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 2018 AND (2) CLOSURE OF REGISTER OF MEMBERS

FINANCIAL HIGHLIGHTS
(in RMB million, unless otherwise stated)

	Financial Year ended 31 December	
	2018	2017
Revenue	**14,219**	10,137
Gross Profit	**4,532**	3,064
Gross Profit Margin	**31.87%**	30.23%
Profit before Tax	**3,235**	2,142
Profit and Total Comprehensive Income	**2,435**	1,682
Profit and Total Comprehensive Income attributable to the Shareholders	**2,129**	1,601
Basic Earnings per Share (RMB)	**1.00**	0.76
Final Dividend per Share (HK$)	**0.35**	0.30

	As at	
	31 December 2018	31 December 2017
Total Equity	**9,392**	7,312
Net Assets per Share (RMB)	**4.45**	3.46

(1) Announcement of Annual Results for 2018

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018:

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 2018 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 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	4	**14,218,937**	10,137,137
Cost of sales		**(9,687,291)**	(7,072,865)
Gross profit		**4,531,646**	3,064,272
Other income	5	**119,209**	225,467
Distribution and selling expenses		**(358,726)**	(313,959)
Administrative expenses		**(782,735)**	(656,333)
Impairment of intangible assets		**–**	(17,485)
Research and development expenses		**(177,360)**	(94,609)
Finance costs	6	**(97,135)**	(112,890)
Share of results of associates		**–**	47,310
Profit before tax		**3,234,899**	2,141,773
Income tax expense	7	**(800,200)**	(459,974)
Profit and total comprehensive income for the year	8	**2,434,699**	1,681,799
Profit and total comprehensive income attributable to:			
– Owners of the Company		**2,129,098**	1,601,397
– Non-controlling interests		**305,601**	80,402
		2,434,699	1,681,799
Earnings per share	9		
– Basic (RMB)		**1.00**	0.76
– Diluted (RMB)		**1.00**	0.76

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**3,860,200**	3,804,155
Prepayments for purchase of property, plant and equipment		**89,160**	50,013
Prepaid lease payments		**535,564**	466,666
Intangible assets		**82,237**	81,647
Equity investments at fair value through other comprehensive income	*11*	**1,801,394**	–
Available-for-sale investments	*11*	**–**	1,221,292
Deferred tax assets		**213,741**	246,398
Goodwill		**123,420**	123,420
		6,705,716	5,993,591
Current assets			
Inventories		**1,106,721**	989,229
Properties for sale		**3,033,638**	1,805,943
Prepaid lease payments		**15,766**	14,754
Trade and other receivables	*12*	**1,967,730**	1,970,471
Pledged bank deposits		**363,133**	32,860
Bank balances and cash		**3,331,147**	1,471,116
		9,818,135	6,284,373
Current liabilities			
Trade and other payables	*13*	**2,701,711**	2,345,168
Contract liabilities		**1,632,556**	359,918
Borrowings	*14*	**873,150**	1,076,021
Tax liabilities		**296,488**	94,485
Deferred income		**21,636**	25,359
		5,525,541	3,900,951
Net current assets		**4,292,594**	2,383,422
Total assets less current liabilities		**10,998,310**	8,377,013

	Notes	**2018** RMB'000	2017 RMB'000
Capital and reserves			
Share capital		**200,397**	200,397
Reserves		**8,136,209**	6,509,335
Equity attributable to the owners of the Company		**8,336,606**	6,709,732
Non-controlling interests		**1,055,593**	602,679
Total equity		**9,392,199**	7,312,411
Non-current liabilities			
Deferred income		**285,782**	227,721
Deferred tax liabilities		**111,029**	92,081
Borrowings	*14*	**1,209,300**	744,800
		1,606,111	1,064,602
		10,998,310	8,377,013

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital	**Fair value through other comprehensive income reserve**	**Share premium**	**Merger reserve**	**Capital reserve**	**Statutory surplus reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Note a)*	*RMB'000* *(Note b)*	*RMB'000* *(Note c)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	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
Business combination	–	–	–	–	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**
Adjustment on initial application of IFRS 9	**-**	**(19,809)**	**-**	**-**	**-**	**-**	**-**	**(19,809)**	**-**	**(19,809)**
Adjusted balance at 1 January 2018	**200,397**	**(19,809)**	**1,224,924**	**(32,210)**	**113.076**	**812,982**	**4,390,563**	**6,709,732**	**602,679**	**7,132,411**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**2,129,098**	**2,129,098**	**305,601**	**2,434,699**
Other comprehensive expenses:										
Transfer	**-**	**-**	**-**	**-**	**1,109**	**149,034**	**(149,034)**	**1,109**	**100**	**1,209**
Fair value change on equity investments at fair value through other comprehensive income	**-**	**(52,902)**	**-**	**-**	**-**	**-**	**-**	**(51,990)**	**-**	**(51,990)**
Acquisition of further interest in a subsidiary from non-controlling interests	**-**	**-**	**-**	**-**	**(59,037)**	**-**	**-**	**(59,037)**	**(62,260)**	**(121,297)**
Capital contribution from non-controlling interests	**-**	**-**	**-**	**-**	**143,583**	**-**	**-**	**143,583**	**276,612**	**420,195**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(515,168)**	**(515,168)**	**-**	**(515,168)**
Dividends paid by subsidiaries of the Group	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(59,168)**	**(59,168)**
Disposal of subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,971)**	**(7,971)**
Balance at 31 December 2018	**200,397**	**(72,711)**	**1,224,924**	**(32,210)**	**198,731**	**962,016**	**5,855,459**	**8,336,606**	**1,055,593**	**9,392,199**

Notes:

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

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

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

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

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation is not required. According to the Company Law of the PRC, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**3,234,899**	2,141,773
Adjustments for:		
Finance costs	**97,135**	112,890
Bank deposits interest income	**(21,376)**	(8,583)
Realisation of deferred income	**(34,110)**	(28,022)
Recognition of impairment on trade and other receivables	**41,153**	(22,541)
Depreciation and amortization	**666,388**	702,523
Release of prepaid lease payments	**15,311**	13,856
Write-down of inventories	**6,821**	4,129
Share of results of associates	**–**	(47,310)
Dividend income from available-for-sale investments	**–**	(135,685)
Loss on disposals of property, plant and equipment	**88,531**	196,076
Gain on disposal of a subsidiary	**(43)**	–
Impairment of intangible assets	**–**	17,485
Impairment of property, plant and equipment	**3,127**	–
Operating cash flows before movements in working capital	**4,097,836**	2,946,591
Increase in inventories	**(136,490)**	(282,390)
Increase in trade and other receivables	**(72,595)**	(598,676)
Increase in properties under development for sale	**(1,227,694)**	(165,931)
Increase/(decrease) in trade and other payables	**401,395**	(819,898)
Increase in deposits from pre-sale of properties	**1,272,638**	261,391
Increase in deferred income	**88,448**	1,119
Cash generated from operations	**4,423,538**	1,342,206
Income taxes and withholding tax paid	**(550,156)**	(220,019)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**3,873,382**	1,122,187

	2018	2017
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(876,595)**	(830,345)
(Payment)/Receipt for prepaid land lease	**(85,221)**	72,860
Purchase of intangible assets	**(15,166)**	(3,881)
Bank deposits interest received	**21,376**	8,583
(Payment for)/Proceeds from release of pledged bank deposits	**(330,273)**	73,843
Proceeds from disposals of property, plant and equipment	**37,849**	3,839
Dividend income from available-for-sale investments	**–**	135,685
Refund of acquisition of associate	**–**	59,800
Cash outflow from acquisition of subsidiaries	**–**	(29,290)
Cash outflow from disposal of a subsidiary	**(1,561)**	–
Payment for equity investments at fair value through other comprehensive income/available-for-sale investments	**(652,813)**	(68,333)
Acquisition of interest in a subsidiary from minority shareholders	**(121,298)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(2,023,702)**	(577,239)
FINANCING ACTIVITIES		
Proceeds from borrowings	**1,576,000**	1,227,000
Repayment of borrowings	**(1,314,373)**	(2,213,879)
Interest paid	**(97,135)**	(112,890)
Dividends paid	**(574,336)**	(290,707)
Capital contribution from non-controlling interests	**420,195**	234,283
NET CASH GENERATE FROM/(USED IN) FINANCING ACTIVITIES	**10,351**	(1,156,193)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,860,031**	(611,245)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	**1,471,116**	2,082,361
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	**3,331,147**	1,471,116

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 is an investment holding company. 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 addresses of principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

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 2018

In the current year, the Group has applied a number of new standards and interpretation issued by the International Accounting Standards Board ("IASB") for the first time of which the followings are relevant to the Group's consolidated financial statements:.

IFRS 9	Financial Instruments (including the amendments to IFRS 9 Prepayment Features with Negative Compensation which is mandatorily effective for annual periods beginning on or after 1 January 2019);
IFRS 15	Revenue from Contracts with Customers and amendments to IFRS 15; and
IFRIC 22	Foreign Currency Transactions and Advance Consideration.

IFRS 9 Financial Instruments

A) Application of IFRS 9

IFRS 9 and the amendments to IFRS 9 have replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. In accordance with the specific transitional provisions set out in IFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment) to items that existed as of the date of initial application (i.e. 1 January 2018) on a retrospective basis based on the facts and circumstances and business models that existed as at 1 January 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of IAS 39 and hence may not be comparable with the current year information. The cumulative effect of initial application of IFRS 9 has been recognised as adjustments to the opening equity as of 1 January 2018.

(I) Classification and measurement of financial assets

In general, IFRS 9 categories financial assets into the following three classification categories:

- amortised cost;
- fair value through other comprehensive income (FVTOCI); and
- fair value through profit or loss (FVTPL).

These classification categories are different from those set out in IAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Group did not designate or de-designate any financial asset at FVTPL at 1 January 2018.

The following table shows a reconciliation from how the Group's financial assets existed as of 1 January 2018 were classified and measured under IAS 39 to how they are classified and measured under IFRS 9:

	Old classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9	
		RMB'000	*RMB'000*	*RMB'000*	
Equity investments at fair value through other comprehensive income ("**FVTOCI**")	Available-for-sale financial assets (at cost less impairment)	FVTOCI	1,221,292	1,201,483	*Notes 1 and 2*

Notes:

1. Under IFRS 9, investments in equity securities are required to be measured at fair value subsequently at the end of each reporting period. Accordingly, for investments in equity securities that were previously measured at cost less impairment based on the cost exemption under IAS 39 have to be measured at fair value under IFRS 9. Based on the specific transitional provisions set out in IFRS 9, such investments have to be measured at fair value at the date of initial application (i.e. 1 January 2018), with any difference between the fair value and carrying amount under IAS 39 being recognised in the opening retained earnings as of 1 January 2018.

2. The Group had designated certain investments in equity securities (that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies) as at FVTOCI as at the date of initial application of IFRS 9 (i.e. 1 January 2018) based on the specific transitional provisions set out in IFRS 9.

(II) Impairment

IFRS 9 has introduced the "expected credit loss model" to replace the "incurred loss" model under IAS 39. The "expected credit loss model" requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the "expected loss model" to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including trade and other receivables, pledged bank deposits and cash and cash equivalents); and
- investments in debt securities that are subsequently measured at FVTOCI;

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

The adoption of expected credit loss model had a negligible impact on the carrying amounts of the Group's finance assets.

(III) Classification and measurement of financial liabilities

Under IFRS 9, for a financial liability designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is required to be presented in other comprehensive income, with the remaining amount of change in the fair value of the liability being presented in profit or loss (unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss and in which case all gains or loss on that liability are presented in profit or loss).

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

B) Application of IFRS 15

IFRS 15 has replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue* and other revenue-related interpretations. Under IAS 11 and IAS 18, revenue arising from construction contracts and provision of services was recognised over time whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods was passed to the customers. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 has introduced additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Considering the nature of the Group's principal activities, the adoption of IFRS 15 has not had any material impact on the consolidated financial position and the consolidated financial results.

C) Application of IFRIC 22

IFRIC 22 provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The application of IFRIC 22 has not had any material impact on the consolidated financial position and the consolidated financial results.

New and revised standards, interpretations and amendments issued but not yet effective and not yet early adopted by the Group

The Group has not applied any of the following new and revised HKFRSs that are relevant to the Group that have been issued but are not yet mandatorily effective:

IFRS 16	Leases[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

HKFRS 16 Leases

IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

With regards to lessee accounting, the distinction of operating leases and finance leases, as required by IAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas, under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regards to lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, IFRS 16 requires extensive disclosures in the financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The Directors of the Company anticipate that the application of these amendments may not have an impact on the Group's consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

The Directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group's 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, Poly Vinyl Chloride (PVC) and liquid alkali;
- Property development – development of residential properties at Shandong Province, the PRC.
- Other operations – manufacturing and sales of side-products of refrigerants segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment.

Segment revenues and results

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

2018

	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	3,260,154	3,879,793	3,380,373	1,723,746	239,639	12,483,705	1,735,232	–	14,218,937
Inter-segment sales	3,020,864	213,268	–	193,578	–	3,427,710	960,011	(4,387,721)	–
Total revenue – segment revenue	6,281,018	4,093,061	3,380,373	1,917,324	239,639	15,911,415	2,695,243	(4,387,721)	14,218,937
SEGMENT RESULTS	805,467	915,014	984,040	466,059	65,524	3,236,104	105,745	–	3,341,849
Unallocated corporate expenses									(9,815)
Finance costs									(97,135)
Profit before tax									3,234,899

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)
Finance costs									(112,890)
Share of results of associates									47,310
Profit before tax									2,141,773

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

	2018	2017
	RMB'000	*RMB'000*
Monochlorodifluoromethane (HCFC-22)	**864,491**	696,063
Tetrafluoroethane (R134a)	**326,057**	169,015
Pentafluoroethane (R125)	**129,121**	83,596
R439A	**14,767**	2,089
R410a	**353,113**	569,788
R413A	**–**	33,382
R142b	**249,409**	123,424
R152a	**175,065**	164,597
R22	**451,147**	302,045
R32	**252,018**	180,088
R507A	**116,740**	–
R407C	**113,534**	–
Others	**214,692**	178,188
	3,260,154	2,502,275

Information about revenue from polymers segment by products from external customers

	2018	2017
	RMB'000	*RMB'000*
Polytetrafluoroethylene (PTFE)	**2,055,189**	1,551,160
Hexafluoropropylene (HFP)	**397,881**	256,997
Perfluorocyclobutane	**102,076**	76,114
Fluorinated ethylene propylene (FEP)	**471,449**	34,099
Polyvinylidene fluoride (PVDF)	**415,177**	360,039
Fluorine rubber (FKM)	**193,454**	152,550
Vinylidene fluoride (VDF)	**88,031**	49,968
Others	**156,536**	446,916
	3,879,793	2,927,843

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

	2018	2017
	RMB'000	*RMB'000*
DMC (Dimethylcyclosiloxane)	**117,009**	290,488
107 Silicone Rubber	**1,534,455**	927,718
Raw Vulcanizate	**484,710**	405,291
Gross Rubber	**230,753**	92,138
Gaseous Silica	**164,903**	120,248
DMC Hydrolysate	**49,369**	140,494
Trimethylchlorosilane	**244,429**	65,970
Methyldichlorosilane	**41,183**	4,296
DMC Lineament	**127,409**	181,568
D4 (Octamethyl Cyclotetrasiloxane)	**2,187**	18,080
Dimethyl silicone oil	**187,440**	–
Others	**196,526**	181,965
	3,380,373	2,428,256

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

	2018	2017
	RMB'000	*RMB'000*
PVC	**692,042**	615,980
Dichloromethane	**281,294**	214,516
Liqui alkali	**750,410**	773,603
	1,723,746	1,604,099

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

	2018	2017
	RMB'000	*RMB'000*
AHF (Anhydrous Fluoride)	**21,431**	41,793
Ammonium Bifluoride	**69,511**	59,234
Hydrofluoric Acid	**65,321**	43,612
Bromine	**75,467**	70,745
Fluorgypsum	**10,036**	–
Aluminium ingot	**516,988**	–
Zinc ingot	**43,048**	–
Copper cathode	**430,025**	–
Nickel cathode	**337,515**	–
Others	**165,890**	173,770
	1,735,232	389,154

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 2018 and 2017.

Geographical information

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

	2018	2017
	RMB'000	*RMB'000*
PRC	**11,834,428**	8,212,343
Asia (except PRC)		
– Japan	**444,774**	354,951
– South Korea	**318,734**	361,571
– India	**57,116**	27,176
– Singapore	**69,620**	23,936
– Thailand	**37,972**	37,576
– United Arab Emirates	**118,799**	104,323
– Pakistan	**26,428**	21,359
– Malaysia	**40,974**	33,266
– Kuwait	**24,663**	–
– Saudi Arabia	**3,244**	–
– Indonesia	**23,453**	–
– Israel	**2,220**	–
– Philippines	**15,922**	6,574
– Viet Nam	**29,365**	20,724
– Turkey	**49,514**	65,698
– Other countries	**17,964**	61,456
Subtotal	**1,280,762**	1,118,610

	2018	2017
	RMB'000	*RMB'000*
America		
– United States of America	**455,916**	365,765
– Brazil	**113,177**	103,264
– Chile	**2,370**	–
– Other countries	**40,320**	27,866
Subtotal	**611,783**	496,895
Europe		
– Italy	**211,678**	131,929
– England	**4,925**	13,820
– Russia	**39,169**	41,900
– Germany	**36,142**	29,192
– France	**8,635**	8,110
– Spain	**4,294**	–
– Belgium	**42,262**	–
– Poland	**34,403**	–
– Other countries	**4,152**	21,015
Subtotal	**385,660**	245,966
Africa		
– South Africa	**34,131**	23,867
– Egypt	**21,192**	6,659
– Nigeria	**27,681**	18,524
– Other countries	**9,323**	8,164
Subtotal	**92,327**	57,214
Other countries/regions	**13,977**	6,109
	14,218,937	10,137,137

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

Other segment information

	Refrigerants	Polymers	Organic Silicone	Dichloromethane PVC and liquid alkali	Property development	Reportable and operating segment total	Other operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2018								
Depreciation of property plant and equipment	**248,672**	**163,316**	**108,874**	**96,245**	**3,350**	**620,457**	**31,355**	**651,812**
Amortisation of intangible assets	**1,966**	**10,261**	**117**	**1,697**	**131**	**14,172**	**404**	**14,576**
Recognition of impairment on trade and other receivables	**24,166**	**1,092**	**421**	**3,292**	**11,805**	**40,776**	**377**	**41,153**
Research and development expense	**9,141**	**131,231**	**29,314**	**4,375**	**–**	**174,061**	**3,299**	**177,360**
Write-down of inventories	**649**	**–**	**5,945**	**164**	**–**	**6,758**	**63**	**6,821**
Loss (gain) on disposals of property, plant and equipment	**39,556**	**2,629**	**26,915**	**17,033**	**(179)**	**85,954**	**2,578**	**88,532**
Release of prepaid lease payments	**3,510**	**5,210**	**3,397**	**1,345**	**–**	**13,462**	**1,849**	**15,311**
Impairment on property, plant and equipment	**3**	**–**	**–**	**–**	**–**	**3**	**3,125**	**3,128**

	Refrigerants	Polymers	Organic Silicone	Dichloromethane PVC and liquid alkali	Property development	Reportable and operating segment total	Other operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2017								
Depreciation of 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 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

5. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Government grants *(note (a))*	**57,541**	70,042
Bank deposits interest income	**21,376**	8,583
Dividend income from available-for-sale investments	**–**	135,685
Other interest income	**723**	2,080
Exchange gains	**20,309**	–
Compensation received	**7,667**	–
Others	**11,593**	9,077
	119,209	225,467

Notes:

(a) The government grants are mainly the subsidies for expenditures on research and development expenses incurred by the Group.

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**94,358**	111,648
Other borrowings repayable within five years	**2,777**	1,242
	97,135	112,890

7. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
PRC enterprise income tax ("EIT")		
– Current year	**714,858**	201,034
– Over provision in prior years	**(1,776)**	(1,134)
– Land Appreciation Tax ("LAT")	**(12,799)**	12,091
	700,283	211,991
Deferred tax charge		
– Withholding tax for distributable profits of PRC subsidiaries	**65,082**	48,042
– Others	**34,835**	199,941
	99,917	247,983
Total income tax expense	**800,200**	459,974

8. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

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

	2018	2017
	RMB'000	*RMB'000*
Short-term employee benefits	**813,520**	556,339
Post-employment benefits	**97,253**	78,537
Other staff welfare	**60,633**	38,952
Total staff costs	**971,406**	673,828
Cost of inventories recognised as an expense	**9,236,077**	5,423,309
Depreciation of property, plant and equipment	**651,812**	690,535
Amortisation of intangible assets (included in cost of sales)	**14,576**	11,988
Auditor's remuneration	**2,910**	2,988
Net foreign exchange (gains)/losses	**(20,309)**	31,460
Recognition/(Reversal) of impairment on trade receivables	**41,153**	(22,541)
Research and development costs recognized as an expense	**177,360**	94,609
Write-down of inventories (included in cost of sales)	**6,821**	4,129
Release of prepaid lease payments	**15,311**	13,856
Loss on disposals of property, plant and equipment	**88,532**	196,076
Impairment of intangible assets	**3,128**	17,485

The actual discretionary bonus paid was RMB17,424,000 (2017: RMB14,143,000).

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

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:

	2018	2017
	'000	*'000*
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share (RMB)	**2,129,098**	1,601,397
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**2,111,689**	2,111,689

The computation of diluted earnings per share for the years ended 31 December 2018 and 2017 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

	2018	2017
	RMB'000	*RMB'000*
Dividends paid during the year: 2018: 2017 final dividend: HK$0.3 (2017: 2016 final dividend: HK$0.1) per share	**515,168**	273,928

A final dividend HK$0.3 per share amounting to HK$633,507,000 in respect of the year ended 31 December 2017, equivalent to RMB515,168,000 has been declared and paid during the year ended 31 December 2018.

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Unlisted equity investments, at fair value		
– Zibo ZhangDian Huitong Microfinance Co., Ltd. ("ZhangDian Huitong") *(Note a)*	**9,760**	26,703
– Shandong Peninsula Ocean Blue Economic Investment Co., Ltd. ("SPOBE") *(Note b)*	**16,394**	74,589
– China MinSheng Investment Co., Ltd. ("CMIC") *(Note c)*	**1,567,000**	1,000,000
– Taihe Asset Management Co. Ltd. ("Taihe") *(Note d)*	**108,240**	120,000
– Zibo Fluorosilicon Industrial Park Operation Management Co., Ltd. ("FIP") *(Note e)*	**100,000**	–
	1,801,394	1,221,292

The unlisted equity investments are measured at fair value based on the present value of expected cash flows in the foreseeable future.

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, the directors of the Company considered the fair value of the investment was approximately RMB9,760,000 as at 31 December 2018.

(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 2018, the Company received capital fund of approximately RMB27,187,000 from SPOBE (31 December 2017: RMB51,667,000), and the directors of the Company considered the fair value of the investment was RMB16,394,000 as at 31 December 2018.

(c) CMIC, a private enterprise initiated by the All-China Federation of Industry and Commerce and approved by the State Council of the PRC, is principally engaged in equity investment and assets management. For the year ended 31 December 2018, as the Group held 1,400,000,000 shares in CMIC at a consideration of RMB1,580,000,000, the equity interest in CMIC held by the Group increased to 2.8% as at 31 December 2018. The directors of the Company considered the fair value of the investment was RMB1,567,000,000 as at 31 December 2018.

(d) Taihe is a private entity and was established in the PRC. Taihe is 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. Up to 31 December 2018, the Group has paid RMB120 million. The directors of the Company considered the fair value of the investment was approximately RMB108,240,000 as at 31 December 2018.

(e) FIP is a private equity and was established in the PRC on 10 December 2018. FIP was principally engaged in garden construction and property management. The Group and an independent third party established FIP. The Group paid RMB100 million for the year ended 31 December 2018 and contribute 46.15% of the total registered share capital of FIP. As the Group did not have any representative on the board of directors or equivalent governing body of the investment, did not participate in policy-making processes, and did not interchange any managerial personnel with the investment, it does not consider as having significant influence on the investment. The directors of the Company considered the fair value of the investment was RMB100,000,000 as at 31 December 2018.

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,487,709**	1,628,794
Less: allowance for doubtful debts	**(2,853)**	(3,128)
	1,484,856	1,625,666
Prepayments for raw materials	**222,709**	43,106
Value added tax receivables	**76,142**	27,381
Dividend receivable	**–**	35,685
Deposits and other receivables	**184,023**	238,633
	1,967,730	1,970,471

Included in the trade receivables, there are bills receivables amounting to RMB1,249,734,000 as at 31 December 2018 (2017: RMB1,350,000,000).

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

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**1,297,163**	1,095,087
91-180 days	**174,479**	509,743
Above 180 days	**13,214**	20,836
	1,484,856	1,625,666

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. 95% (2017: 99%) 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, there are RMB9,628,000 (2017: RMB2,138,000) 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.

	2018	2017
	RMB'000	*RMB'000*
91-180 days	**8,094**	1,150
Over 181 days	**1,534**	988
	9,628	2,138

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

	2018	2017
	RMB'000	*RMB'000*
Balance at beginning of the year	**3,128**	25,669
Reversed during the year	**(275)**	(22,541)
Balance at end of the year	**2,853**	3,128

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 2018	21,362	146,567
As at 31 December 2017	26,959	176,155

13. TRADE AND OTHER PAYABLES

Trade and other payables

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**1,620,043**	1,263,298
Receipt in advance from customers	**133,019**	161,515
Payroll payable *(Note i)*	**405,741**	249,871
Payable for property, plant and equipment *(Note ii)*	**161,564**	267,703
Other tax payables	**90,556**	137,265
Other deposits in relation to property development project	**–**	58,000
Construction cost payables for properties under development for sale	**112,742**	–
Other payables and accruals	**178,046**	207,516
Total	**2,701,711**	2,345,168

Notes:

(i) As at 31 December 2018, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to RMB72,261,000 (2017: RMB60,503,000). 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, there are bills payables amounting to RMB237,055,000 (2017: RMB42,313,000). Bills payable are secured by the Group's pledged bank deposits.

The average credit period granted by suppliers 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:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**822,980**	700,218
31-90 days	**595,215**	414,142
91-180 days	**141,672**	124,607
181-365 days	**41,282**	9,073
1-2 years	**11,728**	7,402
More than 2 years	**7,166**	7,856
	1,620,043	1,263,298

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 2018	1,403	9,632
As at 31 December 2017	4,092	26,737

14. BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Unsecured bank borrowings	**2,042,450**	1,738,000
Secured bank borrowings	**40,000**	82,821
	2,082,450	1,820,821
Carrying amount repayable:		
Within one year	**873,150**	1,076,021
More than one year, but not exceeding two years	**769,300**	674,800
More than two years, but not more than five years	**440,000**	70,000
	2,082,450	1,820,821
Less: amount due within one year shown under current liabilities	**873,150**	1,076,021
Amount due after one year	**1,209,300**	744,800

MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, the domestic economy showed a downward trend in economic growth, and the foreign trade was impaired to a certain extent due to the escalation of trade conflicts between China and the United States. During the year, the fluorosilicone industry experienced certain fluctuations in the face of increased domestic economic uncertainties, and the changes in the downstream demands resulted in the decline of some products' prices. However, in the turbulent environment, Dongyue still maintained relatively high performance, and achieved satisfactory results during the year by virtue of its various advantages.

BUSINESS REVIEW

1. Significant growth in results

During the year under review, the Group recorded total revenue of RMB14,218,937,000, representing a year-on-year increase of 40% as compared to RMB10,137,137,000 in 2017; our gross profit margin was 31.87%, representing a year-on-year increase of 1.64% as compared to last year; and our profit before tax amounted to RMB3,234,899,000, representing a year-on-year increase of 51.04% as compared to last year. Several of the Group's major operating segments had achieved significant growth in results. Despite substantial changes in various industrial factors, by leveraging its advantages of the complete industrial chain, outstanding research and development capabilities, quality services, rich market experience, rigorous safety and environmental management, the Group overcame uncertainties in the industry and achieved excellent results, continuing to outshine its industrial peers in the fluorosilicone industry.

2. Enhanced social image and influence of the Group by a number of honors

During the year, the Group was showered with honors. Our chlor-alkali ion membrane was selected in the National Museum's Results Exhibition of 40th Anniversary of China's Reform and Opening Up. During the year, the Group also presided over or participated in the drafting of 2 national industrial standards, 4 local industrial standards and 3 group industrial standards, while its subsidiaries had won 12 honors such as technical innovation demonstration enterprise awarded by the fluorosilicone industry association and the petrochemical federation, etc. Benefitting from the Group's long-term outstanding performance, Dongyue earned widespread recognition from the state and society, and Mr. Zhang Jianhong, the chairman of the Company, was also honored to be awarded many honors. On 1 November 2018, Mr. Zhang Jianhong participated in a symposium on private enterprises hosted by Xi Jinping, General Secretary of the Communist Party of China, and received a cordial reception from him. In addition, Mr. Zhang Jianhong was also invited to join the 40th anniversary celebration of reform and opening up, and was selected in the list of 100 outstanding private entrepreneurs during the 40 years of reform and opening up. The above achievements have greatly enhanced the Group's social image and influence and increased our competitiveness, thus reinforcing our leading position in the industry.

3. **Maintaining competitiveness with scientific and technological innovation**

The Group has always considered independent innovation as its important competitiveness, and the management of the Group has attached great importance to scientific and technological innovation. The Group's R&D investment in 2018 increased by 84.47% as compared with that of 2017. During the year, the Group completed 39 successful projects of technological innovation, automation enhancement and other topics, and 10 projects of new product development and quality improvement. Among them, new products such as the fluorine-containing polymers DF-2049 and DF-161 had been used in the high-end application fields including environmental protection and semiconductors; we achieved the replacement rate of 70% for PFOA; PFA and the medium-and-high fluororubber realized mass scale sales; hydrofluoroethers and fluorosilicone rubber had been popularized and applied; and the newly developed series of textile auxiliaries such as amino silicone oil and epoxy-terminated silicone oil had become industrialized; and the fluorosilicone surfactant and the release silicone rubber for lithium battery were successfully tested and secured trial orders. Moreover, more R&D efforts had been put into the chlor-alkali ion membrane which was independently researched and developed by the Group. The Group lowered its manufacturing costs drastically. It has been used by many customers in the market and won recognition in the market. During the period, the Group was successfully awarded 31 patents out of 40 patent applications, bringing the total number of the Group's awarded patents to 361.

At the same time, the Group has also strengthened the construction of the external cooperative R&D platform. During the year, the Group's joint research and development projects with a number of universities and research institutes have achieved initial results. The projects such as perfluoropolyether lubricants, new type of 107-glue catalysts and high-performance flame retardant silicone rubber have achieved progressive breakthroughs. In addition, the Group's R&D center projects in large-scale cities have also started construction.

4. **Ensuring safe and environmentally-friendly production**

In recent years, China has attached great importance to safe and environmentally-friendly production. The Group's high and strict standards of safety and environmental protection have enabled itself to weather all the changes in the industry in recent years and remain unbeaten. During the year, the Group continued to establish a standardized system of safe and environmentally-friendly production management. The DuPont safety management concept introduced has initially achieved results in the Group, effectively reducing the safety risks of its subsidiaries. The Group has built a water purification plant in the park of the main production sites, which has enabled the recycling and comprehensive utilization of water in the park and reduced the amount of water discharged.

5. **Improving overall management level**

When industries are sensitive to market fluctuations, in order to maintain stable operation , one enterprise needs to take effective measures to strengthen it's own management and improve itself. The Group always regards improving its own management level as one of the important development strategies. During the year, the Group launched its SAP project to integrate internal and external systems and partially form a unified management and operation platform. The Group has taken a big step forward in carrying out the "Benchmarking Formosa Plastics" IT-based management. As for the suppliers, the Group grasped market changes, continuously optimized the supplier management, improved procurement quality and strictly controlled prices by comparing with peers' prices.

6. **Further enhancing advantages of the industrial chain and the park economy**

The advantages of the industrial chain and the park economy have been the development advantages of Dongyue for a long time. Therefore, the management of the Group attaches great importance to extending the industrial chain and developing the park economy. During the year, Dongyue Chemical Park, the Group's most important production base, being the first specialized chemical park in Shandong Province, was established as approved by the Shandong Provincial Government on June 26 2018. Such approval would help the Group to respond to national policies and promote project implementation, so as to obtain more favorable development benefits arising from the future changes in the economic situation.

7. **Strengthening capital market operation**

During the year, the Group made further progress in capital operation. Shandong Dongyue Organosilicone Materials Co., Ltd. (山東東岳有機硅材料股份有限公司) ("Dongyue Organosilicone", a subsidiary of the Group), filed a listing application with the China Securities Regulatory Commission in November 2018, and related matters are currently in progress. The successful listing of Dongyue Organosilicone would expand its financing channels, enhance its development potential and strengthen its own business as soon as possible, with an aim of enhancing its competitiveness and industrial position, increasing investments in technology and environmental protection, improving profitability and ultimately bringing returns to the Company's shareholders.

8. **Further improving employee benefits**

The management of the Group has been maintaining long-term focus on the benefits of employees. During the year, there were a number of measures introduced to improve employee benefits. In December 2018, in order to improve employee benefits, the Group adopted an employee option scheme, pursuant to which, options would be granted to employees within the next five years and would be vested within ten years. In addition, during the year, the Group further improved employee benefits by tailoring clothing for employees and modifying the vacation system.

PROSPECT

Although the Group achieved relatively good results in 2018, it should not underestimate the impacts of fluctuations of the economic environment and the industry. Therefore, the Group will make the following deployments in 2019:

1. Keep a close eye on the market development

After sustaining sudden changes in the industry in 2018, the Group is determined to develop itself in light of the market development in 2019. The Group will increase its market research efforts and grasp any changes in the market to actively prepare for coping strategies. On the one hand, the Group is committed to secure market share with guaranteed price, quality and quantity; on the other hand, the Group will promote new products to new application market, strive to enter high-end market and maximize market for its products.

2. Adhere to scientific and technological innovation

In response to the market demand in the new situation, all the companies under the Group will insist on innovation in 2019. Specifically, in line with the economic development, we should continuously increase the proportion of new products' revenue and the application rate of new technologies, actively apply new technologies, new equipment and new processes to improve overall efficiency, and actively explore enhancements in terms of new product innovation and application, modified products, catalyst modification and upgrading, environmental protection technologies, energy-saving technologies and recycling, promoting the Group's higher-quality development. In order to achieve this goal, the Group will set the scientific research investment as a mandatory assessment indicator for each company so as to increase investment in research and development, accelerate the construction of research and development platforms, improve the assessment mechanism and implement a long-term innovation incentive scheme.

3. Further improve the level of safe and environmentally-friendly production

In 2019, the Group will continue to carry out safe and environmentally-friendly production. In terms of environmental protection, the Group will further increase the utilization of water recycling and strictly dispose of wastes such as wastewater, waste residue and exhaust gases. In respect of safety, the Group will continue to strictly implement the "Benchmarking DuPont" management and gradually form its own Dongyue safety culture to achieve long-term stability in production and operation.

4. **Further improve the management level**

In 2019, the Group will rely on quality management to further explore and maximize profits. For the supply, the Group will strictly control the management of suppliers, improve procurement quality and reduce procurement costs; for the production, it will strive to improve product quality and reduce resources and energy consumption; for the expenses, it will carefully budget, control unnecessary expenditures and carry out actions against wasting; and for the efficiency, the Group will further improve the intelligent and informatization construction to realize the full coverage of the SAP system, and connect the internal and external services via network to eliminate the ineffective labor and resources in the production and operation process as much as possible, and it will also carefully formulate plans and refine the improvement measures after benchmarking the outstanding advanced enterprises at home and abroad.

5. **Do well in capital operation**

Capital operation is another driving force for the industrial development. In 2019, the Group will continue to implement the spin-off listing of Dongyue Organosilicone step by step as planned and fully promote the domestic IPO of Dongyue Organosilicone, in the hope of achieving another breakthrough in the capital market to boost the real economy. In addition, the Group will also strengthen corporate asset management, focus on asset yields and effectively control asset risks. The Group will focus on investing in the fluorosilicone silicon industry and hydrogen energy projects. The investments in the real estate projects will be constrained at a moderate level, and the investments in non-core businesses will be gradually reduced and withdrawn.

6. **Strengthen human resources management and increase the sense of belonging**

In 2019, the Group will practice the concept of "Where there is the talent, where there is the market, there is Dongyue", and establish the Dongyue scientific research system, project management system and performance appraisal system through benchmarking the R&D institutions of the international first-class enterprises, in order to build a strong R&D platform. In terms of employee benefits, the Group will implement the employee option scheme based on actual conditions and create a good start for the employee option scheme; furthermore, the construction of the catering center will be completed in the Group's park to improve the quality and standards of staff catering.

In 2018, we created a glorious chapter in the history of the Group and all Dongyue employees are proud of the achievements. However, we should not sit back and relax. 2019 will be a year full of challenges. We must improve ourselves and give full play to our advantages to maintain the leading position in the industry, and further pursue the world-class reputation and on-going operation and strive to achieve excellent results to create stable and objective returns for our investors.

FINANCIAL REVIEW

Results Highlights

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB14,218,937,000, representing an increase of 40.27% over RMB10,137,137,000 in the previous year. The gross profit margin increase to 31.87% (2017: 30.23%) and the operating results margin was 23.50% (2017: 22.21%). During the year under review, the Group recorded profit before tax of approximately RMB3,234,899,000 (2017: profit before tax of RMB2,141,773,000), and net profit of approximately RMB2,434,699,000 (2017: RMB1,681,799,000), while consolidated profit attributable to the Company's owners was approximately RMB2,129,098,000 (2017: RMB1,601,397,000). Basic earnings per share was RMB1.00 (2017: basic earning of RMB0.76).

The Board recommended the payment of a final dividend of HK$0.35 (2017: HK$0.30) per share to the shareholders whose names appear on the register of members of the Company on 4 June 2019.

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 2018 and the year ended 31 December 2017:

	For the year ended 31 December 2018			For the year ended 31 December 2017		
Reportable and Operating Segments	**Revenue**	**Results**	**Operating Results Margin**	Revenue	Results	Operating Results Margin
	RMB'000	***RMB'000***		*RMB'000*	*RMB'000*	
Polymers	**3,879,793**	**915,014**	**23.58%**	2,927,843	605,053	20.67%
Organic Silicone	**3,380,373**	**984,040**	**29.11%**	2,428,256	433,836	17.87%
Refrigerants	**3,260,154**	**805,467**	**24.71%**	2,502,275	588,442	23.52%
Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid Alkali	**1,723,746**	**466,059**	**27.04%**	1,604,099	354,554	22.10%
Property development	**239,639**	**65,524**	**27.34%**	285,510	32,648	11.43%
Others	**1,735,232**	**105,745**	**6.09%**	389,154	237,215	60.96%
Consolidated	**14,218,937**	**3,341,849**	**23.50%**	10,137,137	2,251,748	22.21%

ANALYSIS OF REVENUE AND OPERATING RESULTS

During the year under review, the domestic fluorosilicone industry market in China experienced certain ups and downs as impacted by the fluctuations in the domestic economy due to international factors. There was a booming market for the industry in the first half of 2018, while certain products saw a price decline to a certain degree in the second half of 2018 due to unstable market demand caused by international events. Nevertheless in general, thanks to the favorable developments of this sector in recent years, most products could still maintain decent profitability. Leveraging on its strengths such as presence across the whole industry chain, well-developed park economy, strict mechanism for safe and environmentally-friendly production, outstanding market reputation and standing, good product quality and excellent service, the Group achieved a brilliant performance since the inception of the Company. With regard to the operating segments, the performance of all the principal segments of the Company recorded different level of growth. In particular, the organic silicone segment and the fluoropolymer segment experienced rapid growth, and hence became the two most important segments of the Group in terms of segment results.

Fluoropolymer

During the year under review, the fluorine-containing polymers segment's revenue was RMB3,879,793,000, representing a year-on-year increase of 32.51% (2017: RMB2,927,843,000), accounting for 27.29% (2017: 28.88%) of the Group's total revenue. The results of the segment recorded a profit of RMB915,014,000, representing an increase of 51.23% as compared with RMB605,053,000 in the same period of the previous year.

Same as in 2017, the fluorine-containing polymers sector continued to see a favorable market condition. In the first half of 2018, product price rose to a record high in years, which also outpaced the rise in the price of raw materials. Despite a price fall in the second half of 2018, the products of this segment were still quite profitable. The most important raw material of the fluoropolymer products is R22. R22 has been enjoying a good market condition in recent years and therefore a relatively high and stable price, which in turn led to a relatively high price of fluoropolymer products, and together with the increasing downstream demand, it further boosted the market of fluoropolymer products.

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, and 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 under review, the refrigerant segment's revenue was RMB3,260,154,000, representing an increase of 30.29% as compared with RMB2,502,275,000 in the previous year, accounting for 22.93% of the Group's total revenue (2017: 24.68%); the results of the segment recorded a profit of RMB805,467,000, representing a year-on-year increase of 36.88% (2017: profit of RMB588,442,000).

Similar to the market situation in 2017, prices of this segment's products could maintain at a relatively high level in the context of the relevant environmental policies, while the prices of fluorite powder and Hydrofluoric Acid, being the most important raw materials, also fluctuated within a range at a relatively high level in 2018. Although there were certain fluctuations on the downstream household appliance market such as air-conditioners and refrigerators in the second half of 2018 due to international situations, the Group could still maintain a stable price and sales volume and hence a satisfactory revenue and profit against such fluctuations, by virtue of its excellent product quality, brand, well-established reputation and influence, and the vigorous operation strategy in market development. The revenue of R22, being the core refrigerant product of this segment, increased by 31.81% in 2018, which contributed the most to the revenue increase of this segment. With regard to other refrigerant products, the revenue experienced either rise or fall as impacted by the respective downstream markets.

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 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, 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. Apart from the fact that R142b can be used as refrigerant, temperature controller medium, and 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 saved production capacity of R22 as a refrigerant was transformed and utilized by the Group to produce Fluoropolymer in order to cope with the increasing market demand for Fluoropolymer.

Organic Silicone

During the year under review, the organic silicone segment's revenue grew by 39.21% to RMB3,380,373,000 from RMB2,428,256,000 in the previous year, accounting for 23.77% (2017: 23.95%) of the Group's total revenue. The result of the segment recorded a profit of RMB984,040,000, representing an increase of 126.82% from a profit of RMB433,836,000 in the previous year.

There were considerable fluctuations on the organic silicone market in 2018. The good momentum on the organic silicone market in 2017 lasted into the first half of 2018, which resulted in a continued rise in product prices. However, in the second half of 2018, the downstream market demand for organic silicone products declined as impacted by international situations, which resulted in a considerable fall in the product price. Nevertheless, by virtue of its presence across the whole industry chain, excellent marketing strategies, and well-established market reputation and influence, the Group could still maintain a rather profitable position regardless of the notable fall in the product price in this segment. As a result, the segment results of the Group could still record a relatively significant increase in 2018. This segment has been experiencing rapid growth in recent years and changed from a slightly loss-making segment into a highly profitable one and from a principal business with lowest results contribution into one with highest results contribution, which was attributable to not only the market environment, but also the unremitting efforts of the Group over a long time. As at the date hereof, Shandong Dongyue Organosilicon Materials Co., Ltd. (山東東岳有機硅材料股有限公司), the operating entity of this segment, has submitted a listing application to the China Securities Regulatory Commission during the year. The proposed listing, if materializes, is expected to broaden the financing channels of the Group and enhance its growth potential, accelerate the development of this segment's business and enhance its competitiveness and industry status, increase the investment in technology and environmental protection, improve profitability and create value for the Company's shareholders.

This segment mainly includes the production and sales of DMC (upstream organic silicone intermediates that are used as raw materials to produce deep processed mid-stream and downstream silicone products, such as silicone oils, silicone rubber and silicone resins), 107 Silicone Rubber, Raw Vulcanizate and Gross Rubber (collectively referred to as "Silicone Rubbers", deep processed organic silicone rubber products, where Raw Vulcanizate is a key material for producing Gross Rubber), and other by-products and other high-end downstream products, such as Gaseous Silica and Silicone Oils. Named as "Industrial MSG", organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals stabilizers, lubricants and sealants and is a key ingredient in industrial processes. The 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.

Dichloromethane, PVC and Liquid Alkali

During the year under review, the segment's revenue increased by 7.46% to RMB1,723,746,000 from RMB1,604,099,000 in the previous year, accounting for 12.12% (2017: 15.82%) of the Group's total revenue. The results of the segment recorded a profit of RMB466,059,000, representing a year-on-year increase of 31.45% (2017: profit of RMB354,554,000).

As bulk chemical products, the prices of products of this segment are susceptible to economic factors. During the year, due to certain fluctuations in domestic economy, the results of this segment recorded an increase which is however lower as compared with that of other segments. During the year, a year-on-year increase of 12.35% was recorded in the revenue of PVC; a year-on-year increase of 31.13% was recorded in the revenue of dichloromethane; while a year-on-year decrease of 3.00% was recorded in the revenue of liquid alkali.

This segment includes the production and sales revenue 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 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 increasing economic value generated from a self-sufficient business chain.

Property Development

As at the date hereof, this segment included four property projects, which are located in Huantai County, Zibo City, Shandong Province, Zhangdian District, Zibo City, Shandong Province, Yucheng City, Shandong Province, and Zhangjiajie City, Hunan Province, respectively. Some of the projects are under construction, while some have commenced sales. As most of the projects have not commenced sales and as a result have not generated revenue, this segment contributed a revenue of RMB239,639,000 only to the Group in 2018, representing a decrease of 16.07% from RMB285,510,000 in 2017. This segment result recorded a profit of RMB65,524,000.

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 so on.

During the year under review, the segment recorded revenue of RMB1,735,232,000, representing an increase of 345.90% as compared with RMB389,154,000 in the previous year. The results of the segment recorded a profit of RMB105,745,000 (2017: RMB237,215,000), representing a year-on-year decrease of 55.42%, which was largely attributable to the volatile market conditions in this year.

Distribution and Selling Expenses

During the year under review, the distribution and selling expenses increased by 14.26% to RMB358,726,000 from RMB313,959,000 of the previous year, which is attributable to an increase in transportations cost from an increase in sales and transportation unit price during the year.

Administrative Expenses

During the year under review, the administrative expenses increased by 19.26% to RMB782,735,000 from RMB656,333,000 of the previous year. The reasons for the increase include: (i) an increase in employees' salaries and (ii) an increase in professional fee incurred during the year.

Finance Costs

During the year under review, the finance costs decreased by 13.96% to RMB97,135,000 from RMB112,890,000 of the previous year. This was mainly attributable to decrease in average monthly loan balances and the interest rates of the Group during the year under review compared to previous year.

Capital Expenditure

For the year ended 31 December 2018, the Group's aggregate capital expenditure was approximately RMB888,561,000 (2017: RMB834,226,000). The Group's capital expenditure is mainly for the construction of factories, equipment production line for the new operation projects of the Group.

Liquidity and Financial Resources

The Group's financial position is sound with healthy working capital management and strong operational cash flow. As at 31 December 2018, the Group's total equity amounted to RMB9,392,199,000, representing an increase of 28.44% as compared with that as at 31 December 2017. As at 31 December 2018, the Group's bank balances and cash totaled RMB3,331,147,000 (31 December 2017: RMB1,471,116,000). The increase in the Group's bank balances and cash is mainly attributable to the increase in sales during the year. During the year under review, the Group generated a total of RMB3,873,382,000 (for the year ended 31 December 2017: RMB1,122,187,000) cash inflow from its operating activities. The current ratio(1) of the Group as at 31 December 2018 was 1.78 (31 December 2017: 1.61).

Taking the above figures into account, together with the available bank balances and cash, the unutilized banking credit facilities and support from its 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.

Major Disposal

Major Transaction in relation to deemed disposal of interest in Shandong Dongyue Organosilicone Materials Co., Ltd. ("Dongyue Organosilicone")

On 12 October 2018, the Company announced that Dongyue Organosilicone (a non wholly-owned subsidiary of the Company) will issue certain number of new A shares on ChiNext of the Shenzhen Stock Exchange by way of initial public offering to the public in the PRC (the "Proposed Spin-off"), or other methods as approved by the China Securities Regulatory Commission (the "CSRC"). It is proposed that Dongyue Organosilicone will issue not more than 300,000,000 new A shares (the "Offer Shares"), representing 25% of the total number of issued shares of Dongyue Organosilicone as enlarged by the Proposed Spin-off. The actual number of Offer Shares to be issued by Dongyue Organosilicone will be subject to the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off, the Company will indirectly control not less than approximately 57.75% interest in Dongyue Organosilicone, and therefore Dongyue Organosilicone will remain as a non wholly-owned subsidiary of the Company.

The Proposed Spin-off, if materializes, constitutes a deemed disposal of the Company's equity interest in Dongyue Organosilicone under Rule 14.29 of the Listing Rules and is subject to shareholders' approval requirements. Details of this major disposal are set out in the Company's announcement dated 12 October 2018.

The Proposed Spin-off was approved by the shareholders of the Company at the extraordinary general meeting on 31 October 2018.

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 2018.

As at 31 December 2018, the borrowings of the Group totaled RMB2,082,450,000 (31 December 2017: RMB1,820,821,000). The gearing ratio[2] of the Group was -15.33% (31 December 2017: 4.56%). The negative gearing ratio as at 31 December 2018 represents the Group is "net cash" positive (i.e. has more cash & equivalents than its debt) which is usually a good sign.

The Group had no particular seasonal pattern of borrowing. As at 31 December 2018, 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 RMB1,209,300,000 which are repayable in full after one year but not exceeding five years. The current portion of borrowings amounted to approximately RMB873,150,000. 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 2018 were 5.36% (2017: 5.36%) and 5.01% (2017: 5.01%) per annum, respectively. As at 31 December 2018, 26.72% (31 December 2017: 19.61%) of the Group's borrowings bear fixed interest rates.

As at 31 December 2018 and 2017, 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 2018, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB10,747,000 (31 December 2017: RMB167,586,000), and bank deposits of RMB82,700,000 (31 December 2017: RMB32,860,000), 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 5,876 employees in total as at 31 December 2018 (31 December 2017: 5,862). The Group implemented its remuneration policy and bonus based on the performance of the Group and its employees. The Group provided benefits such as social insurance, employee option scheme and pensions to ensure remuneration competitiveness.

OTHER INFORMATION

Final Dividend

The Directors recommend the payment of a final dividend of HK$0.35 (the "Final Dividend") (2017: HK$0.30) per share in respect of the year 2018, to the shareholders whose names appear on the register of members of the Company (the "Register") on 4 June 2019, 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 30 May 2019. 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 2018 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 2018.

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 21 March 2019, 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 2018 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 2018, 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 annual 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 2019.

(2) Closure of Register of Members

The Board announces that the Register will be closed from 24 May to 30 May 2019, 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 23 May 2019.

The Board further announces that the Register will be closed from 5 June to 10 June 2019, 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 4 June 2019.

The expected date for payment of the Final Dividend is 27 July 2019.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 27 March 2019

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.