	Corporate interest ³	75,634,000 (L)	3.58 (L)
	Beneficial interest	6,353,454 (L)	0.30 (L)
Mr. Zhang Jian	Beneficial interest	397,091 (L)	0.02 (L)
Mr. Zhang Zhefeng	Beneficial interest	4,000,000 (L)	0.19 (L)

Other Information

Notes:

1. Pursuant to the SFO, as Mr. Zhang Jianhong holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 178,277,273 Shares (L) held by Dongyue Team Limited.
2. These Shares are directly held by Macro-Link International Investment Co. Ltd. ("Macrolink International") which in turn is wholly owned by Macro-Link Industrial Investment Limited ("Macrolink Industrial"). Macro-Link Holding Limited ("Macrolink Holding"), a company owned by Cheung Shek Investment Limited (the former name is "Xi Zang Cheung Shek Investment Limited") ("Cheung Shek") as to 90% and by Mr. Fu Kwan as to 4.25%, respectively, wholly owns Macrolink Industrial. In addition, Mr. Fu Kwan and Ms. Xiao Wenhui directly own Cheung Shek as to 53.35% and 33.33%, respectively.
3. These Shares are held by Dongyue Wealth Limited which is wholly owned by Mr. Liu Chuanqi. Mr. Liu is deemed to be interested in the 75,634,000 Shares (L) held by Dongyue Wealth Limited under the SFO.
4. L: Long Position

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code.

(b) Substantial shareholders' and other person's interests and short positions in the Shares, underlying Shares and debentures

As at 30 June 2017, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Macrolink International	Beneficial interest ¹	616,646,818 (L)	29.20 (L)
Macrolink Industrial	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Macrolink Holding	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Cheung Shek	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Ms. Xiao Wenhui	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Dongyue Team Limited	Beneficial interest ²	178,277,273 (L)	8.44 (L)
Mr. Cui Tongzheng	Corporate interest ³	156,852,363	7.43 (L)
	Beneficial interest	5,162,180	0.24 (L)
Dongyue Initiator Limited	Beneficial interest ³	156,852,363 (L)	7.43 (L)

Notes:

- These Shares are directly held by Macrolink International which in turn is wholly owned by Macrolink Industrial. Macrolink Holding, a company owned by Cheung Shek as to 90% and by Mr. Fu Kwan as to 4.25%, respectively, wholly owns Macrolink Industrial. In addition, Mr. Fu Kwan and Ms. Xiao Wenhui directly own Cheung Shek as to 53.35% and 33.33%, respectively.
- Pursuant to the SFO, as Mr. Zhang Jianhong holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 178,277,273 Shares (L) held by Dongyue Team Limited.
- Pursuant to the SFO, as Mr. Cui Tongzheng holds 100% interest in Dongyue Initiator Limited, Mr. Cui is deemed to be interested in the 156,852,363 Shares (L) held by Dongyue Initiator Limited.
- L: Long Position

(c) Interests in other members of the Group as at 30 June 2017

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of interest	% of issued share capital/registered capital of such subsidiary
Shandong Dongyue Fluo-Silicon Materials Co., Ltd.	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	49
Chifeng HuaSheng Mining Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	20
Dongying Dongyue Salt Co., Ltd. ("Dongying Dongyue Salt")	Macro-Link Asset Investment Co., Ltd	Corporate	40
Dongying Dongyue Precision Chemicals Co., Ltd.	Macro-Link Asset Investment Co., Ltd. ¹		
	Dongying Hai Run Investment LLP	Corporate	15.79
Shandong Dongyue Wenhe Fluorine Chemicals Co., Ltd.	Shandong Lai Wu Wen He Chemicals Co., Ltd.	Corporate	49
Shandong Dongyue Union Property Co., Ltd.	Shandong Qianrun Construction Engineering Co., Ltd	Corporate	36

Note:

1. Macro-Link Asset Investment Co., Ltd. is a 40% equity holder in Dongying Dongyue Salt which, in turn, owns 59.21% of Dongying Dongyue Precision Chemicals Co., Ltd., with the remaining 25% and 15.79% owned by the Company and Dongying Hai Run Investment LLP respectively. Consequently, Macro-Link Asset Investment Co., Ltd. indirectly owns more than 10% of Dongying Dongyue Precision Chemicals Co., Ltd..

Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at 30 June 2017, no other person (other than the Directors or the chief executive of the Company) had any interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Independent Auditor's Report

TO THE BOARD OF DIRECTORS OF DONGYUE GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 42, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Elite Partners CPA Limited

Certified Public Accountants

Yip Kai Yin

Certified Practising Certificate: P05131

10th Floor, 8 Observatory Road,

Tsimshatsui, Kowloon,

Hong Kong

28 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue	3	4,789,657	3,828,078
Cost of sales		(3,284,215)	(3,036,862)
Gross profit		1,505,442	791,216
Other income	4	38,574	82,108
Distribution and selling expenses		(163,670)	(137,402)
Administrative expenses		(313,293)	(170,174)
Research and development expenses		(50,023)	(30,698)
Finance costs		(61,419)	(89,378)
Share of results of associates		(2,902)	(1,580)
Profit before tax		952,709	444,092
Income tax expense	5	(202,277)	(124,860)
Profit and total comprehensive income for the period	6	750,432	319,232
Profit and total comprehensive income attributable to:			
– Owners of the Company		710,402	308,512
– Non-controlling interests		40,030	10,720
		750,432	319,232
Earnings per share	8		
– Basic (RMB)		0.34	0.15
– Diluted (RMB)		0.34	0.15

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	3,753,780	3,874,258
Prepayments for purchase of property, plant and equipment		13,533	8,682
Prepayment for land lease		82,000	82,000
Prepaid lease payments	10	467,593	472,533
Intangible assets	11	103,319	107,225
Interests in associates	12	7,381	10,283
Available-for-sale investments	13	1,272,959	1,152,959
Deferred tax assets		278,551	451,653
Goodwill		150,813	85,894
Deposit paid for acquisition of an associate		–	59,800
		6,129,929	6,305,287
Current assets			
Inventories		868,403	710,968
Properties for sale		1,161,408	407,220
Prepaid lease payments	10	11,690	13,603
Trade and other receivables	14	2,051,428	1,208,975
Entrusted loans	15	30,000	30,000
Pledged bank deposits		47,545	106,703
Bank balances and cash		1,416,530	2,082,361
		5,587,004	4,559,830

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Current liabilities			
Trade and other payables	16	2,465,443	1,950,444
Deposits from pre-sale of properties		262,958	98,527
Borrowings	17	1,373,500	1,797,700
Tax liabilities		73,887	61,534
Deferred income		29,066	27,925
		4,204,854	3,936,130
Net current assets			
		1,382,150	623,700
Total assets less current liabilities			
		7,512,079	6,928,987
Capital and reserves			
Share capital	18	200,397	200,397
Reserves		5,897,353	5,187,611
Equity attributable to the owners of the Company		6,097,750	5,388,008
Non-controlling interests		338,359	298,243
Total equity			
		6,436,109	5,686,251
Non-current liabilities			
Deferred income		237,428	252,057
Deferred tax liabilities		152,742	58,679
Borrowings	17	685,800	932,000
		1,075,970	1,242,736
		7,512,079	6,928,987

Zhang Jianhong

Director

Zhang Zhefeng

Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the Company									
	Share Capital	Share premium	Share option reserve	Merger reserve	Capital reserve	Statutory Surplus reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note a)	(Note b)	(Note c)				
Balance at 1 January 2016 (audited)	200,540	1,226,972	391,844	(32,210)	101,534	737,882	2,174,977	4,801,539	270,836	5,072,375
Profit and total comprehensive income										
for the period	-	-	-	-	-	-	308,512	308,512	10,720	319,232
Transfer	-	-	-	-	327	-	-	327	61	388
Shares repurchased and cancelled	(143)	(2,048)	-	-	-	-	-	(2,191)	-	(2,191)
Balance at 30 June 2016 (unaudited)	200,397	1,224,924	391,844	(32,210)	101,861	737,882	2,483,489	5,108,187	281,617	5,389,804
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

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 2017

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	371,745	588,075
INVESTING ACTIVITIES		
Entrusted loans to third parties	–	(284,500)
Purchase of property, plant and equipment	(307,313)	(169,616)
Purchase of intangible assets	(3,019)	–
Placement of pledged bank deposits	–	(149,221)
Repayment of entrusted loans from third parties	–	590,800
Interest received	3,651	5,054
Proceeds from release of pledged bank deposits	59,158	–
Proceeds from disposals of property, plant and equipment	–	957
Changes of deposit for acquisition of an associate	59,800	7,250
Cash inflow from acquisition of a subsidiary	1,968	–
Cash paid for acquisition of available-for-sale investments	(120,000)	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(305,755)	724
FINANCING ACTIVITIES		
Proceeds from borrowings	272,000	850,956
Repayment of borrowings	(942,400)	(1,012,869)
Interest paid	(61,421)	(89,378)
Shares repurchased and cancelled	–	(2,191)
NET CASH USED IN FINANCING ACTIVITIES	(731,821)	(253,482)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(665,831)	335,317
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	2,082,361	1,467,426
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	1,416,530	1,802,743

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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

Amendments to IAS 7

Disclosure Initiative

Amendments to IAS 12

Recognition of Deferred Tax Assets for Unrealised Losses

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out 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;

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

3. Segment information (Continued)

- 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.

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

Six months ended 30 June 2017

	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	1,417,108	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

3. Segment information (Continued)

Six months ended 30 June 2016

	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	1,095,402	831,283	832,540	526,988	453,163	3,739,376	88,702	-	3,828,078
Inter-segment sales	-	525,876	-	1,233	-	527,109	278,610	(805,719)	-
Total revenue – segment revenue	1,095,402	1,357,159	832,540	528,221	453,163	4,266,485	367,312	(805,719)	3,828,078
SEGMENT RESULTS	152,053	123,350	30,856	23,325	187,439	517,023	26,132	-	543,155
Unallocated corporate expenses									(8,105)
Finance costs									(89,378)
Share of results of associates									(1,580)
Profit before tax									444,092

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. Other income

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Government grants (note)	27,844	22,588
Bank deposits interest income	3,651	5,054
Interest income on entrusted loan	–	20,804
Others	7,079	33,662
	38,574	82,108

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	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
PRC enterprise income tax ("EIT")		
– Current year	98,830	116,151
– Over provision in prior years	(2,095)	(7,343)
– Land Appreciation Tax ("LAT" (note (a)))	10,250	20,369
	106,985	129,177
Deferred tax charge		
– Withholding tax for distributable profits of PRC subsidiaries (note (b))	26,684	5,254
– Others	68,608	(9,571)
	95,292	(4,317)
Total income tax expense	202,277	124,860

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 RMB26,684,000 (six months ended 30 June 2016: RMB5,254,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the period.

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For the six months ended 30 June 2017

6. Profit for the period

Profit for the period has been arrived at after charging/(crediting) the following items:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of intangible assets	5,624	5,556
Depreciation of property, plant and equipment	349,668	358,626
	355,292	364,182
Cost of inventories recognised as an expense	3,302,057	3,036,862
Amortisation of prepaid lease payments	6,853	6,668

7. Dividends

During the interim period ended 30 June 2017, no dividend was declared and paid to the owners of the Company (six months ended 30 June 2016: nil).

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	
	2017 '000 (unaudited)	2016 '000 (unaudited)
Earning for the period attributable to owners of the Company for The purposes of basic and diluted earnings per share (RMB)	710,402	308,512
Weighted average number of ordinary shares for The purposes of basic and diluted earnings per share	2,111,689	2,111,901

The computation of diluted earnings per share for the six months ended 30 June 2016 does not assume the exercise of all of the Company's outstanding share options as the exercise prices of those options are higher than the average market price of the shares.

9. Movement in property, plant and equipment

During the period, the additions of property, plant and equipment is approximately RMB305,623,000 (six months ended 30 June 2016: RMB163,628,000) for the expansion of its operations relating to refrigerants, polymers and organic silicone.

10. Prepaid lease payments

The Group's prepaid lease payments are analysed for reporting purpose as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Analysed for reporting purpose as:		
– Current portion	11,690	13,603
– Non-current portion	467,593	472,533
	479,283	486,136

The amounts represent the medium-term land use rights situated in the PRC for a period of 20 to 50 years.

The Group has prepaid lease payments with the aggregate carrying amount of approximately RMB2,589,000 (31 December 2016: RMB2,621,000) to secure bank and other loans of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

11. Intangible assets

Exploration rights

During 2012, the Group acquired exploration rights of two mines from third parties in Inner Mongolia Autonomous Region in the PRC for a total consideration of RMB80 million. The directors of the Company expected that the mines are abundant with fluorspar resources, which is a major raw material for the refrigerant business of the Group. The acquisition of the mines will enable the Group to secure a reliable supply of high quality fluorspar resources at a reasonable cost.

The exploration rights has been expired in October 2015. According to the regulations on exploration and mining rights in the PRC, the Group can extend the exploration rights as long as the survey is in process and the application fee is submitted. In October 2015, the Group extended the exploration rights for a period of two years till October 2017.

12. Interests in associates

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Cost of investments in associates unlisted in the PRC	23,704	23,704
Share of post-acquisition profits, net of dividends received	(15,328)	(12,426)
Accumulated impairment	(995)	(995)
	7,381	10,283

13. Available-for-sale investments

The Group's available-for-sale investments are unlisted equity investments in private entities and are stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

14. Trade and other receivables

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables	1,404,895	1,146,024
Less: allowance for doubtful debts	(16,930)	(25,669)
	1,387,965	1,120,355
Prepayments for raw materials	103,878	25,851
Value added tax receivables	1,365	5,629
Prepaid taxes	138,110	–
Amount due from associates	150,640	–
Deposits and other receivables	269,470	57,140
	2,051,428	1,208,975

Included in the trade receivables are bills receivable amounting to RMB939,360,000 at 30 June 2017 (31 December 2016: RMB882,106,000).

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 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within 90 days	901,869	873,868
91-180 days	449,998	209,690
181-365 days	29,500	35,608
1 year-2 year	6,598	1,189
	1,387,965	1,120,355

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

15. Entrusted loans

As at 30 June 2017, the balances of entrusted loans were approximately RMB30 million (31 December 2016: RMB30 million). In the opinion of the Group, the remaining balance of RMB30 million can be fully recovered according to the local court judgment.

16. Trade and other payables

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade payables (note (a))	1,171,202	1,086,516
Receipt in advance from customers	115,511	107,609
Payroll payable	248,908	173,293
Payable for property, plant and equipment	100,717	109,072
Other tax payables	134,428	108,939
Other deposits in relation to property development project	58,000	58,000
Construction cost payables for properties under development for sale	62,614	191,982
Other payables and accruals (note (b))	574,063	115,033
Total	2,465,443	1,950,444

Notes:

- (a) Included in the trade payables are bills payable amounting to RMB154,628,000 (31 December 2016: RMB201,000,000). 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.

- (b) Included in other payables and accruals are amount of RMB250,378,000 due to an independent third party by the newly acquired subsidiary, Shandong Dongyue Union Property Co., Limited.

The amount was unsecured, interest free and repayable on demand, and has been fully repaid by the Group as at the date of this report.

16. Trade and other payables (Continued)

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

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within 30 days	571,585	610,672
31-90 days	377,341	263,635
91-180 days	183,011	158,432
181-365 days	14,845	34,155
1-2 years	17,720	12,194
More than 2 years	6,700	7,428
	1,171,202	1,086,516

17. Borrowings

During the period, the Group obtained new loans amounting to approximately RMB272,000,000 (six months ended 30 June 2016: RMB850,956,000) and repaid loans amounting to approximately RMB942,400,000 (six months ended 30 June 2016: RMB1,012,869,000). The loans carry interest at rates promulgated by the People's Bank of China Benchmark Interest Rate.

As at 30 June 2017, secured bank borrowings of RMB40,000,000 (31 December 2016: RMB40,000,000) were secured by the Group's buildings and plant and equipment with the aggregate carrying amount of approximately RMB5,778,000 (31 December 2016: RMB6,048,000) and prepaid lease payments with the aggregate carrying amount of approximately RMB 2,589,000 (31 December 2016: RMB2,621,000). The secured bank borrowings carry interest at 4.35% to 5.2% (31 December 2016: 4.35% to 5.2%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

18. Share capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2016, 30 June 2016		
1 January 2017 and 30 June 2017	4,000,000	382,200
Issued and fully paid:		
At 1 January 2016	2,113,391	200,540
Share repurchased and cancelled	(1,702)	(143)
At 31 December 2016, 1 January 2017 and 30 June 2017	2,111,689	200,397

19. Share-based payments

The Company's Pre-IPO Share Option Scheme and Share Option Scheme (the "Schemes") were adopted pursuant to a resolution passed on 16 November 2007 for the primary purpose of providing incentives to directors and eligible employees. Under the Schemes, the board of directors of the Company may grant options to eligible employees, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

19. Share-based payments (Continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
Pre-IPO Share Option Scheme:					
Share Option Scheme:					
Options to directors					
Option A	1/6/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK\$8.13	HK\$3.067
Option B	1/6/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK\$8.13	HK\$3.201
Option C	1/6/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK\$8.13	HK\$3.314
Option D	1/6/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK\$8.13	HK\$3.411
Options to employees					
Option E	1/6/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK\$8.13	HK\$3.067
Option F	1/6/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK\$8.13	HK\$3.201
Option G	1/6/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK\$8.13	HK\$3.314
Option H	1/6/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK\$8.13	HK\$3.411

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

19. Share-based payments (Continued)

The following table discloses the movement of the share options during the six months ended 30 June 2016:

Option type	Outstanding at 1 January 2016 '000	Forfeited '000	Outstanding at 30 June 2016 and 30 June 2017 '000
Option A	8,000	(8,000)	–
Option B	8,000	(8,000)	–
Option C	8,000	(8,000)	–
Option D	8,000	(8,000)	–
Option E	25,975	(25,975)	–
Option F	25,975	(25,975)	–
Option G	25,975	(25,975)	–
Option H	25,975	(25,975)	–
	135,900	(135,900)	–

No share option was granted by the Company during the six months ended 30 June 2017 (2016: nil).

20. Commitments

At the end of the reporting date, the Group had outstanding commitments as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Capital Commitments		
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	3,250	14,204
Capital expenditure in respect of acquisition of available-for-sale investments contracted for but not provided in the condensed consolidated financial statements	480,000	–
	483,250	14,204
Other Commitments		
Construction commitment contracted in respect of properties under development for sale contracted for but not provided in the condensed consolidated financial statements	28,823	70,681
	512,073	84,885

21. Lease commitments

At the end of the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within one year	6,256	6,256
In the second and fifth inclusive	25,024	25,024
Over five years	45,399	48,339
	76,679	79,619

Operating lease payments mainly represent rentals payable by the Group for certain lands. Leases are negotiated for an average term of 20 years.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

22. Related party transactions

Other than set out elsewhere in the condensed consolidated financial statements, the Group entered into the following related party transactions during the period:

(a) Purchase of raw materials

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Non-controlling interest	2,921	1,756

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Short-term employee benefits	14,480	8,857
Post-employment benefits	5	12
	14,485	8,869



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