DONGYUE FEDERATION

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 2023

FINANCIAL HIGHLIGHTS

(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2023	2022
Revenue	**7,198**	10,113
Gross profit	**1,132**	3,728
Gross profit margin	**15.73%**	36.86%
Profit before taxation	**288**	2,381
Profit for the period	**208**	1,968
Profit for the period attributable to owners of the Company	**284**	1,693
Earnings per share — basic and diluted (RMB)	**0.13**	0.76

	As at	
	30 June 2023	31 December 2022
Total equity	**16,743**	18,493
Net assets per share (RMB)	**7.57**	8.28

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	*3*	**7,198,111**	10,113,288
Cost of sales		**(6,065,746)**	(6,385,543)
Gross profit		**1,132,365**	3,727,745
Other income and other gains or losses	*4*	**93,816**	95,489
Distribution and selling expenses		**(253,801)**	(218,250)
Administrative and other expenses		**(224,066)**	(568,190)
Research and development costs		**(475,928)**	(616,590)
Fair value change on financial asset at fair value through profit or loss ("FVTPL")		**–**	(37,669)
Share of results of an associate		**16,894**	15,682
Finance costs		**(1,525)**	(17,159)
Profit before taxation		**287,755**	2,381,058
Income tax expense	*5*	**(79,686)**	(413,418)
Profit for the period	*6*	**208,069**	1,967,640
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
— Fair value changes on equity instruments at fair value through other comprehensive income ("FVTOCI")		**(1,037)**	(17,205)
Total comprehensive income for the period		**207,032**	1,950,435
Profit for the period attributable to:			
— Owners of the Company		**283,871**	1,692,775
— Non-controlling interests		**(75,802)**	274,865
		208,069	1,967,640
Total comprehensive income for the period attributable to:			
— Owners of the Company		**282,834**	1,675,570
— Non-controlling interests		**(75,802)**	274,865
		207,032	1,950,435
Earnings per share	*8*		
— Basic and diluted (RMB)		**0.13**	0.76

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	Note	**At 30 June 2023 RMB'000 (unaudited)**	At 31 December 2022 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**11,718,159**	11,531,543
Right-of-use assets		**886,704**	923,163
Deposits paid for purchase of property, plant and equipment		**359,638**	409,027
Interest in an associate		**98,212**	88,034
Intangible assets		**19,583**	23,815
Equity instruments at FVTOCI		**167,454**	152,849
Deferred tax assets		**37,331**	85,877
Deposit paid for acquisition of a subsidiary		**352,846**	–
Goodwill		**299,024**	299,024
		13,938,951	13,513,332
Current assets			
Inventories		**1,308,684**	1,441,712
Properties for sale		**1,176,276**	1,202,341
Trade and other receivables	9	**2,535,872**	3,040,268
Restricted and pledged bank deposits		**78,632**	131,302
Bank balances and cash		**4,260,716**	5,315,994
		9,360,180	11,131,617

	Note	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Current liabilities			
Trade and other payables	*10*	**4,557,838**	5,409,088
Dividend payables		**1,196,613**	–
Tax liabilities		**97,779**	75,167
Lease liabilities		**6,965**	4,894
Deferred income		**68,994**	83,813
		5,928,189	5,572,962
Net current assets		**3,431,991**	5,558,655
Total assets less current liabilities		**17,370,942**	19,071,987
Capital and reserves			
Share capital		**212,196**	212,196
Reserves		**14,360,648**	15,869,822
Equity attributable to the owners of the Company		**14,572,844**	16,082,018
Non-controlling interests		**2,169,717**	2,411,459
Total equity		**16,742,561**	18,493,477
Non-current liabilities			
Deferred tax liabilities		**311,707**	251,921
Lease liabilities		**30,165**	38,740
Deferred income		**286,509**	287,849
		628,381	578,510
		17,370,942	19,071,987

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 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 value through profit or loss and fair value through other comprehensive income.

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

Application of amendments to International Financial Reporting Standards ("IFRSs")

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

The application of the amendments to IFRSs in the current interim 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 ("CODM"), 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;
- Organic silicone;
- Refrigerants;
- Dichloromethane, PVC and liquid alkali; and
- Other operations — manufacturing and sales of side-products of refrigerants segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment, property development and rental income.

Segment revenue and results

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

Six months ended 30 June 2023 (Unaudited)

	Polymers	Organic silicone	Refrigerants	Dichloromethane PVC and liquid alkali	Other operations	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	**2,275,072**	**2,502,180**	**1,452,853**	**601,312**	**366,694**	**–**	**7,198,111**
Inter-segment sales	**–**	**–**	**1,309,308**	**16,651**	**520,452**	**(1,846,411)**	**–**
Total revenue — segment revenue	**2,275,072**	**2,502,180**	**2,762,161**	**617,963**	**887,146**	**(1,846,411)**	**7,198,111**
Segment results	**224,466**	**(222,336)**	**168,240**	**91,906**	**14,569**	**–**	**276,845**
Unallocated corporate expenses							**(4,459)**
Fair value change on financial asset at FVTPL							**–**
Share of results of an associate							**16,894**
Finance costs							**(1,525)**
Profit before taxation							**287,755**

Six months ended 30 June 2022 (Unaudited)

	Polymers *RMB'000*	Organic silicone *RMB'000*	Refrigerants *RMB'000*	Dichloromethane PVC and liquid alkali *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
External sales	3,318,963	3,451,972	2,087,848	764,785	489,720	–	10,113,288
Inter-segment sales	–	–	1,482,950	7,595	540,684	(2,031,229)	–
Total revenue — segment revenue	3,318,963	3,451,972	3,570,798	772,380	1,030,404	(2,031,229)	10,113,288
Segment results	1,148,539	636,691	353,822	213,517	83,222	–	2,435,791
Unallocated corporate expenses							(15,587)
Fair value change on financial asset at FVTPL							(37,669)
Share of results of an associate							15,682
Finance costs							(17,159)
Profit before taxation							2,381,058

Segment results represent the results of each segment without allocation of unallocated expenses and central administration costs, directors' salaries, share of results of an associate, fair value change on financial asset at FVTPL, and finance costs. This is the measure reported to the CODM 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 CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

4. OTHER INCOME AND OTHER GAINS OR LOSSES

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Other income		
Government grants *(note i)*	**34,350**	16,557
Bank deposits interest income	**44,738**	34,188
Other interest income *(note ii)*	**3,710**	6,833
Sundry income	**9,233**	3,127
	92,031	60,705
Others gains or losses		
Exchange difference, net	**1,785**	34,784
	1,785	34,784
	93,816	95,489

Notes:

(i) During the six months ended 30 June 2023, the Group recognised government grants of RMB3,372,000 (six months ended 30 June 2022: RMB3,369,000) in the condensed consolidated statement of profit or loss and other comprehensive income. Government grants mainly represent the expenditure on research activities which are recognised as expense in the period in which they are incurred by the Group. The Group recognised these government grants as other income when there were no unfulfilled conditions or contingencies.

During the six months ended 30 June 2023, in addition, the Group recognised government grant of RMB30,978,000 (six months ended 30 June 2022: RMB13,188,000), which was released from deferred income, in the consolidated statement of profit or loss and other comprehensive income. The Group received subsidies from government in respect of the acquisition of property, plant and equipment for manufacturing of chemical products. Such subsidies are classified as deferred income in the consolidated statement of financial position and will be recognised in the consolidated statement of profit or loss and other comprehensive income over the estimated useful lives of the related assets.

(ii) Included in other interest income was interest income of RMB3,710,000 arising from discounting for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB6,833,000).

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax		
PRC enterprise income tax ("EIT")		
— Current year	**295,389**	378,845
— (Over)/under provision in prior years	**(17,352)**	21,390
Land Appreciation Tax ("LAT")	**4,503**	4,811
	282,540	405,046
Deferred tax		
— Withholding tax for distributable profits of PRC subsidiaries	**9,123**	52,354
— Others	**(211,977)**	(43,982)
	(202,854)	8,372
Income tax expense	**79,686**	413,418

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (six months ended 30 June 2022: 25%), except for certain PRC subsidiaries being awarded the Advanced-Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15%.

The Company's subsidiaries incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits. No provision for Hong Kong profit tax is provided for as the Group did not have estimated assessable profits arising in Hong Kong during both periods.

Pursuant to the local rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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 RMB9,123,000 (six months ended 30 June 2022: RMB52,354,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the six months ended 30 June 2023.

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):

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Amortisation of intangible assets (included in cost of sales)	**3,684**	8,111
Depreciation of property, plant and equipment	**581,973**	423,321
Depreciation of right-of-use assets	**11,338**	13,680
Fair value change on financial asset at FVTPL	**–**	37,669
Government grants	**(34,350)**	(16,557)
Loss on disposal of property, plant and equipment	**2,281**	10,037
Impairment on/(reversal of impairment on) trade and other receivables	**2,993**	(3,859)
Write-down of inventories (included in cost of sales)	**29,711**	102,264

7. DIVIDENDS

During the six months ended 30 June 2023, a final dividend of HK$0.60 per share amounting to HK$1,352,213,000 (equivalent to RMB1,196,613,000) in respect of the year ended 31 December 2022 (six months ended 30 June 2022: a final dividend of HK$0.34 per share amounting to HK$766,254,000 (equivalent to RMB620,666,000) in respect of the year ended 31 December 2021) has been declared and the amount has been paid as at the date of this announcement.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
Profit for the year attributable to owners of the Company, used in the basic and diluted earnings per share calculations (RMB)	**283,871,000**	1,692,775,000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**2,212,131,000**	2,236,097,000

During the six months ended 30 June 2023, the Group purchased 3,345,000 ordinary shares under employee option scheme (during the six months ended 30 June 2022, the Group purchased 1,321,000 ordinary shares under employee option scheme).

The Company did not repurchased and cancelled any shares during the six months ended 30 June 2023. The Company repurchased and cancelled 1,501,000 shares of its own ordinary shares of the Company during the six months ended 30 June 2022.

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the six months ended 30 June 2023 and 2022 has been arrived at after deducting the shares held in trust for the Employee Option Scheme of the Company.

9. TRADE AND OTHER RECEIVABLES

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables *(note)*	**1,579,019**	2,140,206
Less: allowance for doubtful debts	**(10,088)**	(6,888)
	1,568,931	2,133,318
Prepayments for raw materials	**168,611**	95,511
Tax recoverables	**180,687**	245,596
Deposit paid for property development	**21,000**	21,000
Receivable for disposal of associate	**406,474**	406,474
Deposits and other receivables	**190,169**	138,369
	2,535,872	3,040,268

Note:

Included in trade receivables are bills receivables amounting to RMB1,226,053,000 as at 30 June 2023 (31 December 2022: RMB1,779,458,000).

Included in bills receivables are amount due from an associate of approximately RMB32,673,000 as at 30 June 2023 (31 December 2022: RMB12,347,000).

Customers are generally granted with credit period ranged between 30-90 days for trade receivables. Bills receivables are generally due in 90 days or 180 days. The following is an aging analysis of trade and bills receivables, net of allowance for credit losses presented based on the invoice date.

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**1,007,472**	1,006,429
91–180 days	**510,090**	1,055,095
181–365 days	**51,369**	71,794
	1,568,931	2,133,318

10. TRADE AND OTHER PAYABLES

	30 June 2023 *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (audited)
Trade payables *(note i)*	**2,261,439**	2,611,778
Contract liabilities — sale of chemical products *(note ii)*	**143,486**	168,277
Contract liabilities — sale of properties *(note iii)*	**580,377**	511,263
Payroll payable	**723,781**	837,416
Payable for property, plant and equipment	**522,341**	766,449
Other tax payables	**42,469**	57,708
Construction cost payables for properties under development for sale	**82,635**	112,997
Other payables and accruals	**201,310**	343,200
Total	**4,557,838**	5,409,088

Notes:

(i) Included in the trade payables are bills payables amounting to RMB52,630,000 (31 December 2022: RMB41,637,000). Bills payables are secured by the Group's pledged bank deposits and bills receivables.

(ii) The amount represents the receipt in advance from customers arising from pre-sale of chemical products.

(iii) The amount represents the receipt in advance from customers arising from the pre-sale of properties in the PRC. The amount was secured by pledged bank deposits of approximately RMB69,658,000 (31 December 2022: RMB87,959,000) as at 30 June 2023.

The following is an aging analysis of trade payables, presented based on the invoice date:

	30 June 2023 *RMB'000* **(unaudited)**	31 December 2022 *RMB'000* (audited)
Within 30 days	**1,038,236**	1,621,153
31–90 days	**645,219**	699,843
91–180 days	**329,455**	137,992
181–365 days	**196,974**	96,930
1–2 years	**35,422**	36,854
More than 2 years	**16,133**	19,006
	2,261,439	2,611,778

MANAGEMENT DISCUSSION AND ANALYSIS

Results Review

In the first half of 2023, given the complex domestic and overseas economic environment, along with gloomy market sentiment, the fluorosilicon chemical industry was significantly impacted. During the period under review, a number of the Group's products recorded weakening demand from the downstream sector with price sliding to various degrees, which also led to a decline in the Group's revenue and profit. Although the Group maintained its competitive edge in the industry with intact and stable operating strategies, such advantages were unable to offset the negative market impact on the Group's performance.

1. Prudent Operation amid Market Changes

During the period under review, the fluorosilicon chemical industry recorded substantial changes with declining product prices. In response to these changes, the Group's management quickly formulated business strategies to maintain prudent operations, reinforce "internal strengthens", reduce costs and explore potential developments. Leveraging the Group's economies of scale, advanced techniques, well-established production chain and outstanding management, the Group continued to maintain its leading position in the industry. Through the diligent efforts of all employees, the Group maintained stable production in the first half of this year, and achieved certain growth in both production and sales volume. While such growth had led to further increase in market shares, the energy consumption level per unit product was reduced. During the period under review, although the Group recorded a significant decline on its results compared to the historical best a year ago, prudent operations have laid a solid foundation for the Group's performance growth once the industry shall recover in the future.

2. Steady Progress for Research and Development Projects

The Group's management has always attached great importance to independent research and development (R&D) and technological innovation. The Group's R&D capabilities have helped maintain the ongoing product competitiveness in the market, which also contributed as an important reason behind the Group's capability to secure an industry-leading profit level during market downturns. During the period under review, despite the significant declining results, the Group continued to maintain a certain level of R&D investment. R&D cost amounted to approximately RMB475,928,000, accounting for approximately 6.61% of total revenue. During the period under review, the Group added 53 new product grades, which contributed certain profits and new vitality to the Group. During the period, the Group was granted 47 patents, and currently has a total of 587 licensed patents. The Group also published 5 standards during the period, with a total of 108 various standards published to date.

3. Gradually Modifying of Safe and Environmental-friendly Production

The Group has always adhered to high standards and strict requirements for safe and environmentally-friendly production to ensure the stable operation of the Group. In the first half of the year, the Group further enhanced its safety and environmental protection management system by strengthening the management on safety and environmental protection targets. The implementation of information and automation projects also provided good protection for safe and environmentally-friendly production. During the period under review, the Group recorded no safety and environmental protection related incident. In addition, the Group further increased the recycling and utilisation rate of the by-products and waste, such as the utilisation of the by-products on hydrogen gas, as well as the recycling of wastewater, striving to reduce costs and increase the efficiency for the Group.

4. Enhancing Internal Control Management

During the period under review, the Group further strengthened internal control management, increased efforts in disciplinary inspection and internal control, and strictly reviewed the implementation of systems and procedures. At the same time, the Group also enhanced the education and training on integrity and compliance for all employees, and mobilised the "enhancing supervision to iron out the difficulties" initiatives, which have significantly enhanced employees' awareness and vigilance of integrity and compliance.

Future Prospect

The Group continued to encounter challenges on operation during the current macro environment. Nonetheless, the Group was fully capable of dealing with the current situation thank to its ample operating experiences in the industry. Going forward, the Group has the following business strategies:

1. Firmly uphold the "high-intensity supervision" management strategy

The Group fully understands the importance of high standard management under the current business environment. Going forward, we will further utilise the functions in various aspects within the organisation such as disciplinary inspection, internal audit, finance and other business segments to firmly implement "high-intensity supervision" and strengthen compliance management. For the second half of this year, the Group will further perfect the workflow system on procurement, maintenance, project construction and transportation, as well as contract management, supervision management and other related tasks to strictly control various expenses. Under the unfavourable external environment, we should safeguard the Group's interests by practising our "internal strengths".

2. Precise application of R&D resources

The Group believes that, notwithstanding the current intense operating conditions, the persistency to maintain its objectives in R&D and innovation is imperative. Based on the current situation, the Group will further concentrate R&D resources, conduct in-depth studies, and carry out precise R&D of high-end products with good market prospects and greater returns in formulating a new development path in the fluorosilicon industry that is unique to Dongyue.

3. Deepen Human Resources Reform

Industry downturn is a critical period for the Company's human resources. The Group will further enhance human resources reform, establish a vibrant human resources platform, create a favourable entrepreneurial and innovative atmosphere, and provide newcomers and talents the opportunity to stand out. Through the enhanced human resources system, the Group can realize and recognize the value of its talents.

4. Effective execution of comprehensive expansion campaign

The Group has formulated a comprehensive expansion campaign for the second half of this year, involving all departments including production, sales, safety, environmental protection, procurement and others. With the leadership by the senior management, each department is assigned responsibilities to supervise all employees and to ensure their work participation. The Group will strictly implement reward and punishment measures, and strive to achieve various business tasks and objectives for the second half of this year.

Since its establishment 36 years ago, Dongyue has navigated many ups and downs. Though there were some highs and lows along the way, Dongyue has always been able to weather out and pass through the storm. In light of today's business environment, the Group firmly believes to overcome all difficulties and embrace a bright future, driven by the correct business philosophy, excellent technology, professional management, and the efforts of all Dongyue's workforce. Therefore, we are well prepared for the future.

Financial review

Results Highlights

For the six months ended 30 June 2023, the Group recorded revenue of approximately RMB7,198,111,000, representing a decrease of 28.83% over RMB10,113,288,000 of the corresponding period last year. The gross profit margin declined to 15.73% (corresponding period of 2022: 36.86%) and the consolidated segment results margin* was 3.85% (corresponding period of 2022: 24.09%). The operating results margin** was 3.78% (corresponding period of 2022: 23.56%). During the period under review, the Group recorded profit before taxation of approximately RMB287,755,000 (corresponding period of 2022: RMB2,381,058,000), and net profit of approximately RMB208,069,000 (corresponding period of 2022: RMB1,967,640,000), while the total comprehensive income for the period was approximately RMB207,032,000 (corresponding period of 2022: RMB1,950,435,000). The unaudited consolidated results of the Group have been reviewed by the Audit Committee of the Company and the external auditor.

* 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 segment results for the six months ended 30 June 2023 and the six months ended 30 June 2022:

Reportable and Operating Segments	**For the six months ended 30 June 2023**			For the six months ended 30 June 2022		
	Revenue *RMB'000*	**Results** *RMB'000*	**Segment Results Margin**	Revenue *RMB'000*	Results *RMB'000*	Segment Results Margin
Fluoropolymer	**2,275,072**	**224,466**	**9.87%**	3,318,963	1,148,539	34.61%
Organic silicone	**2,502,180**	**-222,336**	**-8.89%**	3,451,972	636,691	18.44%
Refrigerants	**1,452,853**	**168,240**	**11.58%**	2,087,848	353,822	16.95%
Dichloromethane, PVC and Liquid Alkali	**601,312**	**91,906**	**15.28%**	764,785	213,517	27.92%
Others	**366,694**	**14,569**	**3.97%**	489,720	83,222	16.99%
Total	**7,198,111**	**276,845**	**3.85%**	10,113,288	2,435,791	24.09%

Analysis of Revenue and Operating Results

During the period under review, affected by the overall environment, the fluorosilicon chemical industry recorded poor sentiment with weak downstream demand, resulting in price drops for a number of the Group's major products. Consequently, the results across all business segments of the Group recorded various degrees of declines.

Fluoropolymer

During the period under review, the external sales of Fluoropolymer segment recorded approximately RMB2,275,072,000, representing a year-on-year decrease of 31.45% (the first half of 2022: RMB3,318,963,000), accounting for 31.61% (the first half of 2022: 32.82%) of the Group's total external sales. The results of the segment recorded a profit of RMB224,466,000, representing a decrease of 80.46% as compared with RMB1,148,539,000 in the same period of the previous year.

During the period under review, the decline on external sales and segment results were mainly due to the significant price tumble on the segment's key products. Of which, the price of PVDF products suffered the biggest price decline, with weaker downstream demand and considerable capacity increase across the industry. Although the Group's production volume increased as compared to the corresponding period of last year, such increase was unable to compensate for the impact of the decline in product prices.

The Group relies on the internal supply of R22 for the production of TFE (a fluorocarbon), which is used by the Group for the production of polymers products such as PTFE (a synthetic fluoropolymer with high level of resistance to temperature changes, electrical insulation, aging and chemical resistant that is used as a coating material and can also be further processed into high-end fine chemicals, which can 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 the production of a variety of downstream fluoropolymer fine chemicals including FEP (modified materials of PTFE, produced with HFP added in TFE, mainly used in the lining for wire insulation layer, thin-walled tube, heat shrinkable tubes, pumps, valves and pipes), FKM (Fluorine Rubber, a specialized fluorinated material, which is mainly used in the fields of aerospace, automotive, machinery and petro-chemistry due to its superior mechanical property, excellent oil, chemical and heat resistance), PVDF (fluorocarbon made through aggregation of VDF produced with R142b, mainly used as a lithium battery cathode binder, photovoltaic backplane membrane and anti-corrosion coating) and VDF. The Group leads the domestic production capacity in this segment. PTFE, HFP, FEP, FKM and PVDF have a total capacity of 55,000 tons/year, 10,000 tons/year, 10,000 tons/year, 3,000 tons/year, and 25,000 tons/year, respectively.

Organic Silicone

During the year, the organic silicone segment's external sales decreased by 27.51% to RMB2,502,180,000 from RMB3,451,972,000 in the previous year, accounting for 34.76% (the first half of 2022: 34.13%) of the Group's total external sales. The results of the segment recorded a loss of RMB222,336,000, representing a decrease of 134.92% from a profit of RMB636,691,000 in the previous year.

During the period under review, the organic silicone market was impacted by the economic environment. Sluggish demand and the full release of the new production capacity across the domestic organic silicone industry led to a short-term imbalance between supply and demand and to fierce competition in the market, resulting in a decline in product prices falling below the industry cost line.

This segment mainly included the revenue from 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 Group initially produces silicone monomers with silicone powder and internally generated chloromethane and further processes them to become silicone intermediates (mainly DMC), with certain portion of which the Group produces for Silicone Rubbers and other organic silicone products. The Group can also produce and generate other by-products and high-end downstream products, such as Gaseous Silica and Silicone Oils through its production processes. The business segment of the Group has an aggregate monomer production capacity of 600,000 tons/year.

Refrigerants

During the period under review, the refrigerants segment's external sales decreased by 30.41% to RMB1,452,853,000 from RMB2,087,848,000 in the previous year, accounting for 20.18% (the first half of 2022: 20.64%) of the Group's total external sales. The results of the segment recorded a profit of RMB168,240,000, representing a year-on-year decrease of 52.45% from RMB353,822,000 in the first half of 2022.

During the period under review, the decline in segment results of the refrigerants segment was primarily attributable to the price decrease in the R142b products. Affected by the changes in demand of the PVDF industry chain and the ramp-up of R142b capacity by some PVDF manufacturers, market demand in R142b recorded a decline, which caused a substantial price decline as compared to the corresponding period of last year. For the first half of this year, although the refrigerant market demand had somewhat improved with some degrees of price increase on R22, R32, R410a and other products, such price increase failed to offset the impact on the refrigerant segment's results caused by the price decrease of R142b.

The Group has the largest production capacity of R22 in the world, with an aggregate production capacity of 220,000 tons/year. R22 is the Group's backbone refrigerants product. Moreover, R22 is the most widely used refrigerant in the PRC and is generally used in household appliances. Apart from that, it has been one of the key raw materials for the production of the fluoropolymers (i.e. PTFE, HFP and other downstream fluorinated chemicals) and R125. R125 and R32 are the key refrigerant mixture for other types of green refrigerants (such as R410a) to replace R22. Currently, the Group's R125 and R32 each has a production capacity of 60,000 tons/year. Currently, R410a has been the principal replacing refrigerant which has been widely applied in inverter air conditioners and other green home appliances. R134a is broadly used in the refrigeration and air-conditioning systems in automobile air conditioners, while R152a is another key refrigerant product of the Group which can also be used as blowing agents, aerosols and cleaning agents, as well as in the production of R142b. The Group's R142b has an aggregate production capacity of 33,000 tons/ year. Apart from the fact that R142b can be used as refrigerant, temperature controller medium, and intermediates of aviation propellant, it can also be the main raw material for the production of PVDF.

Dichloromethane, PVC and Liquid Alkali

During the period under review, the segment's external sales decreased by 21.38% to RMB601,312,000 from RMB764,785,000 in the previous year, accounting for 8.35% (the first half of 2022: 7.56%) of the Group's total external sales. The results of the segment recorded a profit of RMB91,906,000, representing a year-on-year decrease of 56.96% (the first half of 2022: profit of RMB213,517,000).

The products of this segment fall under chemical commodities, with price fluctuating according to market conditions. During the period under review, the products in this segment recorded weak demand, with declining product prices, resulting in lower profitability.

This segment included the revenue from production and sales of two major auxiliary products (dichloromethane and liquid alkali) of Refrigerants Segment of the Group and PVC products. Liquid alkali is a basic chemical product from the production of methane chloride (essential chemical for the production of refrigerants and organic silicone products), and used in the textile, power and materials industries. Methane chloride includes dichloromethane, which is mainly used to produce antibiotics and as a foaming mode for polyurethane. The Group is engaged in the production of PVC (a widely used thermoplastic polymer applied in the construction industry to replace traditional building materials). The production of refrigerants products generates a chemical, hydrogen chloride, which is one of the basic raw materials for PVC production. Therefore, the Group's PVC production can ensure production synergies, increasing economic value generated from a self-sufficient commercial chain.

Others

During the period under review, the external sales of the segment were RMB366,694,000, representing a decrease of 25.12% as compared with RMB489,720,000 in the previous year. The results of the segment recorded a profit of RMB14,569,000 (the first half of 2022: RMB83,222,000), representing a year-on-year decrease of 82.49%.

This segment includes the revenue from the production and sales of other by-products from the operating segments of the Group, such as Ammonium Bifluoride, Hydrofluoric Acid and Bromine, and the revenue from the real estate business.

Distribution and Selling Expenses

During the period, distribution and selling expenses increased by 16.29% to RMB253,801,000 from RMB218,250,000 of the corresponding period last year, which was attributable to the increase in sales and the increase in transportation fees resulting from sales growth during the period.

Administrative and Other Expenses

During the period, the administrative expenses decreased by 60.56% to RMB224,066,000 from RMB568,190,000 of the corresponding period last year, which was mainly attributable to (1) the decrease in total remuneration as a result of the decrease in efficiency-related wages based on profits; and (2) the decrease in impairment of inventories.

Finance Costs

During the period, finance costs decreased by 91.11% to RMB1,525,000 from RMB17,159,000 of the corresponding period last year, which was mainly attributable to the decrease in borrowings of the Group as compared to the corresponding period last year. As of to date, the Company had no borrowings.

Capital Expenditure

For the six months ended 30 June 2023, the Group's capital expenditure was approximately RMB744,415,000 (six months ended 30 June 2022: RMB1,616,112,000). The Group's capital expenditure was mainly allocated to the construction of right-of-use assets (land use rights), factories, equipment, and production lines for the Group's new projects.

Liquidity and Financial Resources

The Group maintained a sound financial position with healthy working capital management and sufficient operating cash flow. As at 30 June 2023, the Group's total equity amounted to RMB16,742,561,000, representing a decrease of 9.47% compared with 31 December 2022. As at 30 June 2023, the Groups reported bank balances and cash of RMB4,260,716,000 (31 December 2022: RMB5,315,994,000). During the period under review, the Group generated a total of RMB713,108,000 (six months ended 30 June 2022: RMB2,545,245,000) net cash inflow from its operating activities. The current ratio (1) of the Group as at 30 June 2023 was 1.58 (31 December 2022: 2.00).

Taking into account the aforesaid figures, coupled with the available bank balances and cash, the unused banking credit facilities, support from these banks, as well as sufficient operating cash flows, the management is confident that the Group has adequate resources to repay any debts, and to fund its requirements on operations and capital expenditures.

Capital Structure

During the period, except as disclosed in the section headed "Employee Option Scheme" in this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities. The number of issued shares of the Company was 2,253,689,455 as at 30 June 2023.

As at 30 June 2023, the Group had no borrowings (31 December 2022: Nil). The gearing ratio (2) of the Group was -25.45% (31 December 2022: -28.75%). The negative gearing ratio as at 30 June 2023 represents the Group was in a "net cash" position (i.e. having more cash and cash equivalents than debt).

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

Group Structure

During the period under review, the Group recorded no material changes in the Group's structure.

Charge on Assets

As at 30 June 2023, the Group had bank deposits of RMB74,145,000 (31 December 2022: RMB276,166,000) were pledged as restricted funds for bills payable, letters of credit and pre-sale properties.

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 settled purchases of machinery and equipment from the overseas suppliers.

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 8,734 employees in total as at 30 June 2023 (31 December 2022: 7,549). 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 maintain 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 2023 (six months ended 30 June 2022: Nil).

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

During the current period, other than as disclosed in the section headed "Employee Option Scheme", 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 2023.

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 2023 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. Ma Zhizhong, all being independent non-executive Directors.

The Audit Committee, the management of the Company and external auditors had on 21 August 2023 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 2023, 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. Wang Weidong 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 Ma Zhizhong were appointed as the members of the Risk Management Committee.

Compliance with the Code on Corporate Governance Practices

Throughout the six months ended 30 June 2023, 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.

Gender diversity at board level

Appendix 14J of the Code stipulates that the board should achieve gender diversity no later than 31 December 2024. The Company is single gender (male) board and is currently selecting suitable female candidate(s) to become board member(s). The Board is endeavor to achieve the board gender diversity by appointment at least one female director on the board by 31 December 2024.

Employee Option Scheme

The Company adopted an employee option scheme (the "Employee Option Scheme") which shall be valid and effective for a term of ten (10) years commencing on the adoption date of 27 December 2018. 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, the trustee will purchase existing Shares from the market out of cash contributed by the Group of not more than HK$1,300,000,000 in total 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.

As at 30 June 2023, 46,129,000 Shares in the amount of HK$549,201,000 are held by the trustee under the Employee Option Scheme, in which 3,345,000 Shares in the amount of HK$18,552,000 have been purchased during the six months ended 30 June 2023. No option has been granted under the Employee Option Scheme during the reporting period.

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, 9 July 2021 and 28 March 2023, respectively.

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 2023.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The People's Republic of China, 25 August 2023

As at the date of this announcement, the directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Wang Weidong, Mr. Zhang Zhefeng and Mr. Zhang Jian as executive directors, and Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Ma Zhizhong as independent non-executive directors.