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DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

ANNOUNCEMENT OF INTERIM RESULTS FOR 2020

FINANCIAL HIGHLIGHTS

(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2020	2019
Revenue	4,636	6,047
Gross profit	1,006	1,712
Gross profit margin	21.70%	28.31%
Profit before taxation	506	1,072
Profit for the period	447	950
Profit for the period attributable to owners of the Company	404	837
Earnings per share – basic and diluted (RMB)	0.20	0.40
	As at	
	30 June	31 December
	2020	2019
Total equity	10,165	8,956
Net assets per share (RMB)	4.92	4.28

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	4,636,363	6,046,967
Cost of sales		<u>(3,629,967)</u>	<u>(4,334,970)</u>
Gross profit		1,006,396	1,711,997
Other income and other net gain	4	85,579	47,078
Distribution and selling expenses		(170,309)	(181,055)
Administrative and other expenses		(196,656)	(308,478)
Gain on deemed disposal of a subsidiary		40,850	–
Research and development costs		(200,395)	(143,010)
Fair value change on financial asset at fair value through profit or loss (“FVTPL”)		(1,142)	–
Share of profit of an associate		2,294	–
Finance costs		<u>(60,881)</u>	<u>(54,619)</u>
Profit before taxation		505,736	1,071,913
Income tax expense	5	<u>(58,989)</u>	<u>(122,130)</u>
Profit for the period	6	446,747	949,783
Other comprehensive income			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
– Fair value change on equity instruments at fair value through other comprehensive income (“FVTOCI”)		<u>(198,563)</u>	<u>(341,596)</u>
Total comprehensive income for the period		<u>248,184</u>	<u>608,187</u>
Profit for the period attributable to:			
– Owners of the Company		404,128	837,246
– Non-controlling interests		<u>42,619</u>	<u>112,537</u>
		<u>446,747</u>	<u>949,783</u>
Total comprehensive income attributable to:			
– Owners of the Company		205,565	495,650
– Non-controlling interests		<u>42,619</u>	<u>112,537</u>
		<u>248,184</u>	<u>608,187</u>
Earnings per share	8		
– Basic and diluted (RMB)		<u>0.20</u>	<u>0.40</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	<i>Notes</i>	At 30 June 2020	At 31 December 2019
		RMB'000	RMB'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment		4,775,633	4,608,674
Right-of-use assets		649,765	690,518
Prepayments for purchase of property, plant and equipment		194,972	172,027
Prepayments for right-of-use assets		46,633	–
Intangible assets		68,940	70,202
Interest in an associate		189,919	–
Equity instruments at FVTOCI		527,145	668,708
Financial asset at FVTPL		18,635	–
Deferred tax assets		37,269	53,984
Goodwill		123,420	123,420
		6,632,331	6,387,533
Current assets			
Inventories		883,962	981,472
Properties for sale		2,731,616	2,605,832
Trade and other receivables	9	1,658,832	1,703,469
Pledged bank deposits		340,535	309,241
Bank balances and cash		4,746,135	2,943,792
		10,361,080	8,543,806

		At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Current liabilities			
Trade and other payables	10	2,498,141	2,733,247
Contract liabilities		1,291,403	826,555
Borrowings		1,121,100	510,600
Dividend payable		439,255	–
Tax liabilities		2,619	87,395
Lease liabilities		4,997	4,795
Deferred income		12,140	23,444
		<u>5,369,655</u>	<u>4,186,036</u>
Net current assets		<u>4,991,425</u>	<u>4,357,770</u>
Total assets less current liabilities		<u><u>11,623,756</u></u>	<u><u>10,745,303</u></u>
Capital and reserves			
Share capital		200,397	200,397
Reserves		8,064,728	7,679,622
		<u>8,265,125</u>	<u>7,880,019</u>
Equity attributable to the owners of the Company		8,265,125	7,880,019
Non-controlling interests		1,900,171	1,075,604
		<u>10,165,296</u>	<u>8,955,623</u>
Total equity		<u>10,165,296</u>	<u>8,955,623</u>
Non-current liabilities			
Deferred income		263,501	265,391
Deferred tax liabilities		72,810	58,929
Borrowings		1,080,000	1,420,550
Lease liabilities		42,149	44,810
		<u>1,458,460</u>	<u>1,789,680</u>
		<u><u>11,623,756</u></u>	<u><u>10,745,303</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000 (Note a)	FVTOCI reserve RMB'000 (Note b)	Merger reserve RMB'000 (Note c)	Capital reserve RMB'000 (Note d)	Safety reserve RMB'000 (Note e)	Statutory surplus reserve RMB'000 (Note f)	Share held for employee share option scheme RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
As at 1 January 2019 (audited)	200,397	1,224,924	(72,711)	(32,210)	195,790	2,941	962,016	-	5,855,459	8,336,606	1,055,593	9,392,199
Profit for the period	-	-	-	-	-	-	-	-	837,246	837,246	112,537	949,783
Other comprehensive expenses:												
Fair value change on equity investments at FVTOCI	-	-	(341,596)	-	-	-	-	-	-	(341,596)	-	(341,596)
Total comprehensive income for the period	-	-	(341,596)	-	-	-	-	-	837,246	495,650	112,537	608,187
Transfer	-	-	-	-	-	871	-	-	-	871	314	1,185
Repurchase of shares under employee share option scheme	-	-	-	-	-	-	-	(109,939)	-	(109,939)	-	(109,939)
Dividends declared	-	-	-	-	-	-	-	-	(635,619)	(635,619)	-	(635,619)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(298,556)	(298,556)
As at 30 June 2019 (unaudited)	<u>200,397</u>	<u>1,224,924</u>	<u>(414,307)</u>	<u>(32,210)</u>	<u>195,790</u>	<u>3,812</u>	<u>962,016</u>	<u>(109,939)</u>	<u>6,057,086</u>	<u>8,087,569</u>	<u>869,888</u>	<u>8,957,457</u>
As at 1 January 2020 (audited)	200,397	1,224,924	(1,160,995)	(32,210)	195,790	3,987	1,220,869	(168,897)	6,396,154	7,880,019	1,075,604	8,955,623
Profit for the period	-	-	-	-	-	-	-	-	404,128	404,128	42,619	446,747
Other comprehensive expenses:												
Fair value change on equity investments at FVTOCI	-	-	(198,563)	-	-	-	-	-	-	(198,563)	-	(198,563)
Total comprehensive income for the period	-	-	(198,563)	-	-	-	-	-	404,128	205,565	42,619	248,184
Transfer	-	-	-	-	-	602	-	-	-	602	300	902
Repurchase of shares under employee share option scheme	-	-	-	-	-	-	-	(33,296)	-	(33,296)	-	(33,296)
Dividends declared	-	-	-	-	-	-	-	-	(439,255)	(439,255)	-	(439,255)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(222,166)	(222,166)
Acquisition of additional interests in a subsidiary from non-controlling interests (Note g)	-	-	-	-	-	-	-	-	(86,653)	(86,653)	(144,061)	(230,714)
Deemed partial disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	738,143	738,143	1,247,706	1,985,849
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	(99,831)	(99,831)
As at 30 June 2020 (unaudited)	<u>200,397</u>	<u>1,224,924</u>	<u>(1,359,558)</u>	<u>(32,210)</u>	<u>195,790</u>	<u>4,589</u>	<u>1,220,869</u>	<u>(202,193)</u>	<u>7,012,517</u>	<u>8,265,125</u>	<u>1,900,171</u>	<u>10,165,296</u>

Notes:

- (a) Under the Cayman Companies Law, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (b) The fair value reserve represents the net change in the fair value of equity instruments at FVTOCI held at the end of the reporting period.
- (c) Merger reserve arose in group reorganisation completed in 2006.
- (d) 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.

- (e) Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety of the People's Republic of China ("PRC"), some the Group's PRC subsidiaries are required to set aside an amount of safety reserve at progressive rates from 0.5% to 4% of the total revenue from the sales of hazardous chemical. The reserve can be utilised for the spending in improvements and maintenances of work safety on the Group's daily operations, which are considered expenses in nature and charged to the profit and loss as incurred.
- (f) In accordance with the Company Law of 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.

- (g) During the interim period ended 30 June 2020, the Group further acquired 36% of the equity interests of Shandong Dongyue Union Property Co., Ltd., from the minority shareholders. As at 30 June 2020, Shandong Dongyue Union Property Co., Ltd. became a wholly-owned subsidiary of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>1,035,431</u>	<u>1,268,936</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(743,735)	(561,830)
Proceeds from disposals of property, plant and equipment	5,980	10,939
Purchase of intangible assets	(2,506)	(29,642)
Payment for right-of-use assets	(59,582)	(101,765)
Interest received	29,779	14,417
(Payment for)/Proceeds from pledged bank deposits	(31,294)	139,313
Dividend income from equity instruments at FVTOCI	–	10,800
Payment for equity instruments at FVTOCI	(60,000)	(150,000)
Capital injection to an associate	(100,000)	–
Net cash outflow from deemed disposal of a subsidiary	(94,858)	–
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,056,216)</u>	<u>(667,768)</u>
FINANCING ACTIVITIES		
Proceeds from borrowings	748,000	450,000
Repayment of borrowings	(361,205)	(530,750)
Repayment of lease liabilities	(2,459)	–
Payment on repurchase of shares under employee share option scheme	(33,296)	(109,939)
Interest paid	(60,881)	(54,619)
Dividends paid	(222,166)	(298,556)
Acquisition of additional interests in a subsidiary from non-controlling interests	(230,714)	–
Net proceed from issue of new shares of a subsidiary	1,985,849	–
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	<u>1,823,128</u>	<u>(543,864)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,802,343	57,304
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	<u>2,943,792</u>	<u>3,331,147</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	<u>4,746,135</u>	<u>3,388,451</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standard Board (“IASB”) 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 except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to International Financial Reporting Standards (“IFRSs”)

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the ISAB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRSs and the amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the 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;
- Dichloromethane, PVC and liquid alkali;
- Property development – development of residential properties at Shandong and Hunan Province, the PRC.
- Other operations – manufacturing and sales of side-products of refrigerants segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment.

Segment revenues and results

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

Six Months ended 30 June 2020 (Unaudited)

	Polymers	Refrigerants	Organic silicone	Dichloromethane PVC and liquid alkali	Property development	Other operations	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External sales	1,506,705	1,039,330	1,134,350	604,323	158,063	193,592	-	4,636,363
Inter-segment sales	-	730,053	-	4,582	-	337,092	(1,071,727)	-
Total revenue – segment revenue	<u>1,506,705</u>	<u>1,769,383</u>	<u>1,134,350</u>	<u>608,905</u>	<u>158,063</u>	<u>530,684</u>	<u>(1,071,727)</u>	<u>4,636,363</u>
Segment results	<u>252,427</u>	<u>76,442</u>	<u>91,786</u>	<u>26,670</u>	<u>54,766</u>	<u>30,336</u>	<u>-</u>	532,427
Unallocated corporate expenses								(7,812)
Finance costs								(60,881)
Gain on deemed disposal of a subsidiary								40,850
Fair value change on financial asset at FVTPL								(1,142)
Share of profit of an associate								<u>2,294</u>
Profit before taxation								<u>505,736</u>

Six Months ended 30 June 2019 (Unaudited)

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

Segment results represent the results of each segment without allocation of unallocated other income, certain administrative and other expenses, directors' emoluments, gain on deemed disposal of a subsidiary, fair value change on financial asset at FVTPL, share of result of an associate 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 AND OTHER NET GAIN

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Other income		
Government grants (note)	32,998	20,372
Bank deposits interest income	29,779	15,037
Dividend income	-	10,800
Interest income from discounted bills	3,992	56
Sundry income	<u>7,068</u>	<u>528</u>
	<u>73,837</u>	<u>46,793</u>
Others net gain		
Compensation received	3,764	-
Exchange difference	<u>7,978</u>	<u>285</u>
	<u>11,742</u>	<u>285</u>
	<u>85,579</u>	<u>47,078</u>

Note:

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax ("EIT")		
– Current year	63,933	171,650
– Over-provision in prior years	(46,960)	(97,835)
Land Appreciation Tax ("LAT")	5,029	(15,792)
	22,002	58,023
Deferred tax:		
– Withholding tax for distributable profits of PRC subsidiaries	15,407	26,360
– Others	21,580	37,747
	36,987	64,107
Income tax expense	58,989	122,130

Notes:

The Company incorporated in the Cayman Islands, is not subject to any income tax pursuant to the rules and regulations of the respective country of incorporation.

No provision for Hong Kong Profits Tax is provided for as the Group did not have estimated assessable profits arising in Hong Kong during the period.

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 25% on the estimated assessable profits of the Company's subsidiaries established in the PRC during the period.

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 liability of RMB15,407,000 (six months ended 30 June 2019: RMB26,360,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the period.

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.

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Amortisation of intangible assets	6,881	31,405
Cost of inventories recognised as an expense	3,452,483	4,160,116
Depreciation of property, plant and equipment	314,712	302,607
Depreciation of right-of-use assets	12,836	11,326
Fair value change on financial asset at FVTPL	1,142	–
Gain on deemed disposal of a subsidiary	(40,850)	–
Government grants	(32,998)	(20,372)
Loss on disposal of property, plant and equipment	2,332	1,494
(Reversal of)/Impairment on trade and other receivables	(234)	1,774

7. DIVIDENDS

During the six months ended 30 June 2020, a final dividend of HK\$0.23 per share amounting to HK\$481,205,000 (equivalent to RMB439,255,000) in respect of the year ended 31 December 2019, (30 June 2019: a final dividend of HK\$0.35 per share amounting to HK\$739,091,000 (equivalent to RMB635,619,000) in respect of the year ended 31 December 2018) 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	
	2020 '000 (unaudited)	2019 '000 (unaudited)
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share (RMB)	404,128	837,246
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	2,064,478	2,111,689

During the six months ended 30 June 2020, 11,035,000 ordinary shares with amount of RMB33,296,000 were repurchased under employee share option scheme and no shares have been cancelled during the period.

9. TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	896,060	1,235,225
Less: allowance for doubtful debts	<u>(3,006)</u>	<u>(4,232)</u>
	893,054	1,230,993
Prepayments for raw materials	312,743	172,554
Value added tax receivables	116,723	105,248
Prepaid land value increment tax	67,466	9,390
Deposit paid for property development	22,471	27,767
Deposits and other receivables	<u>246,375</u>	<u>157,517</u>
	<u>1,658,832</u>	<u>1,703,469</u>

Included in the trade receivables are bills receivable amounting to RMB628,011,000 at 30 June 2020 (31 December 2019: RMB951,267,000).

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 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 90 days	606,246	654,902
91-180 days	237,874	526,767
181-365 days	<u>48,934</u>	<u>49,324</u>
	<u>893,054</u>	<u>1,230,993</u>

10. TRADE AND OTHER PAYABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade payables (<i>note i</i>)	1,817,227	1,661,147
Contract liabilities (<i>note ii</i>)	101,665	110,645
Payroll payable	253,658	341,429
Payable for property, plant and equipment	72,242	103,170
Other tax payables	28,439	77,520
Construction cost payables for properties under development for sale	59,706	286,114
Other payables and accruals	<u>165,204</u>	<u>153,222</u>
Total	<u>2,498,141</u>	<u>2,733,247</u>

Notes:

- (i) Included in the trade payables are bills payable amounting to RMB170,000,000 (31 December 2019: RMB100,000,000). Bills payable are secured by the Group's pledged bank deposits.
- (ii) The amount represents the receipt in advance from customers arising from pre-sale of chemical products.

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 30 days	896,617	1,064,166
31-90 days	631,279	410,407
91-180 days	121,897	83,322
181-365 days	121,570	67,312
1-2 years	34,118	19,708
More than 2 years	<u>11,746</u>	<u>16,232</u>
	<u>1,817,227</u>	<u>1,661,147</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2020, the COVID-19 pandemic and the international political and economic upheaval situation have brought great challenges to the market. Market demand was greatly impacted and the fluorosilicone industry could hardly overcome the influence caused by the overall market trend. In the first half of the year, the downstream demand of the fluorosilicone industry declined significantly, and the product price also dropped correspondingly. With the active efforts of all the cadres and employees of the Group, the Group achieved the best performance in the industry and strengthened the leading position of the Group under the great pressure of the industrial situation. In the first half of the year, the Group made the following achievements:

1. Fought fully against the COVID-19 pandemic to ensure normal production and operation

At the beginning of the year, the sudden COVID-19 pandemic casted a shadow over the already complicated economic situation. However, China has managed to overcome the most difficult times with the national spirit in the face of the pandemic. Which enabled everyone in the country to return to their normal work and normal life. The Group also made social contribution to the fight against the pandemic. During the worst period of the pandemic in China, the Group donated RMB8 million in order to carry out anti-pandemic work. At the same time, the Group also carried out anti-pandemic work in a proactive manner. During the pandemic, all cadres and employees of the Group's subsidiaries actively implemented precaution, and strictly controlled the protection of external personnel. Returning employees from foreign places required quarantine, unnecessary business trips were temporarily cancelled, back-office staff were able to work remotely, and a sufficient amount of protective equipment were provided for employees at work. During the pandemic, there were no confirmed or suspected cases found amongst the Group's employees and their families. Employees were in good health conditions, which also ensured the normal production and operation of the Group. In the first half of the year, the Group did not suspend production due to the pandemic.

2. Leveraged our strengths to create the best performance in the industry

In the first half of the year, due to the pandemic, as well as the domestic and international political and economic environment, the fluorosilicone industry was greatly affected. However, with the advantages of a complete industrial chain, a sound park economy, rich experiences in the industry, a good market reputation, active marketing strategies, diligent production and operation, and advanced operation and management, the Group has created the best performance in the industry and consolidated its leading position in the industry. During the period under review, the Group recorded a total revenue of approximately RMB4,636,363,000, gross profit margin of 21.71% and a profit before tax of approximately RMB505,736,000.

3. Adhered to independent innovation and increase in R&D expenditure

The Group has always attached great importance to R&D and insisted on independent innovation. Under the market pressure, the Group still increased its R&D expenditure. During the period under review, the Group's R&D expenditure amounted to approximately RMB200,395,000, representing a year-on-year increase of 40.13%. During the period under review, the Group completed a total of 13 projects in terms of energy conservation and consumption reduction, automation enhancement, new renovation and expansion, new product R&D, as well as quality improvement. The Group also applied for 40 patents in total, of which 14 were granted, adding up to an existing number of 374 valid patents.

4. Successful listing of “Dongyue Organosilicone”

The Group overcame difficulties from various aspects in over two years and achieved a key result in the spin-off listing of Shandong Dongyue Organosilicone Materials Co., Ltd (“Dongyue Organosilicone”), a subsidiary of the Group which was successfully listed on ChiNext of the Shenzhen Stock Exchange on 12 March 2020. The spin-off and listing of Dongyue Organosilicone broadened the financing channel of the Group and enhanced its development potential, which strengthened and expanded the business of Dongyue Organosilicone, enhanced its competitiveness and position in the industry, intensified investment in technology and environmental protection and increased profitability in order to bring greater returns to the shareholders of the Group.

5. The decision to spin-off “Dongyue Future Hydrogen Energy” for A-share listing

On 9 April 2020, Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd. (“Dongyue Future Hydrogen Energy”) invested by the Group, which is engaged in the production and sales of hydrogen energy materials, hydrogen membrane materials, packaging materials and fluoropolymer fiber businesses, plans to be independently issued and listed on the Science and Technology Innovation Board of Shanghai Stock Exchange.

The purpose of the listing plan was to accelerate the development of Dongyue's hydrogen energy business, broaden its financing channels, and also to enhance its development potential, competitiveness and industry position. With this planned, Dongyue Future Hydrogen Energy completed the first round of financing on 9 June 2020 with RMB300 million, which cultivated new profit growth points for the Group and provided new impulsion to the sustainable development of the Group.

6. *Strictly controlled the expenses and explored ways to saving resources*

During the period under review, the Group kept a close eye on the market development, established strategies to explore ways to save resources and strictly controlled expenses. Through excellent management, all departments of the Group from the management to general employees strictly controlled the expenses to ensure expenses in all aspects are minimized in order to create greater profit for the Group. During the period under review, the Group's distribution and selling expenses was approximately RMB170,309,000, representing a year-on-year decrease of 5.94%; the administrative expenses was approximately RMB196,656,000, representing a year-on-year decrease of 36.25%. At the same time, in the first half of the year, the Group also actively made use of the policy to fight for more concessions in tax, tax refund, social security relief and other aspects.

Under great market pressure in the first half of the year, the Group had a steady defensive battle and achieved remarkable results. In the second half of the year, the Group will take the initiative to fight the difficulties. The Group will formulate the following strategies to cope with even more challenges.

Prospect

1. *Mobilizing all staff to the market*

In the second half of the year, the political and economic environment are likely to remain unstable domestically and internationally, and the Group has to be fully prepared. Therefore, the Group will set targets for all staff in the second half of the year for assessment, and will optimize management, cost, service, innovation, informatization, efficiency and other aspects to fully serve the market, improve its competitiveness, seize more market share and increase revenue.

2. *Further strengthen its research and development*

Research and development are particularly important in the context of limited market space. The Group will further strengthen its research and development in the second half of the year. First of all, to improve product quality so as to provide better products for the market and improve customer satisfaction. Secondly, to develop new products and to provide the market with more responsive products, as well as to open up areas of application for the products. Thirdly, high-end products should be developed to fill the shortage in domestic production of high-end products.

3. *Establishing projects for industrial upgrades*

As the international situation intensifies, there will be a change in the global industrial chain. The Group needs to seize the opportunities brought by the challenges and open up new paths with new industries, new strategies and new capital. In the future, the Group will develop a number of projects related to industrial upgrading, combining the National 14th Five-Year Strategy and the market demand for new infrastructure to develop high-end demand-oriented products. The current preliminary directions include fluorinated electronic chemicals, high-end fluorine material products, and biomedical fluorine intermediates. The Group will form a professional team to build up frameworks, focus on the solutions market, technologies, costs and industrialization to provide relevant solutions for international outstanding enterprises. These solutions will lead the adjustment of business structure of the Group in the future, broaden the source of revenue, and achieve "two alternatives".

4. Emphasizing on the control of safe and environmentally-friendly production

In a situation of industry downturn, the Group will stay alert on safe and environmentally-friendly production to ensure stable production and operation. The Group will stay alert on management and control of safe and environmentally-friendly production in the second half of the year. With technologies as the core, regulations and systems as the reference, Dupont Safety Management System as the standard, the Group will work on prevention of injuries and accidents, as well as reduction of pollutants.

5. Strengthening the awareness of and response to risk control

In the second half of the year, the Group will strengthen both internal and external awareness of and response to risks. In regard to external risks, the Group will conduct a comprehensive assessment of international trade risks, supply chain risks and industrial policy risks, pay attention to the international situation, adjustment of national strategy, as well as the development of both domestic and foreign companies in this industry so as to make adequate preparation to cope with the problems that may arise from relevant aspects. In regard to internal risks, the Group will strengthen internal control and capital management, control account receivables, improve operational analysis, develop information system, utilize tax and fee reduction policies for expense control, and enhance overall compliance awareness of staff members. The Group will build a solid foundation and get fully prepared for upcoming challenges.

6. Pushing capital operation project forward

“Shandong Dongyue Future Hydrogen Energy” completed the first round of financing in the first half of the year, and will continue to promote listing on schedule in the second half of the year. Apart from this project, the Group also plans to further develop various industrial chains through the capital market to support the comprehensive development of fluorosilicone business of the Group in the industry.

Although 2020 is a challenging year and the market will still be full of uncertainties in the second half of the year, the Group sees it as a rare opportunity. The Group will forge ahead under the current market situation, stimulate development in difficult times, build a solid foundation and prepare for the recovery of the market. The Group will repay our shareholders for their support and trust over the years by creating stable revenue for the shareholders with good business results.

Financial review

Results Highlights

For the six months ended 30 June 2020, the Group recorded revenue of approximately RMB4,636,363,000, representing a decrease of 23.33% over RMB6,046,967,000 of the corresponding period last year. The gross profit margin decreased to 21.71% (corresponding period of 2019: 28.31%) and the consolidated segment results margin* was 11.48% (corresponding period of 2019: 19.05%). The operating results margin** was 12.17% (corresponding period of 2019: 18.63%). During the period under review, the Group recorded profit before tax of approximately RMB505,736,000 (corresponding period of 2019: RMB1,071,913,000), and net profit of approximately RMB446,747,000 (corresponding period of 2019: RMB949,783,000), while the total comprehensive income for the period was approximately RMB248,184,000 (corresponding period of 2019: RMB608,187,000). The decrease in total comprehensive income for the period is mainly attributable to a decrease in fair value in an equity investment, in addition to a decrease in profit during this period. Basic earnings per share were RMB0.20 (corresponding period of 2019: RMB0.40). 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 2020 and the six months ended 30 June 2019:

Reportable and Operating Segments	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Revenue RMB'000	Results RMB'000	Segment Results Margin	Revenue RMB'000	Results RMB'000	Segment Results Margin
Fluoropolymer	1,506,705	252,427	16.75%	1,858,999	300,241	16.15%
Refrigerants	1,039,330	76,442	7.35%	1,527,608	332,988	21.80%
Organic silicone	1,134,350	91,786	8.09%	1,371,546	252,739	18.43%
Dichloromethane, PVC and Liquid Alkali	604,323	26,670	4.41%	785,793	153,879	19.59%
Property development	158,063	54,766	34.65%	352,992	35,697	10.11%
Others	193,592	30,336	15.67%	150,029	76,229	50.81%
Total	4,636,363	532,427	11.48%	6,046,967	1,151,773	19.05%

Analysis of Revenue and Operating Results

During the period under review, under the dual pressure of the COVID-19 pandemic and domestic and overseas political and economic conditions, the industry market of fluorosilicone was affected to a certain extent where the downstream demand was low and imbalance between supply and demand was observed, resulting in a decline in industry product price and hence affecting the overall operating revenue of the industry. As a result, segments of the Group were affected to varying degrees, among which, performance of the refrigerant segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment experienced declined relatively more significantly while decline of the fluoropolymer segment was relatively less obvious.

Fluoropolymer

During the period under review, the income from external sales of Fluoropolymer decreased by 18.95% from the same period of last year to approximately RMB1,506,705,000 (the first half of 2019: approximately RMB1,858,999,000), accounting for 32.50% of the total revenue (the first half of 2019: 30.74%). The results of the segment decreased by 15.93% from approximately RMB300,241,000 from the same period of last year to approximately RMB252,427,000. Fluoropolymer segment remains to be the segment contributing the largest proportion to the Group's revenue and profit. Due to factors including the usage, technology, supply and demand, market condition of products of this segment has been relatively stable, and so was the price compared with other segment products, while the income from external sales and segment results of this segment were less affected by the market than other segments.

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.

Refrigerants

During the period, the income from external sales of the refrigerant segment decreased by 31.96% from RMB1,527,608,000 of the corresponding period of last year to approximately RMB1,039,330,000, accounting for 22.42% of the total revenue (the first half of 2019: 25.26%). The results of the segment recorded approximately RMB76,442,000 (the first half of 2019: approximately RMB332,988,000), representing a year-on-year decrease of 77.04%. During the first half of the year, the price of each products under the refrigerant segment dropped to different extents due to market changes and pressures from policies. In addition, the price of raw materials of the segment has not decreased by the same proportion, resulting in a significant decline in the results of this segment. However, although the price of R22 products, which accounted for the largest proportion of revenue in this segment, has reduced, the price could still be maintained at a relatively high level, bringing considerable profits to the segment, for the supply and demand of such products were imbalance due to quota restriction.

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 decreased by 17.29% from RMB1,371,546,000 of the corresponding period of last year to approximately RMB1,134,350,000, while the proportion of revenue increased from 22.68% of the corresponding period of last year to 24.47%. The results of the segment recorded approximately RMB91,786,000 (the first half of 2019: approximately RMB252,739,000), representing a year-on-year decrease of 63.68%. The organic silicone segment was also affected by market changes, leading to product price instability. Also, since prices of upstream raw materials did not decrease by the same proportion, so the profit was compressed which resulted in the significant lowered results of this segment.

The organic silicone segment of the Group has been operated by Shandong Dongyue Organosilicone Materials Co., Ltd ("Dongyue Organosilicone"), a non-wholly owned subsidiary of the Company which was successfully listed on ChiNext of the Shenzhen Stock Exchange on 12 March 2020.

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

Dichloromethane, PVC and Liquid Alkali

The revenue from external sales of the dichloromethane, PVC and liquid alkali segment decreased by 23.09% from approximately RMB785,793,000 of the corresponding period of last year to approximately RMB604,323,000, accounting for a slight increase from 12.99% of the corresponding period of last year to 13.03% of the total revenue. The results of the segment decreased from approximately RMB153,879,000 of the corresponding period of last year to approximately RMB26,670,000, representing a decrease of 82.67%. Most products of the segment are basic chemical products, which are largely affected by the economic condition. Therefore, comparatively greater fluctuations were observed in the revenue and results of the segment during the period under review.

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

Property development

As at the date hereof, this segment included four property projects, which are located in Huantai County, Zibo City, Shandong Province, Zhangdian District, Zibo City, Shandong Province, Yucheng City, Shandong Province, and Zhangjiajie City, Hunan Province, respectively. Some of the projects are under construction, while some have commenced sales. During the period under review, the income from external sales of this segment recorded approximately RMB158,063,000, and the results of the segment recorded approximately RMB54,766,000, representing a year-on-year increase of 53.42%. With positive reputation in society, sophisticated design and comprehensive services rendered throughout various projects over the years, property of this segment of the Group has been well-received in locations where the projects were conducted, therefore achieving excellent results for the Group.

Others

This segment includes the revenue from the production and sale of other by-products from the Group's operating segments, such as Ammonium Bifluoride, Hydrofluoric Acid and Bromine. During the period under review, the income from external sales of this segment increased by 29.04% from RMB150,029,000 of the corresponding period of last year to approximately RMB193,592,000. The profit of this segment decreased by 60.20% from RMB76,229,000 of the corresponding period of last year to approximately RMB30,336,000.

Distribution and Selling Expenses

During the period, the distribution and selling expenses decreased by 5.9% to RMB170,309,000 from RMB181,055,000 of the corresponding period last year. Excluding a decrease in the products prices, there was no significant decrease in the sales volume during the period. However, the product transportation cost decreased due to other factors, resulting in a slight decrease in the overall distribution and selling expenses.

Administrative Expenses

During the period, the administrative expenses decreased by 36.25% to RMB196,656,000 from RMB308,478,000 of the corresponding period last year, which was mainly attributable to (i) a decrease in total remuneration during the period; and (ii) a decrease in the impairment loss of assets of the Company.

Finance Costs

During the period, the finance costs increased by 11.46% to RMB60,881,000 from RMB54,619,000 of the corresponding period last year, which was mainly attributable to increase in average monthly loan balances of the Group during the period, compared to the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2020, the Group's aggregate capital expenditure was approximately RMB805,823,000 (six months ended 30 June 2019: RMB693,237,000). The Group's capital expenditure mainly for the construction of right-of-use assets (land use rights), factories, equipment, and 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 2020, the Group's total equity amounted to RMB10,165,296,000 representing an increase of 13.51% compared with 31 December 2019. As at 30 June 2020, the Group's bank balances and cash totaled RMB4,746,135,000 (31 December 2019: RMB2,943,792,000). Such increase was attributed to the proceeds for the spin-off and separate listing of Dongyue Organosilicone Materials Co., Ltd were received. During the period under review, the Group generated a total of RMB1,035,431,000 (six months ended 30 June 2019: RMB1,268,936,000) net cash inflow from its operating activities. The decrease in operating cash inflow is mainly attributable to a decrease in revenue during the period. The current ratio⁽¹⁾ of the Group as at 30 June 2020 was 1.93 (31 December 2019: 2.04).

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

Capital Structure

During the period, save as disclosed in the section headed "Employee Option Scheme" in this announcement, 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 2020.

As at 30 June 2020, the borrowings of the Group totaled RMB2,201,100,000 (31 December 2019: RMB1,931,150,000). The gearing ratio⁽²⁾ of the Group was -33.40% (31 December 2019: -12.75%). The negative gearing ratio as at 30 June 2020 represents the Group is "net cash" positive (i.e. has more cash and cash equivalents than its debt).

Group Structure

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

Notes:

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Charge on Assets

As at 30 June 2020, the Group has certain property, plant and equipment and right-of-use assets/lease prepayments with the aggregate carrying amount of approximately RMB9,859,000 (31 December 2019: RMB10,145,000) and bank deposits of RMB340,535,000 (31 December 2019: RMB309,241,000), which were pledged to secure the Group's borrowings, bills payable and deposits from presale of properties of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

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

Employees

The Group employed 5,626 employees in total as at 30 June 2020 (31 December 2019: 5,664). The Group implemented its remuneration policy and bonus based on the performance of the Group and its employees. The Group provided benefits such as medical insurance, employee option scheme and pensions to ensure competitiveness.

Interim Dividend

The Board of Directors (the "Board") did not declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Spin-off and Separate Listing of Dongyue Organosilicone Materials Co., Ltd

Dongyue Organosilicone Materials Co., Ltd (Shenzhen Stock Exchange stock short name: Dongyue Silicone (東岳硅材); stock code: 300821) has obtained the China Securities Regulatory Commission's approval to issue not more than 300,000,000 A shares at an offer price and has been separately listed on the Shenzhen Stock Exchange since 12 March 2020.

OTHER INFORMATION

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

During the current period, save as disclosed in the section headed "Employee Option Scheme" in this announcement, 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 2020.

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 2020 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, the management of the Company and external auditors had on 12 August 2020 reviewed the accounting standards and practices adopted by the Group and discussed matters regarding internal control and financial reporting including the review of the Group's interim results for the six months ended 30 June 2020, 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 2020, save as disclosed below, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for Code Provision A.2.1.

Code Provision A.2.1

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

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

Employee Option Scheme

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

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

During the six months ended 30 June 2020, Shares in the amount of RMB33,296,000 (approximately HK\$36,807,429) have been purchased by the Trustee under the Employee Option Scheme. No Options have been granted under the Employee Option Scheme up to the date of this announcement.

At the balance as at 30 June 2020, Shares in the amount of RMB202,193,000 (approximately HK\$221,363,039) in total has been purchased by the Trustee under the Employee Option Scheme.

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

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

ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the Company's website at www.dongyuechem.com 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 2020.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 27 August 2020

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.