DONGYUE FEDERATION

DONGYUE GROUP LIMITED
東岳集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 189)

(1) ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR 2017 AND (2) CLOSURE OF REGISTER OF MEMBERS

FINANCIAL HIGHLIGHTS
(in RMB million, unless otherwise stated)

	Financial Year ended 31 December	
	2017	2016
Revenue	**10,137**	7,970
Gross Profit	**3,064**	1,641
Gross Profit Margin	**30.23%**	20.59%
Profit before Tax	**2,142**	862
Profit and Total Comprehensive Income	**1,682**	615
Profit and Total Comprehensive Income attributable to the Shareholders	**1,601**	588
Basic Earnings per Share (RMB)	**0.76**	0.28
Final Dividend per Share (HK$)	**0.30**	0.10

	As at	
	31 December 2017	31 December 2016
Total Equity	**7,312**	5,686
Net Assets per Share (RMB)	**3.46**	2.69

(1) Announcement of Annual Results for 2017

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following is the extract of the independent auditor's report from Elite Partners CPA Limited, the external auditor of Dongyue Group Limited (the "Company") on the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017:

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statement in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*4*	**10,137,137**	7,969,773
Cost of sales		**(7,072,865)**	(6,328,718)
Gross profit		**3,064,272**	1,641,055
Other income	*5*	**225,467**	186,667
Distribution and selling expenses		**(313,959)**	(283,058)
Administrative expenses		**(656,333)**	(387,610)
Impairment of available-for-sale investment		**–**	(42,324)
Impairment of intangible assets		**(17,485)**	–
Research and development expenses		**(94,609)**	(73,947)
Finance costs	*6*	**(112,890)**	(166,229)
Share of results of associates		**47,310**	(12,440)
Profit before tax		**2,141,773**	862,114
Income tax expense	*7*	**(459,974)**	(246,648)
Profit and total comprehensive income for the year	*8*	**1,681,799**	615,466
Profit and total comprehensive income attributable to:			
– Owners of the Company		**1,601,397**	588,154
– Non-controlling interests		**80,402**	27,312
		1,681,799	615,466
Earnings per share	*9*		
– Basic (RMB)		**0.76**	0.28
– Diluted (RMB)		**0.76**	0.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		**3,804,155**	3,874,258
Prepayments for purchase of property, plant and equipment		**50,013**	8,682
Prepaid lease payments		**466,666**	472,533
Prepayment for land lease		**–**	82,000
Intangible assets		**81,647**	107,225
Interests in associates		**–**	10,283
Available-for-sale investments	*11*	**1,221,292**	1,152,959
Deferred tax assets		**246,398**	451,653
Goodwill		**123,420**	85,894
Deposit paid for acquisition of associates		**–**	59,800
		5,993,591	6,305,287
Current assets			
Inventories		**989,229**	710,968
Properties for sale		**1,805,943**	407,220
Prepaid lease payments		**14,754**	13,603
Trade and other receivables	*12*	**1,970,471**	1,208,975
Entrusted loans		**–**	30,000
Pledged bank deposits		**32,860**	106,703
Bank balances and cash		**1,471,116**	2,082,361
		6,284,373	4,559,830
Current liabilities			
Trade and other payables	*13*	**2,345,168**	1,950,444
Deposits from pre-sale of properties		**359,918**	98,527
Borrowings		**1,076,021**	1,797,700
Tax liabilities		**94,485**	61,534
Deferred income		**25,359**	27,925
		3,900,951	3,936,130
Net current assets		**2,383,422**	623,700
Total assets less current liabilities		**8,377,013**	6,928,987

	2017	2016
	RMB'000	*RMB'000*
Capital and reserves		
Share capital	**200,397**	200,397
Reserves	**6,509,335**	5,187,611
Equity attributable to the owners of the Company	**6,709,732**	5,388,008
Non-controlling interests	**602,679**	298,243
Total equity	**7,312,411**	5,686,251
Non-current liabilities		
Deferred income	**227,721**	252,057
Deferred tax liabilities	**92,081**	58,679
Borrowings	**744,800**	932,000
	1,064,602	1,242,736
	8,377,013	6,928,987

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share Capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Merger reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Statutory Surplus reserve RMB'000 (Note c)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2016	200,540	1,226,972	391,844	(32,210)	101,534	737,882	2,174,977	4,801,539	270,836	5,072,375
Profit and total comprehensive income for the year	–	–	–	–	–	–	588,154	588,154	27,312	615,466
Transfer	–	–	–	–	506	–	–	506	95	601
Lapsed of share options	–	–	(391,844)	–	–	–	391,844	–	–	–
Shares repurchased and cancelled	(143)	(2,048)	–	–	–	–	–	(2,191)	–	(2,191)
Balance at 31 December 2016	**200,397**	**1,224,924**	**-**	**(32,210)**	**102,040**	**737,882**	**3,154,975**	**5,388,008**	**298,243**	**5,686,251**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**1,601,397**	**1,601,397**	**80,402**	**1,681,799**
Transfer	**-**	**-**	**-**	**-**	**660**	**75,100**	**(75,100)**	**660**	**124**	**784**
Capital contribution from non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**223,910**	**223,910**
Contributions from minority shareholders	**-**	**-**	**-**	**-**	**10,376**	**-**	**-**	**10,376**	**-**	**10,376**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**-**	**(290,709)**	**(290,709)**	**-**	**(290,709)**
Balance at 31 December 2017	**200,397**	**1,224,924**	**-**	**(32,210)**	**113,076**	**812,982**	**4,390,563**	**6,709,732**	**602,679**	**7,312,411**

Notes:

(a) Merger reserve arose in group reorganisation completed in 2006.

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

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

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

Statutory surplus reserve is part of shareholders' equity of each PRC subsidiary 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**2,141,773**	862,114
Adjustments for:		
Finance costs	**112,890**	166,229
Interest income	**(8,583)**	(32,512)
Realisation of deferred income	**(28,022)**	(30,333)
(Reversed)/Recognition of impairment on trade receivables	**(22,541)**	22,751
Depreciation and amortiation	**702,523**	721,030
Release of prepaid lease payments	**13,856**	13,469
Write-down of inventories	**4,129**	5,200
Share of results of associates	**(47,310)**	12,440
Dividend income from available-for-sale investments	**(135,685)**	(14,768)
Loss on disposals of property, plant and equipment	**196,076**	35,910
Impairment of intangible assets	**17,485**	–
Impairment of investment in associates	**–**	995
Impairment of available-for-sale investments	**–**	42,324
Gain on acquisition of associates	**–**	(22,723)
Operating cash flows before movements in working capital	**2,946,591**	1,782,126
Increase in inventories	**(282,390)**	(2,707)
(Increase)/decrease in trade and other receivables	**(598,676)**	160,427
(Increase)/decrease in properties under development for sale	**(165,931)**	380,209
Decrease in trade and other payables	**(819,898)**	(243,252)
Increase/(decrease) in deposits from pre-sale of properties	**261,391**	(324,143)
Increase in deferred income	**1,119**	17,509
Cash generated from operations	**1,342,206**	1,770,169
Income taxes and withholding tax paid	**(220,019)**	(224,014)
NET CASH FROM OPERATING ACTIVITIES	**1,122,187**	1,546,155

	2017	2016
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Entrusted loans to third parties	**–**	(284,500)
Purchase of property, plant and equipment	**(830,345)**	(448,779)
Receipt/(payment) for prepaid land lease	**72,860**	(98,998)
Purchase of intangible assets	**(3,881)**	(360)
Repayment of entrusted loans from third parties	**–**	590,800
Interest received	**8,583**	32,512
Proceeds from release of pledged bank deposits	**73,843**	6,511
Proceeds from disposals of property, plant and equipment	**3,839**	1,564
Dividend income from available-for-sale investments	**135,685**	14,768
Deposit received for acquisition of a subsidiary	**–**	165,897
Deposit received for/(paid for) acquisition of associates	**59,800**	(52,550)
Cash outflow from acquisition of subsidiaries	**(29,290)**	–
Cash outflow for available-for-sale investments	**(68,333)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(577,239)**	(73,135)
FINANCING ACTIVITIES		
Proceeds from borrowings	**1,227,000**	1,249,787
Repayment of borrowings	**(2,213,879)**	(1,939,452)
Interest paid	**(112,890)**	(166,229)
Shares repurchased and cancelled	**–**	(2,191)
Dividends paid	**(290,707)**	–
Capital contribution from non-controlling interests	**234,283**	–
NET CASH USED IN FINANCING ACTIVITIES	**(1,156,193)**	(858,085)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(611,245)**	614,935
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	**2,082,361**	1,467,426
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	**1,471,116**	2,082,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Dongyue Group Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2006 as an exempted company with limited liability. The address of its registered office is Scotia Centre, 4th Floor, P. O. Box 2804, George Town, Grand Cayman, Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 10 December 2007.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture, distribution and sale of refrigerants, polymers, organic silicone and dichloromethane, polyvinyl chloride ("PVC") and liquid alkali and others. In addition, the Group is also engaged in property development in the People's Republic of China (the "PRC").

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

In the application of the Group's accounting policies, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

Amendments to IFRSs and a new interpretation that are mandatorily effective for the current year ended 31 December 2017

In the current year, the Group has applied for the first time in the current year the following amendments and a new interpretation to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the amendments to IFRSs and the interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised standards, interpretations and amendments issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or its Joint Venture[4]
Amendments to IAS 40	Transfers of Investment Property[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after a date to be determined

The Directors anticipate that the application of the new and revised IFRSs, other than those set out below, will have no material impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods and properties.

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:

- Refrigerants;
- Polymers;
- Organic silicone;
- Dichloromethane, PVC and liquid alkali;
- Property development – development of residential properties at Shandong and Hunan Province, the PRC; and
- 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.

2017

	Refrigerants	Polymers	Organic Silicone	Dichloromethane, PVC and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	2,502,275	2,927,843	2,428,256	1,604,099	285,510	9,747,983	389,154	-	10,137,137
Inter-segment sales	1,387,964	-	-	4,608	-	1,392,572	729,764	(2,122,336)	-
Total revenue – segment revenue	3,890,239	2,927,843	2,428,256	1,608,707	285,510	11,140,555	1,118,918	(2,122,336)	10,137,137
SEGMENT RESULTS	588,442	605,053	433,836	354,554	32,648	2,014,533	237,215	-	2,251,748
Unallocated corporate expenses									(44,395)
Unallocated other income									
Finance costs									(112,890)
Share of results of associates									47,310
Profit before tax									2,141,773

2016

	Refrigerants	Polymers	Organic Silicone	Dichloromethane, PVC and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	1,828,048	2,187,639	1,684,716	1,211,244	871,162	7,782,809	186,964	–	7,969,773
Inter-segment sales	1,044,368	–	–	2,999	–	1,047,367	520,778	(1,568,145)	–
Total revenue – segment revenue	2,872,416	2,187,639	1,684,716	1,214,243	871,162	8,830,176	707,742	(1,568,145)	7,969,773
SEGMENT RESULTS	193,196	245,119	81,204	145,147	308,204	972,870	74,646	–	1,047,516
Unallocated corporate expenses									(21,573)
Unallocated other income									14,840
Finance costs									(166,229)
Share of results of associates									(12,440)
Loss before tax									862,114

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

Inter-segment sales are charged at prevailing market rates.

Entity-wide disclosures

Information about revenue from refrigerants segment by products from external customers

	2017	2016
	RMB'000	*RMB'000*
Monochlorodifluoromethane (HCFC-22)	**696,063**	457,124
Tetrafluoroethane (R134a)	**169,015**	186,082
Pentafluoroethane (R125)	**83,596**	69,047
R439A	**2,089**	1,647
R410a	**569,788**	294,294
R413A	**33,382**	34,648
R142b	**123,424**	42,540
R152a	**164,597**	148,298
R22	**302,045**	307,584
R32	**180,088**	111,127
Others	**178,188**	175,657
	2,502,275	1,828,048

Information about revenue from polymers segment by products from external customers

	2017	2016
	RMB'000	*RMB'000*
Polytetrafluoroethylene (PTFE)	**1,551,160**	1,031,301
Hexafluoropropylene (HFP)	**256,997**	317,249
Perfluorocyclobutane	**76,114**	48,091
Fluorinated ethylene propylene (FEP)	**34,099**	18,505
Polyvinylidene fluoride (PVDF)	**360,039**	341,332
Fluorine rubber (FKM)	**152,550**	110,028
Vinylidene fluoride (VDF)	**49,968**	17,722
Others	**446,916**	303,411
	2,927,843	2,187,639

Information about revenue from organic silicone segment by products from external customers

	2017	2016
	RMB'000	*RMB'000*
DMC (Dimethylcyclosiloxane)	**290,488**	292,216
107 Silicone Rubber	**927,718**	472,796
Raw Vulcanizate	**405,291**	252,938
D3 (Hexamethylcyclotrisiloxane)	**–**	168
Gross Rubber	**92,138**	55,586
Gaseous Silica	**120,248**	106,488
DMC Hydrolysate	**140,494**	117,893
Trimethylchlorosilane	**65,970**	50,909
Methyldichlorosilane	**4,296**	1,958
DMC Lineament	**181,568**	168,814
D4 (Octamethyl Cyclotetrasiloxane)	**18,080**	51,837
Others	**181,965**	113,113
	2,428,256	1,684,716

Information about revenue from Dichloromethane, PVC and liquid alkali segment by products segment from external customers

	2017	2016
	RMB'000	*RMB'000*
PVC	**615,980**	570,223
Dichloromethane	**214,516**	174,921
Liqui alkali	**773,603**	466,100
	1,604,099	1,211,244

Information about revenue from other operations segment by products from external customers

	2017	2016
	RMB'000	*RMB'000*
AHF (Anhydrous Fluoride)	**41,793**	418
Ammonium Bifluoride	**59,234**	49,445
Hydrofluoric Acid	**43,612**	32,592
Bromine	**70,745**	61,054
Others	**173,770**	43,455
	389,154	186,964

Information about major customers

There was no revenue from a single customer that contributed over 10% of the total sales of the Group during each of the two years ended 31 December 2017 and 2016.

Geographical information

The Group's revenue from external customers by geographical location of customers is detailed below:

	2017	2016
	RMB'000	*RMB'000*
PRC	**8,212,343**	6,528,302
Asia (except PRC)		
– Japan	**354,951**	314,240
– South korea	**361,571**	269,765
– India	**27,176**	15,178
– Singapore	**23,936**	20,554
– Thailand	**37,576**	41,193
– United Arab Emirates	**104,323**	65,207
– Pakistan	**21,359**	16,528
– Malaysia	**33,266**	25,979
– Philippines	**6,574**	7,667
– Viet Nam	**20,724**	14,614
– Turkey	**65,698**	37,763
– Other countries	**61,456**	65,670
Subtotal	**1,118,610**	894,358

	2017	2016
	RMB'000	*RMB'000*
America		
– United States of America	**365,765**	197,721
– Brazil	**103,264**	96,390
– Other countries	**27,866**	20,498
Subtotal	**496,895**	314,609
Europe		
– Italy	**131,929**	96,625
– England	**13,820**	2,995
– Russia	**41,900**	27,406
– Germany	**29,192**	25,884
– France	**8,110**	8,621
– Other countries	**21,015**	13,826
Subtotal	**245,966**	175,357
Africa		
– South Africa	**23,867**	17,907
– Egypt	**6,659**	4,645
– Nigeria	**18,524**	16,019
– Other countries	**8,164**	9,782
Subtotal	**57,214**	48,353
Other countries/regions	**6,109**	8,794
	10,137,137	7,969,773

All of the non-current assets of the Group are located in the PRC.

Other segment information

	Refrigerants *RMB'000*	Polymers *RMB'000*	Organic Silicone *RMB'000*	Dichloromethane, PVC and liquid alkali *RMB'000*	Property development *RMB'000*	Reportable and operating segment total *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
2017								
Depreciation of property property, plant and equipment	**231,944**	**165,460**	**131,223**	**123,466**	**5,457**	**657,550**	**32,985**	**690,535**
Amortisation of intangible assets	**701**	**10,258**	**125**	**538**	**300**	**11,922**	**66**	**11,988**
(Revisal) recognition of impairment on trade receivables	**(18,122)**	**(137)**	**980**	**(3,914)**	**–**	**(21,193)**	**(1,348)**	**(22,541)**
Research and development costs recognised as an expense	**5,774**	**79,462**	**7,988**	**735**	**–**	**93,959**	**650**	**94,609**
Write-down of inventories	**2,528**	**–**	**–**	**1,525**	**–**	**4,053**	**76**	**4,129**
Loss (gain) on disposals of property, plant and equipment	**29,971**	**35,145**	**112,105**	**18,856**	**(95)**	**195,982**	**94**	**196,076**
Release of prepaid lease payments	**3,125**	**5,199**	**3,129**	**1,308**	**–**	**12,761**	**1,095**	**13,856**

	Refrigerants *RMB'000*	Polymers *RMB'000*	Organic Silicone *RMB'000*	Dichloromethane, PVC and liquid alkali *RMB'000*	Property development *RMB'000*	Reportable and operating segment total *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
2016								
Depreciation of property, plant and equipment	237,768	178,117	137,794	119,712	1,353	674,744	35,159	709,903
Amortisation of intangible assets	416	10,302	125	252	–	11,095	33	11,128
(Revisal) recognition of impairment on trade receivables	17,306	87	61	4,376	–	21,830	921	22,751
Research and development costs recognised as an expense	4,403	66,370	2,078	576	–	73,427	520	73,947
Write-down of inventories	1,517	–	–	3,615	–	5,132	68	5,200
Loss (gain) on disposals of property, plant and equipment	10,254	7,599	15,394	2,075	–	35,322	588	35,910
Release of prepaid lease payments	2,944	5,132	3,132	1,192	–	12,400	1,069	13,469

5. OTHER INCOME

	2017 *RMB'000*	2016 *RMB'000*
Government grants		
– Related to expense items *(Note)*	**42,020**	36,573
– Related to assets	**28,022**	30,333
Bank deposits interest income	**8,583**	9,211
Interest income on entrusted loan	**–**	23,299
Dividend income from available-for-sale investments	**135,685**	14,768
Exchange gain	**–**	29,037
Other interest income	**2,080**	13,224
Others	**9,077**	30,222
	225,467	186,667

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.

6. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on:		
Bank loans wholly repayable within five years	**111,648**	167,025
Other borrowings repayable within five years	**1,242**	858
Total borrowings costs	**112,890**	167,883
Less: Amounts capitalised for property, plant and equipment	**–**	(1,654)
	112,890	166,229

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 4.71% per annum to expenditure on qualifying assets for the year ended 31 December 2016.

7. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
PRC enterprise income tax ("EIT")		
– Current year	**201,034**	174,774
– Over provision in prior years	**(1,134)**	(16,866)
– Land Appreciation Tax ("LAT")	**12,091**	73,573
	211,991	231,481
Deferred tax charge		
– Withholding tax for distributable profits of PRC subsidiaries	**48,042**	18,742
– Others	**199,941**	(3,575)
	247,983	15,167
Total income tax expense	**459,974**	246,648

8. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

Profit and total comprehensive income for the year has been arrived at after charging/(crediting) the following items:

	2017	2016
	RMB'000	*RMB'000*
Short-term employee benefits	**556,339**	517,284
Post-employment benefits	**78,537**	84,101
Other staff welfare	**38,952**	39,135
Total staff costs	**673,828**	640,520
Cost of inventories recognised as an expense	**5,423,309**	5,597,486
Depreciation of property, plant and equipment	**690,535**	709,903
Amortisation of intangible assets (included in cost of sales)	**11,988**	11,128
Auditor's remuneration	**2,988**	2,252
Net foreign exchange losses/(gains)	**31,460**	(29,037)
(Reversal)/Recognition of impairment on trade receivables	**(22,541)**	22,751
Research and development costs recognized as an expense	**94,609**	73,947
Write-down of inventories (included in cost of sales)	**4,129**	5,200
Release of prepaid lease payments	**13,856**	13,469
Loss on disposals of property, plant and equipment	**196,076**	35,910
Impairment of intangible assets	**17,485**	–
Impairment of available-for sale-investments	**–**	42,324

Note: Directors' emoluments are included in the above staff costs.

The actual discretionary bonus paid was RMB14,143,000 (2016: RMB10,699,000).

9. 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:

	2017	2016
	'000	*'000*
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share *(RMB)*	**1,601,397**	588,154
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**2,111,689**	2,111,795

The computation of diluted earnings per share for the years ended 31 December 2017 and 2016 does not assume the exercise of all of the Company's outstanding share options as the exercise prices of those options are higher than the average market price of the shares.

10. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Dividends paid during the year: 2017: 2016 final dividend HK$0.1 per share and 2015 final dividend HK$0.05 per share (2016: nil)	**273,928**	–

A final dividend of HK$0.3 per share amounting to HK$633,507,000 in respect of the year ended 31 December 2017, equivalent to RMB529,548,000 has been proposed by the directors during the year ended 31 December 2017. (2016: A final dividend of HK$0.1 per share, amounting to HK$211,169,000 in respect of the year ended 31 December 2016, equivalent to RMB187,307,000 has been proposed by the directors and has been approved by the shareholders in general meeting.)

11. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	*RMB'000*
Unlisted equity securities, at cost		
– Zibo ZhangDian Huitong Microfinance Co., Ltd. ("ZhangDian Huitong") *(Note a)*	**26,703**	26,703
– Shandong Peninsula Ocean Blue Economic Investment Co., Ltd. ("SPOBE") *(Note b)*	**74,589**	126,256
– China MinSheng Investment Co., Ltd. ("CMIC") *(Note c)*	**1,000,000**	1,000,000
– Taihe Asset Management Co. Ltd. ("Taihe") *(Note d)*	**120,000**	–
	1,221,292	1,152,959

The above unlisted investments represent equity investments in private entities. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes:

(a) Zhangdian Huitong is a private entity and was established in the PRC. Zhangdian Huitong is principally engaged in the money lending business in Shandong Province, the PRC. The Group holds 15% of the equity interest in ZhangDian Huitong.

(b) SPOBE is a private entity that was incorporated in the Cayman Islands. SPOBE is principally engaged in investment activities. During the year ended 31 December 2011, the Company entered into a subscription agreement with SPOBE to subscribe for 20,000,000 shares in SPOBE at a total contribution of US$20,000,000 (equivalent to RMB126,256,000) and held 20,000,000 shares which represented 18.18% equity interest in SPOBE. During the year ended 31 December 2017, the Company received capital refund of approximately RMB51,667,000 from SPOBE.

(c) CMIC is a private entity and was established in the PRC. CMIC is principally engaged in equity investment and assets management. On 9 May 2014, the Group subscribed for 1,000,000,000 shares in CMIC, which represented 2% equity interest in CMIC, at a consideration of RMB1,000,000,000.

(d) Taihe is a private entity and was established on 24 January 2017. Taihe was principally engaged in interalia, asset management and bulk transfer of non-performing assets of financial enterprises in Shandong Province, the PRC. The Group and other partners established Taihe and the registered capital amount of Taihe was RMB10,000 million, of which the Group will contribute RMB600 million, representing 6% of the total registered capital of Taihe. As at 31 December 2017, the Group has paid RMB120 million.

12. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**1,628,794**	1,146,024
Less: allowance for doubtful debts	**(3,128)**	(25,669)
	1,625,666	1,120,355
Prepayments for raw materials	**43,106**	25,851
Value added tax receivables	**27,381**	5,629
Dividend receivable	**35,685**	–
Deposits and other receivables	**238,633**	57,140
	1,970,471	1,208,975

Included in the trade receivables are bills receivable amounting to RMB1,350,000,000 at 31 December 2017 (2016: RMB882,106,000).

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

	2017	2016
	RMB'000	*RMB'000*
Within 90 days	**1,095,087**	873,868
91-180 days	**509,743**	209,690
Above 180 days	**20,836**	36,797
	1,625,666	1,120,355

Before accepting any new customer, the Group conducts research on the creditworthiness of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 99% (2016: 98%) of the trade receivables that are neither past due nor impaired have the high ranking record attributable under the research on the creditworthiness. The Group offers various settlement terms which vary depending on the size of contract, credibility and reputation of the customers.

Included in the Group's trade receivable balance are debtors with the aggregate carrying amount of RMB2,138,000 (2016: RMB47,523,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral or credit enhancements over these balances.

	2017	2016
	RMB'000	*RMB'000*
91-180 days	**1,150**	10,726
Over 181 days	**988**	36,797
	2,138	47,523

Allowance of the above amount has not been made by the Group as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The directors of the Company consider they are in good credit quality.

Movement in the allowance for doubtful debts

	2017	2016
	RMB'000	*RMB'000*
Balance at beginning of the year	**25,669**	2,918
(Reversed)/Provided during the year	**(22,541)**	22,751
Balance at end of the year	**3,128**	25,669

The above allowance represents impairment for trade receivables which are considered not recoverable.

The Group's account receivables that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	US$	RMB
	'000	*'000*
As at 31 December 2017	**26,959**	176,155
As at 31 December 2016	**18,093**	125,513

Amount due from associates were unsecured, interest-free and repayable on demand.

13. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,263,298**	1,086,516
Receipt in advance from customers	**161,515**	107,609
Payroll payable *(Note i)*	**249,871**	173,293
Payable for property, plant and equipment *(Note ii)*	**267,703**	109,072
Other tax payables	**137,265**	108,939
Other deposits in relation to property development project	**58,000**	58,000
Construction cost payables for properties under development for sale	**–**	191,982
Other payables and accruals	**207,516**	115,033
Total	**2,345,168**	1,950,444

Notes:

(i) As at 31 December 2017, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to RMB60,503,000 (2016: RMB56,869,000). The amount of the provision represents the Group's entire obligation for social insurance fund for employees of PRC subsidiaries and is determined based on the relevant national regulations on social insurance and calculated based on the basic counting unit multiplied by the social insurance rate. The basic counting unit for social insurance shall be the average wages of an employee in the preceding year and shall not be less than the minimum limit promulgated by the local social insurance bureau each year.

(ii) The payable for acquisition of property, plant and equipment will be settled three months after the completion of installation of the plant and machinery which is recorded in the addition of construction in progress during the year.

Included in the trade payables are bills payable amounting to RMB42,313,000 (2016: RMB201,000,000). Bills payable are secured by the Group's pledged bank deposits.

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

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

	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**700,218**	610,672
31-90 days	**414,142**	263,635
91-180 days	**124,607**	158,432
181-365 days	**9,073**	34,155
1-2 years	**7,402**	12,194
More than 2 years	**7,856**	7,428
	1,263,298	1,086,516

The Group's trade and other payables that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	US$	RMB
	'000	*'000*
As at 31 December 2017	**4,092**	26,737
As at 31 December 2016	**3,466**	24,039

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, China's economic development has entered a new normal. The government has since been actively upgrading of economic structure. Its 2017 GDP expanded by 6.9% year-on-year, underlying a strong national economic development. Although the overall economy achieved a stable growth, the fluorosilicone chemical industry encountered great challenges. Considering the supply-side reform, enterprises in the mining and chemical industries were unable to increase production; and the development of some fluorosilicone chemical enterprises were also restricted under current environmental protection trend. Facing the challenging environment, the Group still achieved a breakthrough in performance owing to its industry chains and environmental friendly infrastructures developed for a long time.

1. OVERALL PERFORMANCE RECORDED SIGNIFICANT GROWTH

During the period under review, the Group achieved a revenue of approximately RMB10,137,137,000, representing an increase of 27.19% over RMB7,969,773,000 in the previous year, our gross profit margin was 30.23%, representing a year-on-year increase of 9.64 percentage points, and our net profit amounted to RMB1,681,799,000, an increase of 173% year on year. This has been the best performance of the Company since 2011. During the period under review, as a result of the combined effect of the changes in supply and demand, the prices of all the products in the fluorosilicone industry experienced increases to different extents. As for the supply, the production of some enterprises in the domestic fluorosilicone chemical industry was affected by the pressure from environmental protection; at the same time, the production of raw material enterprises could not fully meet the demands of the fluorosilicone chemical industry either. This resulted in insufficient supply in the market, which in turn led to a significant increase in the market price of the industry. In fact, the expansion of new production capacities of relevant enterprises was affected by the supply-side reform, which made the supply unable to catch up with the demands of the market in time. On the other hand, demand has been increasing thanks to the rebound of global economies. As such, product price was further elevated. Despite the changing industry landscape, the Company was still able to achieve breakthrough performance – The Company leveraged its advantages on industry chains and environmental protection infrastructures, produced and sold in its full capacity during the period under review, and also benefited from the significant increase in product prices.

2. CAPITALIZED MARKET OPPORTUNITIES AND LEVERAGED ADVANTAGES OF INDUSTRY CHAIN

In 2017, the fluorosilicone industry was significantly affected by the environmental protection policy, leading to a supply shortage of raw materials and restriction in production. Under such backdrop, the competitive advantages in industry chain of the Group were fully leveraged. On the supply side, the industry chain of the Group has extended to the production of raw materials, guaranteeing the supply of raw materials under the then circumstances. On the production side, the industry chain of the Group has extended to by-products and waste treatment, easing the pressure from environmental protection issues. In terms of market, the comprehensive fluorosilicone industry chain of the Group allowed it to capture the profit of the whole fluorosilicone chemical industry. Therefore, during the period under review, the Group has fully demonstrated its strength of industry chain. By capitalizing the changes of market, the Group captured profit at every production link of the fluorosilicone chemical industry, from raw materials to downstream high-end materials, under the background of supply shortages and soaring product prices. It is one of the main reasons attributable to the significant growth of the Group during the year under review.

3. SCIENTIFIC AND TECHNOLOGICAL INNOVATIONS SECURED A LEADING POSITION IN THE INDUSTRY

During the period under review, the Group completed a total of 5 projects in respect of the research and development of new products, improvement of technology and enhancement of process. These new products, including high-viscosity DS202C, are all high-end fluorosilicone chemical products which are used to substitute similar high-end foreign products. These products rival their foreign counterparts/actually can break the foreign monopoly and are highly embraced by the market. In addition, the Group also accomplished 25 projects of energy conservation and environmental protection and automation enhancement. During the period under review, the Group was granted approval of 22 patents and submitted a total of 10 new patents applications. Thanks to the research and development achievements above, the Group further marched towards the high-end fluorosilicone chemical sector and narrowed the gap with the international giant companies in the fluorosilicone industry.

4. GUARANTEEING SAFE AND ENVIRONMENT-FRIENDLY PRODUCTION

During the period under review, the Group's safe and environmental protection facilities operated stably; meanwhile, the advanced projects under the "DuPont Safety Management" model and various environmental protection work were promoted solidly, providing guarantees for the normal production and operation of the Group. Benefitting from its long-term perseverance in high-standard safe and environmental protection measures for production, sound supporting facilities and relevant staff with high professional qualities, the Group managed to record great performance when facing the pressure by environmental protection in 2017.

5. UPGRADED ECONOMIC DEVELOPMENT OF THE PARK

During the period under review, Dongyue Fluoro Silicone Material Industry Park in Shandong where the Group locates was officially upgraded to Zibo Dongyue Economic Development Zone. The Group has become a key driver for the local economic development.

6. MEMBRANE MATERIAL BUSINESS BECOMES A SEPARATE BUSINESS DIVISION

During the period under review, riding on its global leading position in the membrane technology, the Group established Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd, in order to integrate resources to embrace the era of hydrogen energy. This represents that the membrane materials of Dongyue enters into a phase of large-scale commercial production.

7. DONGYUE CELEBRATED ITS THIRTIETH ANNIVERSARY

During the period under review, the Group successfully held the Development Conference of the Fluorosilicone Industry in China and celebrated the Thirtieth Anniversary of Dongyue in Zibo city, Shandong Province. This has greatly enhanced Dongyue's industry leadership and its corporate citizenship and allowed the public to learn about Dongyue. Our partners are now more confident in Dongyue and looking forward to the long-term cooperation with Dongyue.

8. UPGRADED INTELLIGENT AND INFORMATIONAL SYSTEM

2017 marked the year of the Group achieving the greatest and the best progress in the establishment of intelligent and informational system. During the year, the Group has implemented the informatization reform by adopting the information-based production planning, establishing the intelligent informatization framework of the Group, upgrading 17 DCS systems and updating more than 4,200 sets of intelligent facilities. In addition, in celebrating the 30th anniversary of Dongyue, the Group has established its intelligent management center, becoming the hub system for the Group's intelligent and informational reform.

9. OPTIMIZED JOB DESIGN AND IMPROVED EMPLOYEE BENEFITS

During the period under review, the Group further optimized its job design with advanced standardized operation and systems. Meanwhile, the Group put more focus on employees benefits than before. The salaries of employees were increased year on year; and the Group fulfilled its commitment to link the welfare of employees with the performance of the Group.

The Group did achieve a good result in 2017. However, we aim for continuous great performance. The Group has made the following strategic deployment for 2018:

1. SPEED UP THE APPROVAL OF NEW PROJECTS

The insufficient supply across the industry in 2017 has in fact created the best opportunity for the Group to take up more market shares. Currently, the Group produces at its full capacity and plans to expand the production of certain products. In 2018, the Group will accelerate the approval of planned projects, complete the construction of these projects and put them into operation as soon as possible.

2. KEEP UP WITH THE MARKET TREND

In 2017, the fluorosilicone market experienced a material undersupply, which represented a rare opportunity for leading enterprises in the industry. It is expected the market will remain prosperous in 2018, bringing more opportunities to the Group. The Group will keep up with the market trend to capture the unique opportunities in the market, and put more efforts in production to take up market shares and achieve better performance.

3. STRENGTHENED TECHNOLOGICAL INNOVATION EFFORTS

The Group has taken technological innovation as its most important development strategy. In 2018, by constantly implementing such development strategy, the Group will ensure the stable increment in research and development investment and ensure the process level and the research and development platform are at the leading position among the peers. In addition to increasing investment in research and development, the Group will also attach more attention to develop its scientific talents by attracting them with favorable conditions and providing cultivation through outstanding platform, to establish a professional scientific team and lay a solid foundation for the Group to maintain its leading position in the industry in respect of product, process, technology, environment and safety.

4. STICK TO THE IMPLEMENTATION OF "BUSINESS + INVESTMENT" STRATEGY

Since the implementation of the "business + investment" strategy last year, the Group has initially carried out some strategic deployment. For example, Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd is established to provide operational guarantees for the development of membrane materials. In 2018, the Group will continue to implement the "business + investment" strategy to establish an improved investment platform and investment strategy. With investments and business supplementary to each other, the Group is poised to achieve excellent results in future.

5. ENSURE STRICT ENVIRONMENTAL FRIENDLY PRODUCTION INDICATORS

In 2017, the strict management of environment-friendly production of the Group has presented the Group with huge advantages in environment-friendly production in the current situation in China. In 2018, the Group will continue to operate under strict compliance of environmental indicators, follow the trend of macro environment in China and respond to the government's advocate of "lucid waters and lush mountains are invaluable assets (綠水青山就是金山銀山)", thus enhancing its social responsibility in environmental protection.

6. DEEPEN "BENCHMARKING FORMOSA PLASTICS" AND "BENCHMARKING DUPONT" MANAGEMENT

In the last three years, the Group has implemented the policies of "Benchmarking Formosa Plastics" and "Benchmarking DuPont" successively to strengthen information and intelligent management and enhance the management of safe and environment-friendly production. These led to significant improvement of the management effectiveness. In 2018, the Group will further implement these two policies, and ensure the overall excellent production and operation with advanced management.

2018 marks the beginning of the application of the guiding principles from the 19th National Congress of the Communist Party of China, and is also the first year for Dongyue to implement its development plan. We will unite as one, work hard and stick to innovation to embrace the new era, and make persistent efforts to promote the further development of the Company and shoulder new responsibilities with our original intentions to start a new and grand journey. Meanwhile, we will also bring satisfactory returns to the shareholders and better performance to investors.

FINANCIAL REVIEW

Results Highlights

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB10,137,137,000, representing an increase of 27.19% over RMB7,969,773,000 in the previous year. The gross profit margin increase to 30.23% (2016: 20.59%) and the operating results margin was 22.21% (2016: 13.14%). During the year under review, the Group recorded profit before tax of approximately RMB2,141,773,000 (2016: profit before tax of RMB862,114,000), and net profit of approximately RMB1,681,799,000 (2016: net profit of RMB615,466,000), while consolidated profit attributable to the Company's owners was approximately RMB1,601,397,000 (2016: profit of RMB588,154,000). Basic earnings per share was RMB0.76 (2016: basic earning of RMB0.28).

The Board recommended the payment of a final dividend of HK$0.30 (2016: HK$0.10) per share to the shareholders whose names appear on the register of members of the Company on 4 June 2018.

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 year ended 31 December 2017 and the year ended 31 December 2016:

Reportable and Operating Segments	**For the year ended 31 December 2017** Revenue *RMB'000*	Results *RMB'000*	Operating Results Margin	For the year ended 31 December 2016 Revenue *RMB'000*	Results *RMB'000*	Operating Results Margin
Polymers	**2,927,843**	**605,053**	**20.67%**	2,187,639	245,119	11.20%
Organic Silicone	**2,428,256**	**433,836**	**17.87%**	1,684,716	81,204	4.82%
Refrigerants	**2,502,275**	**588,442**	**23.52%**	1,828,048	193,196	10.57%
Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid Alkali	**1,604,099**	**354,554**	**22.10%**	1,211,244	145,147	11.98%
Property development	**285,510**	**32,648**	**11.43%**	871,162	308,204	35.38%
Others	**389,154**	**237,215**	**60.96%**	186,964	74,646	39.93%
Consolidated	**10,137,137**	**2,251,748**	**22.21%**	7,969,773	1,047,516	13.14%

ANALYSIS OF REVENUE AND OPERATING RESULTS

During the period under review, global economies maintained good momentum, which contributed to the demand of fluorosilicone chemical industry to a certain extent. In the meantime, the increasing pressure in respect of domestic environmental protection led to a short supply in fluorosilicone chemical industry. Pushed by abundant demand and shortage of supply, product prices accelerated substantially and the industry saw favorable growth. As one of the leading enterprises, Dongyue capitalised on the market opportunities and gained considerable advancement during the period under review.

Regarding to the operation of the Group, most of its segments recorded different level of development. In particular, the Group's organic silicone and refrigerant segments achieved a greater portion of growth. The performance of organic silicone segment was outstanding and has become a key contributor to the Group's profit growth.

The impressive results of the Group in 2017 demonstrated its strength in utilizing industry park and industry chain. Currently, the comprehensive environmental facilities in the industry park are able to proceed the centralised collection and treatment of waste water, waste slag and exhaust, and the re-use of resources within the park. Thus, Dongyue would be able to maintain stable production under the intensified regulation due to the increasing pressure of environmental protection. Facing the supply shortage of raw materials in the market, the comprehensive industry chain of Dongyue enables itself to run in full operation for all of its products. By leveraging its advantages, Dongyue is able to consolidate its leading position in the industry and make breakthroughs in performance in the midst of suffering pressures from domestic market.

Fluoropolymer

During the period under review, the fluorine-containing polymers segment's revenue was RMB2,927,843,000, representing a year-on-year increase of 33.84% (2016: RMB2,187,639,000), accounting for 28.88% (2016: 27.45%) of the Group's total revenue. The results of the segment recorded a profit of RMB605,053,000, representing an increase of 146.84% as compared with RMB245,119,000 in the same period of the previous year.

During the year, the fluorine-containing polymers segment attained significant progress because of the surge of upstream raw materials prices. Among which, the prices of raw materials R22 has increased by more than 50% as compared with that of 2016. In addition, with the supply shortage in raw materials market and with the environmental protection purpose, there is also a supply shortage in the fluorine-containing polymers market. During the year, the domestic demand of the industry has increased according to the development of domestic economy, which intensified the level of supply shortage and drove up the prices. Riding on its strength in the industry chain, the Group was able to self-supply part of the raw materials and has not experienced any shortage of raw materials, guaranteeing the whole-year full operation of this segment in the park.

Among such segment, PTFE, a product with the largest capacity, is the largest contributor of profit growth of the segment, up 50.41% of revenue as compared with that of the previous year. For FEP, VDF and other products, usually contributing lesser revenue, have also achieved a relatively greater progress during the period under review.

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 the 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, automotives, machinery and petro-chemistry because of its superior mechanical property, and excellent oil, chemical and heat resistance), PVDF (fluorocarbon made with R142b to produce VDF, mainly used as a fluorine coating resin, fluorinated powder coating resin and lithium battery electrode binding material) and VDF, in which Huaxia Shenzhou has been engaging. Other fluorinated fine chemicals, including PPVE, PSVE, HFPO, formed another major production category of Huaxia Shenzhou.

Refrigerants

During the year, the revenue from refrigerant segment was RMB2,502,275,000, representing an increase of 36.88% as compared with RMB1,828,048 in the previous year, accounting for 24.68% (2016: 22.94%) of the Group's total revenue; the results of the segment recorded a profit of RMB588,442,000, representing a year-on-year increase of 204.58% (2016: profit of RMB193,196,000).

During the year, there was a considerable increase in the product price of this segment, mainly due to the impact from the environmental policies. The increased stress arising from environmental protection led to supply shortage of the upstream raw materials in the industry. Moreover, processing of by-products during the process of production of refrigerant has become a challenge of the industry which caused hindrance on production. Nonetheless, capitalizing on its advantages of industrial chain, the Group did not experience much supply shortage of raw materials, and its integrated waste processing facilities in the park are able to treat by-products well. Therefore, the production of refrigerant segment of the Group was not restricted during the year, while benefited from the substantial increase of product price in the industry, the Group recorded higher revenue and profit.

In 2017, revenue from R22 of the refrigerant segment recorded an increase of 30.52%. This is because R22 currently remains to be one of the main refrigerants for air-conditioners, refrigerators and other refrigeration equipment. R32 and R410a, being two substitute products of R22, recorded increases of 62.06% and 93.61%, respectively. As R22 is subject to a quota system, R32 and R410a became the most important substitutes, and have been heavily used in the newest air-conditioners, refrigerators and other refrigeration equipment, which is one of the reasons for the sharp increase in the performance of the two products. The Group also has a plan to expand the production capacity of R32.

R22 is the Group's backbone refrigerants product. The Group has the largest production capacity of R22 in the world. 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 Fluoropolymer (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, R410a has been the principal substitute 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. Apart from the fact that R142b can be used as refrigerant, temperature controller medium, or intermediates of aviation propellant, it can also be one of the main raw materials for the production of VDF.

Pursuant to the Montreal Protocol, R22 would be progressively phased out as a refrigerant by the end of 2030 and would be replaced by other green refrigerants. The Chinese government has stopped granting approval to the building up of new capacity for R22. Starting from 2013, the Chinese government has been enforcing a quota system for the sales of R22 as a refrigerant for all of the domestic R22 producers. On the other hand, R22 can be used as raw material for the production of the Fluoropolymer. Therefore, although the Group has a huge production capacity of R22, the Group used it to manufacture refrigerants and the saved production capacity of R22 was utilized to produce Fluoropolymer in order to cope with the increasing market demand for Fluoropolymer.

Organic Silicone

During the year, the organic silicone segment's revenue grew by 44.13% to RMB2,428,256,000 from RMB1,684,716,000 in the previous year, accounting for 23.95% (2016: 21.14%) of the Group's total revenue. The segment recorded revenue of RMB433,836,000, representing an increase of 434.25% as compared with RMB81,204,000 in the previous year.

The market conditions of organic silicone improved significantly during the year, as demonstrated by a substantial rise in product prices and steady increase in market demand. The rise in market price of organic silicone was primarily attributable to higher requirements on environmental protection, which resulted in insufficient operation in the industry and significant supply shortage. Under this circumstance, the Group still managed to take its advantages of excellent development of industrial parks and industry chain to fully achieve both production and sales targets. Capturing opportunities brought by changes in market conditions, the Group successfully secured substantial growth in results of operation.

The Group adjusted the sales of organic silicone segment during the year to keep abreast with the market conditions. Due to higher price level of organic silicone and supply shortage during the year, the Group reduced the sales of DMC and increased the production and sales of organic silicone accordingly. As a result, silicone rubber products of organic silicone segment saw a significant increase in income for the year. Although the price of DMC recorded a relatively substantial increase, the income remained constant on a year-on-year basis.

This segment mainly includes the production and sales of DMC (upstream organic silicone intermediates that are used as raw materials to produce deep proceeded 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 proceeded silicone rubber products, where Raw Vulcanizate is a key raw 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 are 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 Silicone Rubbers and other organic silicone products. The Group can also be able to produce and generate other by-products and high-end downstream products, such as Gaseous Silica and Silicone Oils through its production processes.

Dichloromethane, PVC and Liquid Alkali

During the year under review, the segment's revenue increased by 32.43% to RMB1,604,099,000 from RMB1,211,244,000 in the previous year, accounting for 15.82% (2016: 15.20%) of the Group's total revenue. The results of the segment recorded a profit of RMB354,554,000, representing a year-on-year increase of 144.27% (2016: a profit of RMB145,147,000).

The growth of the segment's results was mainly attributable to the gradual recovery of the domestic economy during the year under review, which resulted in the increasing demands in bulk chemical products and therefore accelerated the increase in prices. During the year, a year-on-year growth of 8.02% was recorded in the revenue of PVC, a year-on-year growth of 22.64% was recorded in the revenue of dichloromethane and a year-on-year growth of 65.97% was recorded in the revenue of liquid alkali.

This segment includes two major auxiliary products (dichloromethane and liquid alkali) of Refrigerants Segment of the Group and the production and sales revenue of PVC products. Liquid alkali is a basic chemical product for the production of the 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 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 and increase economic value generated from a self-sufficient business chain.

Property Development

During the year, the portion completed under the property development is the Dongyue International Project, which comprises, among others, residential portion of two parcels of land which are adjacent to each other. They are located at the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, the PRC with a total site area of 189,381 square metres. The total gross floor area (GFA) of the residential portion is 157,187 square metres, upon which the Group planned to construct 23 residential blocks with a total planned GFA of approximately 296,000 square metres.

The sale of the project has come to an end in 2017, with only a small amount of unsold properties left. Thereafter, the remaining properties were all sold out by the end of 2017. As such, both the revenue and results of the project experienced a significant increase in 2017. The segment recorded revenue of RMB285,510,000 for the year, representing a decrease of 67.23% as compared with RMB871,162,000 in the previous year, accounting for 2.82% (2016: 10.93%) of the Group's total revenue. During the year, the results of the segment recorded a profit of RMB32,648,000 (2016: a profit of RMB308,204,000), representing a year-on-year decrease of 89.41%.

Currently, the segment acquired 2 new projects (refer to the announcement published by the Group on 28 June 2017). However, there is no revenue achieved on the ground that the projects are still under construction.

Others

This segment included the revenue from the production and sale of the Group's other by-products of the various operating segments, such as Ammonium Bifluoride, Hydrofluoric Acid, Bromine and etc., and the revenue from the newly commenced bulk commodities trading activities during the year.

During the year under review, the segment recorded a revenue of RMB389,154,000, representing an increase of 108.14% as compared with RMB186,964,000 in the previous year. The results of the segment recorded a profit of RMB237,215,000 (2016: RMB74,646,000), representing a year-on-year growth of 217.79%. During the year under review, the growth of the segment's results was attributable to the improvement in the domestic economic conditions. In addition, the newly commenced bulk commodities trading activities also contributed to the growth of the segment's results, accounting for over 25% of the same.

Distribution and Selling Expenses

During the year under review, the distribution and selling expenses increased by 10.92% to RMB313,959,000 from RMB283,058,000 of the previous year, which is attributable to an increase in transportations cost during sales process.

Administrative Expenses

During the year under review, the administrative expenses increased significantly by 69.33% to RMB656,333,000 from RMB387,610,000 of the previous year. The reasons for the substantial increase include: (i) an increase in employees' salaries and (ii) an increase in loss from disposal of assets.

Finance Costs

During the year under review, the finance costs decreased by 32.09% to RMB112,890,000 from RMB166,229,000 of the previous year. This was mainly attributable to the decrease in the amount of the borrowings of the Group during the year under review, considering the sufficient cashflow maintained by the Group.

Capital Expenditure

For the year ended 31 December 2017, the Group's aggregate capital expenditure was approximately RMB834,226,000 (2016: RMB457,737,000). The Group's capital expenditure is mainly for the acquisition of fixed assets including the equipment and facilities for the improvement of technology and upgrading the intelligence system of the Group and operation expansion.

Liquidity and Financial Resources

The Group's financial position is sound with healthy working capital management and strong operational cash flow. As at 31 December 2017, the Group's total equity amounted to RMB7,312,411,000, representing an increase of 28.60% as compared with that as at 31 December 2016. As at 31 December 2017, the Group's bank balances and cash totaled RMB1,471,116,000 (31 December 2016: RMB2,082,361,000). The decrease in the Group's bank balances and cash is mainly attributable to the active reduction of the size of bank loans by the Company through repaying bank loans in advance owing to sufficient cash, and the significant increase in bills receivable. During the year under review, the Group generated a total of RMB1,122,187,000 (for the year ended 31 December 2016: RMB1,546,155,000) cash inflow from its operating activities. The current ratio[(1)] of the Group as at 31 December 2017 was 1.61 (31 December 2016: 1.16). The year-on-year decrease in net operating cash flows is mainly attributable to the increase in property development expenditures as a result of the acquisition of two real estate companies by the property development segment.

Taking the above figures into account, together with the available bank balances and cash, the unutilized banking credit facilities and support from its banks 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 year under review, the Company did not repurchase or cancel any of the Company's listed securities. The number of issued shares of the Company was 2,111,689,455 as at 31 December 2017.

As at 31 December 2017, the borrowings of the Group totaled RMB1,820,821,000 (31 December 2016: RMB2,729,700,000). The gearing ratio(2) of the Group was 4.56% (31 December 2016: 10.22%). The significant lower gearing ratio is mainly attributable to (i) an increase in profit during the year and (ii) a decrease in outstanding loan balance in 2017.

The Group had no particular seasonal pattern of borrowing. As at 31 December 2017, the Group's borrowings comprised non-current portion (over 1 year) and current portion (within 1 year). The non-current portion of borrowings amounted to approximately RMB744,800,000 which are repayable in full after one year but not exceeding five years. The current portion of borrowings amounted to approximately RMB1,076,021,000. The Group's borrowings were made at fixed interest rates and floating rates. The weighted average effective interest rates on floating rate borrowings and fixed rate borrowings for the year ended 31 December 2017 were 5.36% (2016: 6.35%) and 5.01% (2016: 5.78%) per annum, respectively. As at 31 December 2017, 19.61% (31 December 2016: 18.99%) of the Group's borrowings bear fixed interest rates.

As at 31 December 2017 and 2016, the Group's borrowings were denominated in RMB only.

Notes:

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowing – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Group Structure

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

Charge on Assets

As at 31 December 2017, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB167,586,000 (31 December 2016: RMB8,669,000), and bank deposits of RMB32,860,000 (31 December 2016: RMB106,703,000), which were pledged to secure the Group's borrowings and the bills payable of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's functional currency is RMB with most of the transactions settled in RMB. However, foreign currencies (mainly United States dollars) 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 and Remuneration Policy

The Group had 5,862 employees in total as at 31 December 2017 (31 December 2016: 5,660). The Group implemented its remuneration policy and bonus based on the performance of the Group and its employees. The Group provided benefits such as social insurance and pensions to ensure remuneration competitiveness.

OTHER INFORMATION

Final Dividend

The Directors recommend the payment of a final dividend of HK$0.30 (the "Final Dividend") (2016: HK$0.01) per share in respect of the year 2017, to the shareholders whose names appear on the register of members of the Company (the "Register") on 29 May 2018, subject to the approval of the members of the Company at the Company's annual general meeting (the "AGM"). The Final Dividend is after excluding the applicable PRC income tax.

The AGM of the Company will be held on 24 May 2018. A notice of the AGM will be published and dispatched to the shareholders of the Company in due course.

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 Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2017 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the year.

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

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

Audit Committee

The audit committee of the Company was established on 16 November 2007 in accordance with Appendix 14 to the Listing Rules. The existing audit committee comprises Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yue Rundong and Mr. Yang Xiaoyong, all being independent non-executive Directors.

The audit committee met with the management on 23 March 2018, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's annual results for the year ended 31 December 2017 before proposing them to the Board for approval.

Remuneration Committee

The Company has established a remuneration committee to consider the remuneration for Directors and senior management of the Company. 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. Yang Xiaoyong and Mr. Ting Leung Huel, Stephen were appointed as the members of the nomination committee.

Corporate Governance Committee

The Company established a corporate governance committee with written terms of reference on 21 March 2013 to be responsible for reviewing the Company's policies and practices on corporate governance, the Company's compliance with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, the relevant disclosure in the report on corporate governance code 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 Company established a risk management committee with written terms of reference on 13 August 2015 to review and advise the risk management and internal control of the Company and other related matters. Mr. Ting Leung Huel, Stephen was appointed as the chairman of the risk management committee and Mr. Yang Xiaoyong and Mr. Yue Rundong were appointed as the members of the risk management committee.

Compliance with the Corporate Governance Code

Throughout the year ended 31 December 2017, save as disclosed below, the Company has complied with the CG Code.

Code Provision A.2.1

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

Mr. Zhang Jianhong is both the Chairman and Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Zhang, and believes that his appointment as both the Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

ANNOUNCEMENT OF ANNUAL RESULTS AND PUBLICATION OF ANNUAL REPORT

This final results announcement is published on the Company's website at www.dongyuechem.com and the website of the HKSE at www.hkexnews.hk. The Annual Report will also be available at the websites of the Company and the HKSE and will be dispatched to shareholders of the Company in April 2018.

(2) Closure of Register of Members

The Board announces that the Register will be closed from 18 May to 24 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 17 May 2018.

The Board further announces that the Register will be closed from 30 May to 1 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the Final Dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the branch share registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 29 May 2018.

The expected date for payment of the Final Dividend is 27 July 2018.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 29 March 2018

As at the date of this announcement, the Board comprised 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. Yue Rundong and Mr. Yang Xiaoyong as independent non-executive Directors.