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DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

**(1) ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR
ENDED 31 DECEMBER 2021
AND
(2) CLOSURE OF REGISTER OF MEMBERS**

FINANCIAL HIGHLIGHTS

(in RMB million, unless otherwise stated)

	Financial Year ended 31 December	
	2021	2020
Revenue	15,844	10,044
Gross profit	5,218	2,245
Gross profit margin	32.93%	22.35%
Profit before taxation	3,244	1,017
Profit for the year	2,682	903
Profit for the year attributable to owners of the Company	2,075	772
Basic earnings per share (RMB)	0.98	0.37
Final dividend per share (HK\$)	0.34	0.14
	As at	
	31 December 2021	31 December 2020
Total Equity	15,639	10,531
Net Assets per Share (RMB)	6.93	4.99

(1) *Announcement of Annual Results for the year ended 31 December 2021*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	3	15,843,947	10,044,313
Cost of sales		(10,626,336)	(7,799,717)
Gross profit		5,217,611	2,244,596
Other income and other net gains and losses	4	182,028	136,207
Distribution and selling expenses		(336,451)	(353,683)
Administrative and other expenses		(913,264)	(356,845)
Gain on deemed disposal of a subsidiary		–	40,850
Loss on disposal of a subsidiary		(27,377)	–
Research and development costs		(838,893)	(590,471)
Fair value changes on financial assets at fair value through profit or loss (“FVTPL”)		21,870	(3,978)
Share of results of an associate		20,291	4,505
Finance costs	5	(81,606)	(104,560)
Profit before taxation		3,244,209	1,016,621
Income tax expense	6	(562,664)	(113,765)
Profit for the year	7	2,681,545	902,856
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value changes on equity instruments at fair value through other comprehensive income (“FVTOCI”)		(234,098)	(279,531)
Total comprehensive income for the year		2,447,447	623,325
Profit for the year attributable to:			
– Owners of the Company		2,074,843	772,167
– Non-controlling interests		606,702	130,689
		2,681,545	902,856
Total comprehensive income for the year attributable to:			
– Owners of the Company		1,840,745	492,636
– Non-controlling interests		606,702	130,689
		2,447,447	623,325
Earnings per share	8		
Basic and diluted (RMB)		0.98	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Non-current Assets			
Property, plant and equipment		8,298,069	5,431,745
Right-of-use assets		838,270	752,591
Deposits paid for purchase of property, plant and equipment		471,203	187,879
Interest in an associate		198,321	178,030
Intangible assets		31,357	61,320
Equity instruments at FVTOCI	<i>10</i>	390,579	402,177
Financial assets at FVTPL		37,669	15,799
Deferred tax assets		42,754	56,360
Deposits paid for acquisition of a subsidiary		119,524	–
Goodwill		123,420	123,420
		<u>10,551,166</u>	<u>7,209,321</u>
Current Assets			
Inventories		1,535,814	878,046
Properties for sale		1,592,507	2,740,757
Trade and other receivables	<i>11</i>	2,689,576	1,727,219
Pledged bank deposits		129,611	290,788
Bank balances and cash		5,102,552	4,275,728
		<u>11,050,060</u>	<u>9,912,538</u>
Current Liabilities			
Trade and other payables	<i>12</i>	4,664,371	4,252,985
Borrowings	<i>13</i>	268,600	1,406,650
Tax liabilities		229,278	47,044
Lease liabilities		4,983	4,827
Deferred income		80,256	19,569
		<u>5,247,488</u>	<u>5,731,075</u>
Net Current Assets		<u>5,802,572</u>	<u>4,181,463</u>
Total Assets less Current Liabilities		<u><u>16,353,738</u></u>	<u><u>11,390,784</u></u>

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
Capital and reserves			
Share capital		212,338	200,397
Reserves		<u>12,911,243</u>	<u>8,341,909</u>
Equity attributable to the owners of the Company		13,123,581	8,542,306
Non-controlling interests		<u>2,515,042</u>	<u>1,988,206</u>
Total equity		<u>15,638,623</u>	<u>10,530,512</u>
Non-current Liabilities			
Deferred tax liabilities		87,671	78,749
Borrowings	<i>13</i>	355,500	497,900
Lease liabilities		35,175	39,894
Deferred income		<u>236,769</u>	<u>243,729</u>
		<u>715,115</u>	<u>860,272</u>
		<u>16,353,738</u>	<u>11,390,784</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

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 P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, 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 polymers, organic silicon, refrigerants and dichloromethane, polyvinyl chloride (“PVC”) and liquid alkali and others. In addition, the Group is also engaged in property development in the People’s Republic of China (the “PRC”).

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and its subsidiaries.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

New and amendments to IFRSs in issue but not yet effective

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

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRSs	Annual Improvements to IFRSs 2018 – 2020	1 January 2022

The directors anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods and properties.

3.1 Revenue

Disaggregation of revenue from contracts with customers:

	Chemical products		Property development		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Types of goods or service						
<i>Sales of chemical products</i>						
Polymers	4,825,266	3,191,941	-	-	4,825,266	3,191,941
Refrigerants	3,337,155	2,066,120	-	-	3,337,155	2,066,120
Organic silicon	4,184,131	2,453,749	-	-	4,184,131	2,453,749
Dichloromethane, PVC and liquid alkali	1,537,795	1,224,183	-	-	1,537,795	1,224,183
	<u>13,884,347</u>	<u>8,935,993</u>	<u>-</u>	<u>-</u>	<u>13,884,347</u>	<u>8,935,993</u>
<i>Other operations</i>	<u>505,241</u>	<u>383,202</u>	<u>-</u>	<u>-</u>	<u>505,241</u>	<u>383,202</u>
<i>Property development</i>	<u>-</u>	<u>-</u>	<u>1,454,359</u>	<u>725,118</u>	<u>1,454,359</u>	<u>725,118</u>
Total	<u>14,389,588</u>	<u>9,319,195</u>	<u>1,454,359</u>	<u>725,118</u>	<u>15,843,947</u>	<u>10,044,313</u>

Sale of chemical products

Revenue (net of value added tax or other sales taxes) from the sale of goods is recognised at a particular point in time when customers have control of the promised goods, which is generally the time when goods are delivered to customers and customers have accepted the goods.

Property development

Revenue from sales of completed residential properties is recognised at a particular point in time. This is the time when legal assignment is completed which is the time when the customer has ability to direct the use of the property and obtain substantial all of the remaining benefits of the property. Deposits and instalments received from customers prior to this revenue recognition point are included in “Contract liabilities” in the consolidated statement of financial position.

3.2 Operating Segments

The Group’s operations are organised based on the different types of products and property development. Information reported to the board of directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of products and property development. This is the basis upon which the Group is organised.

The Group’s operating and reportable segments are as follows:

- Polymers;
- Refrigerants;
- Organic silicon;
- Dichloromethane, PVC and liquid alkali;
- Property development – development of residential properties in Shandong and Hunan Province, the PRC; and
- Other operations – manufacturing and sales of side- products of refrigerants segment, polymers segment, organic silicon segment and dichloromethane, PVC and liquid alkali segment, and rental income.

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

For the year ended 31 December 2021

	Polymers RMB'000	Refrigerants RMB'000	Dichloromethane,		Property development RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
			Organic Silicon RMB'000	PVC and liquid alkali RMB'000				
External sales	4,825,266	3,337,155	4,184,131	1,537,795	1,454,359	505,241	-	15,843,947
Inter-segment sales	-	2,464,267	-	15,611	-	1,135,858	(3,615,736)	-
Total revenue – segment revenue	<u>4,825,266</u>	<u>5,801,422</u>	<u>4,184,131</u>	<u>1,553,406</u>	<u>1,454,359</u>	<u>1,641,099</u>	<u>(3,615,736)</u>	<u>15,843,947</u>
SEGMENT RESULTS	<u>1,449,771</u>	<u>637,632</u>	<u>1,267,885</u>	<u>136,612</u>	<u>25,125</u>	<u>129,010</u>	<u>-</u>	<u>3,646,035</u>
Unallocated corporate expenses								(41,230)
Fair value changes on financial assets at FVTPL								21,870
Loss on disposal of a subsidiary								(27,377)
Share of results of an associate								20,291
Equity-settled share-based payments								(293,774)
Finance costs								<u>(81,606)</u>
Profit before taxation								<u>3,244,209</u>

For the year ended 31 December 2020

	Polymers RMB'000	Refrigerants RMB'000	Dichloromethane,		Property development RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
			Organic Silicon RMB'000	PVC and liquid alkali RMB'000				
External sales	3,191,941	2,066,120	2,453,749	1,224,183	725,118	383,202	-	10,044,313
Inter-segment sales	-	1,475,856	-	15,434	-	677,725	(2,169,015)	-
Total revenue – segment revenue	<u>3,191,941</u>	<u>3,541,976</u>	<u>2,453,749</u>	<u>1,239,617</u>	<u>725,118</u>	<u>1,060,927</u>	<u>(2,169,015)</u>	<u>10,044,313</u>
SEGMENT RESULTS	<u>436,461</u>	<u>189,464</u>	<u>281,494</u>	<u>42,294</u>	<u>102,066</u>	<u>57,463</u>	<u>-</u>	<u>1,109,242</u>
Unallocated corporate expenses								(29,438)
Gain on deemed disposal of a subsidiary								40,850
Fair value changes on financial assets at FVTPL								(3,978)
Share of results of an associate								4,505
Finance costs								<u>(104,560)</u>
Profit before taxation								<u>1,016,621</u>

Segment results represent the results of each segment without allocation of unallocated expenses and central administration costs, equity-settled share-based payments, directors' salaries, share of results of an associate, fair value changes on financial assets at FVTPL, loss on disposal of a subsidiary, gain on deemed disposal of a subsidiary and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment. No segment information on assets and liabilities is presented as such information is not reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Entity-wide disclosures

Information about revenue from polymers segment by products from external customers

	2021	2020
	RMB'000	RMB'000
Polytetrafluoroethylene (PTFE)	2,049,729	1,694,148
Hexafluoropropylene (HFP)	401,913	172,724
Perfluorocyclobutane	85,919	79,243
Fluorinated ethylene propylene (FEP)	544,258	445,359
Polyvinylidene fluoride (PVDF)	1,360,947	493,020
Fluorine rubber (FKM)	272,308	172,381
Perfluorinated ion-exchange membrane	27,244	–
Vinylidene fluoride (VDF)	31,451	5,869
Others	51,497	129,197
	<u>4,825,266</u>	<u>3,191,941</u>

Information about revenue from refrigerants segment by products from external customers

	2021	2020
	RMB'000	RMB'000
Monochlorodifluoromethane (HCFC-22)	857,013	740,020
Tetrafluoroethane (R134a)	123,490	148,715
Pentafluoroethane (R125)	279,646	15,530
R410a	314,336	239,425
R142b	809,271	147,942
R152a	168,570	120,805
R32	435,087	414,933
R507A	34,753	17,200
R407C	8,145	16,825
Carbon tetrachloride	132,176	–
R439A	1,891	–
Others	172,777	204,725
	<u>3,337,155</u>	<u>2,066,120</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
DMC (Dimethylcyclosiloxane)	36,009	18,479
107 Silicon Rubber	1,949,076	1,228,615
Raw Vulcanizate	662,555	384,957
Gross Rubber	441,813	246,175
Gaseous Silica	99,595	87,121
DMC Hydrolysate	1,036	17,559
Trimethylchlorosilane	191,119	132,209
Methyldichlorosilane	13,685	7,686
DMC Lineament	84,369	34,644
D4 (Octamethyl Cyclotetrasiloxane)	-	60
D3	11,343	8,322
End containing hydrogen silicone oil	106,370	-
End epoxy silicone oil	89,008	-
containing hydrogen silicone oil	81,631	-
End vinyl silicone oil	49,985	-
Dimethyl silicon oil	138,139	93,313
Others	228,398	194,609
	<u>4,184,131</u>	<u>2,453,749</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
PVC	544,017	614,796
Dichloromethane	371,536	170,088
Liquid alkali	622,242	439,299
	<u>1,537,795</u>	<u>1,224,183</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Methanol	-	38,949
HFCs (hydro fluorocarbons)	-	35,261
AHF (Anhydrous Fluoride)	9,038	3,013
Ammonium Bifluoride	51,884	49,695
Hydrofluoric Acid	65,443	46,200
Bromine	51,136	48,949
Neutral glue	83,698	26,183
Fluorgypsum	13,698	14,824
Others	230,344	120,128
	<u>505,241</u>	<u>383,202</u>

Information about major customers

There was no revenue from a single customer that contributed over 10% of the total sales of the Group for the years ended 31 December 2021 and 2020.

Geographical information

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

	2021	2020
	RMB'000	RMB'000
PRC (Country of domicile)	<u>13,326,436</u>	<u>8,498,807</u>
Asia (except PRC)		
– Japan	527,593	267,938
– South Korea	520,591	363,054
– India	86,248	60,895
– Singapore	33,179	18,648
– Thailand	23,613	30,439
– United Arab Emirates	94,340	80,471
– Pakistan	19,290	33,143
– Malaysia	40,326	36,281
– Kuwait	15,632	14,779
– Saudi Arabia	895	6,821
– Indonesia	13,213	13,227
– Israel	325	2,628
– Philippines	6,084	4,812
– Viet Nam	29,901	25,491
– Turkey	29,510	62,817
– Other countries	<u>150,365</u>	<u>15,636</u>
Subtotal	<u>1,591,105</u>	<u>1,037,080</u>
	2021	2020
	RMB'000	RMB'000
America		
– United States of America	239,783	166,469
– Brazil	45,391	56,440
– Chile	–	1,548
– Other countries	<u>164,315</u>	<u>39,752</u>
Subtotal	<u>449,489</u>	<u>264,209</u>

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Europe		
– Italy	159,977	103,059
– England	10,180	4,003
– Russia	14,628	11,301
– Germany	40,566	9,036
– France	12,432	9,498
– Spain	11,851	2,638
– Belgium	11,148	389
– Poland	5,015	3,603
– Other countries	141,944	37,274
	<u>407,741</u>	<u>180,801</u>
Subtotal	407,741	180,801
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Africa		
– South Africa	26,708	15,930
– Egypt	1,483	10,802
– Nigeria	21,509	22,486
– Other countries	5,766	4,851
	<u>55,466</u>	<u>54,069</u>
Subtotal	55,466	54,069
Other countries/regions	<u>13,710</u>	<u>9,347</u>
	15,843,947	10,044,313

Other segment information

	Polymers RMB'000	Refrigerants RMB'000	Organic Silicon RMB'000	Dichloromethane, PVC and liquid alkali RMB'000	Property development RMB'000	Other operations RMB'000	Total RMB'000
2021							
Amounts included in the measures of segment profit or loss:							
Depreciation of property, plant and equipment	164,065	238,071	108,300	92,111	10,741	61,522	674,810
Depreciation of right-of-use assets	4,429	11,187	4,927	1,521	-	6,916	28,980
Amortisation of intangible assets	12,449	1,999	35	851	60	344	15,738
Impairment of intangible asset	-	-	-	-	-	4,667	4,667
(Reversal of)/impairment on trade receivables	(413)	1,836	(74)	327	(3,789)	261	(1,852)
Research and development costs	275,278	235,375	225,813	56,442	-	45,985	838,893
Write-down of inventories	-	51,478	9,156	5,710	-	3,572	69,916
Loss on disposals of property, plant and equipment	4,137	13,928	9,218	1,541	232	20,196	49,252
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:							
Fair value changes on financial assets at FVTPL	-	-	-	-	-	(21,870)	(21,870)
Loss on disposal of a subsidiary	-	-	-	-	-	27,377	27,377
Share of results of an associate	-	-	-	-	-	(20,291)	(20,291)
2020							
Amounts included in the measures of segment profit or loss:							
Depreciation of property, plant and equipment	174,073	207,329	112,619	96,829	3,358	45,146	639,354
Depreciation of right-of-use assets	5,399	9,630	4,907	1,898	-	2,852	24,686
Amortisation of intangible assets	12,756	1,666	35	1,028	203	1,543	17,231
(Reversal of)/impairment on trade receivables	337	423	(1,986)	35	1,044	27	(120)
Research and development costs	237,950	102,437	180,418	22,682	-	46,984	590,471
(Reversal of)/write-down of inventories	-	(77)	803	(2,148)	-	(169)	(1,591)
Loss/(gain) on disposals of property, plant and equipment	4,810	(1,763)	(4,905)	(1,316)	200	(1,115)	(4,089)
Loss on disposal of intangible assets	-	-	-	-	-	161	161
Gain on disposal of right-of-use assets	(3,280)	-	-	-	-	(17)	(3,297)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:							
Fair value changes on financial assets at FVTPL	-	-	-	-	-	3,978	3,978
Gain on deemed disposal of a subsidiary	-	-	-	-	-	(40,850)	(40,850)
Share of results of an associate	-	-	-	-	-	(4,505)	(4,505)

4. OTHER INCOME AND OTHER NET GAINS AND LOSSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other income		
Government grants (<i>Note (i)</i>)	101,882	76,877
Bank deposits interest income	76,102	63,422
Dividend income received from equity instruments at FVTOCI	7,200	7,200
Other interest income (<i>Note (ii)</i>)	17,996	6,564
Others	<u>3,195</u>	<u>18,734</u>
	<u>206,375</u>	<u>172,797</u>
Other net gains and losses		
Exchange difference, net	<u>(24,347)</u>	<u>(36,590)</u>
	<u>182,028</u>	<u>136,207</u>

Notes:

- (i) The government grants mainly represent the expenditures on research activities which are recognised as expenses in the period in which they are incurred by the Group. There were no unfulfilled conditions or contingencies relating to those government grants.
- (ii) Included in other interest income was interest income from bills receivable of RMB16,085,000 (2020: RMB6,564,000) for the year ended 31 December 2021.

5. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interests on:		
Bank loans wholly repayable within five years	79,610	102,354
Lease liabilities	<u>1,996</u>	<u>2,206</u>
	<u>81,606</u>	<u>104,560</u>

6. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
PRC enterprise income tax (“EIT”)		
– Current year	512,458	95,820
– Over provision in prior years	(18,977)	(75,851)
Land Appreciation Tax (“LAT”)	<u>33,432</u>	<u>15,918</u>
	<u>526,913</u>	<u>35,887</u>
Deferred tax		
– Withholding tax for distributable profits of PRC subsidiaries	68,101	22,991
– Others	<u>(32,350)</u>	<u>54,887</u>
	<u>35,751</u>	<u>77,878</u>
Income tax expense	<u><u>562,664</u></u>	<u><u>113,765</u></u>

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company’s subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2020: 25%), except for certain PRC subsidiaries being awarded the Advanced-Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15%.

The Company’s subsidiaries incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits.

Pursuant to the local rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2021	2020
	RMB'000	RMB'000
a) Staff costs (including directors' emoluments):		
Wages and salaries	1,014,410	615,503
Discretionary bonus	33,639	17,492
Pension scheme contributions	189,881	105,108
Equity-settled share-based payments	293,774	–
Other staff welfare	90,819	55,099
	<u>1,622,523</u>	<u>793,202</u>
Total staff costs		
b) Other items:		
Amortisation of intangible assets (included in cost of sales)	15,738	17,231
Auditor's remuneration	2,323	2,356
Depreciation of property, plant and equipment	674,810	639,354
Depreciation of right-of-use assets	28,980	24,686
Impairment of intangible asset	4,667	–
Loss on disposal of intangible assets	–	161
Loss/(gain) on disposals of property, plant and equipment	49,252	(4,089)
Gain on disposal of right-of-use assets	–	(3,297)
Fair value change on financial assets at FVTPL	(21,870)	3,978
Gain on deemed disposal of a subsidiary	–	(40,850)
Reversal of impairment on other receivables	(180)	(56)
Reversal of impairment on trade receivables	(1,852)	(120)
Write-down/(reversal of) of inventories (included in cost of sales)	69,916	(1,591)
	<u>69,916</u>	<u>(1,591)</u>

8. EARNINGS PER SHARE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit for the year attributable to owners of the Company, used in the basic and diluted earnings per share calculations	<u>2,074,843</u>	<u>772,167</u>
	Number of shares	
	2021 <i>'000</i>	2020 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,120,034	2,060,231
Effect of dilutive potential ordinary shares: Adjustment in relation to share options issued by the Company	<u>773</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,120,807</u>	<u>2,060,231</u>

During the year ended 31 December 2021, 18,460,000 (2020: 18,341,000) ordinary shares were purchased under employee option scheme.

The Company repurchased and cancelled 1,499,000 shares of its own ordinary shares of the Company during the year ended 31 December 2021 (2020: nil).

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the years ended 31 December 2021 and 2020 has been arrived at after deducting the shares held in trust for the Company.

9. DIVIDENDS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Dividends paid during the year 2021: 2020 final dividend of HK\$0.14 (2020: 2019 final dividend of HK\$0.23) per share	<u>246,259</u>	<u>428,035</u>

Subsequent to the end of the reporting period, a final dividend HK\$0.34 per share (2020: HK\$0.14 per share), amounting to HK\$766,254,000 (2020: HK\$295,636,000) in respect of the year ended 31 December 2021, equivalent to RMB620,666,000 (2020: RMB246,259,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

10. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Unlisted equity securities, at fair value			
China MinSheng Investment Co., Ltd (“CMIC”)	<i>(a)</i>	11,723	198,763
Taihe Asset Management Co. Ltd. (“Taihe”)	<i>(b)</i>	70,531	87,414
Shandong Ziyang Investment Co., Ltd. (“Ziyang”)	<i>(c)</i>	–	116,000
Hainan Guji Investment Partnership (limited partnership) (“Hainan Guji”)	<i>(d)</i>	254,599	–
Zibo Runxin Dongyue New Material Equity Investment Fund Partnership (limited partnership) (“Zibo Runxin”)	<i>(e)</i>	53,726	–
		<u>390,579</u>	<u>402,177</u>

The above unlisted equity instruments represent the Group’s equity interest in several private entities established in the PRC and the Cayman Islands. The directors of the Company have elected to designate these investments in equity instruments at FVTOCI as they are held for long-term strategic purposes.

In determining the fair value of unlisted equity instruments, the Group engages an independent professional valuer to perform such valuation. The amount is determined based on the cash flow projection for the estimated future cash flow discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted revenue and gross margin taking into account the relevant industry growth forecasts and financial budgets approved management’s expectation for the market development.

Notes:

- (a) 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. The Group held 1,400,000,000 shares in CMIC at a consideration of RMB1,580,000,000, and the equity interest in CMIC held by the Group was 2.8% as at 31 December 2021 and 2020. Based on CMIC’s financial statements for the year ended 31 December 2021, and having considered the macroeconomic downturn, and the continuous deleveraging as well as the dual pressure on high level of corporate debts, the funding situation and cash flow of CMIC in 2021 were very tight, and the financial position has deteriorated sharply. As a result, the directors of the Company considered, and as agreed by the independent professional valuer engaged by the Group, the fair value of the Group’s investment in CMIC was approximately RMB11,723,000 as at 31 December 2021 (2020: RMB198,763,000). Accordingly, a fair value loss of approximately RMB187,040,000 (2020: RMB256,534,000) was recognised for the year ended 31 December 2021 which had been included in other comprehensive expense of the Group.

- (b) Taihe is a private entity and was established in the PRC. Taihe was principally engaged in inter alia, 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 register capital amount contributable by the Group was RMB600 million, representing 6% of the total registered capital of Taihe. Up to 31 December 2021, the Group has paid RMB120 million. As at 31 December 2021 the directors of the Company considered the fair value of the investment of Taihe was approximately RMB70,531,000 (2020: RMB87,414,000) and a fair value loss of approximately RMB16,883,000 (2020: RMB22,997,000) which had been recognised in other comprehensive expense of the Group for the year ended 31 December 2021. The Company received dividend of RMB7,200,000 (2020: RMB7,200,000) from Taihe during the year ended 31 December 2021.
- (c) Ziyong is a private entity and was established in the PRC on 13 October 2009. Ziyong and its subsidiaries were principally engaged in property development, investment activities, corporation management and financial advisory services. During the year ended 31 December 2020, the Group subscribed 18.92% equity interest of Ziyong at a consideration of RMB116,000,000. As at 31 December 2020, the directors of the Company considered the fair value of the investment in Ziyong was approximately RMB116,000,000. During the year ended 31 December 2021, the Company disposed of the investment in Ziyong at a consideration of RMB116,000,000, which was also the fair value as at the date of disposal.
- (d) Hainan Guji is a limited partnership established in the PRC. It has through its subsidiary committed to contribute an aggregate of approximately RMB182,000,000 to the registered capital of two industrial silicon companies. It is believed that the capital contributions of the Company to Hainan Guji will further boost the production capacity of the Silicon Companies and relieve their debts.

During the year ended 31 December 2021, the Group made capital contribution of RMB278,500,000 to Hainan Guji, representing 89.73% of equity interest of Hainan Guji. As the Hainan Guji was managed and controlled by a general partner which was not a company controlled by the Company, in the opinion of the directors of the Company, the Company was not in a position to exercise control over this company. The directors of the Company have elected to designate this investment in equity instruments at FVTOCI as they are held for long-term strategic purposes.

As at 31 December 2021, the directors of the Company considered, and as agreed by the independent professional valuer engaged by the Group, the fair value of the investment in Hainan Guji was approximately RMB254,599,000.

- (e) Zibo Runxin is a limited partnership fund established in the PRC, which is expected to primarily invest in fluoro-chemical, organic silicon, membrane materials and hydrogen-related industries.

On 12 January 2021, Dongyue Fluorosilicon Science and Technology Group Co., Ltd. (“Dongyue Fluorosilicon Technology”) and Shangdong Dongyue Organosilicon Co., Ltd. (“Dongyue Organosilicon”), both subsidiaries of the Company, entered into the partnership agreement with Huantai Province Jinhai Kongyou Capital Operation Co., Ltd (“Huantai Jinhai”), Zibo Juqiang Trading Co., Ltd (“Zibo Juqiang”) and China Capital Management Co., Ltd (“China Capital”) in relation to the establishment of the fund.

Pursuant to the partnership agreement, the initial capital contribution to the fund is in total RMB500,000,000, comprising RMB125,000,000, RMB75,000,000, RMB125,000,000 and RMB75,000,000 to be contributed to the fund by Dongyue Fluorosilicon Technology, Dongyue Organosilicon, Huantai Jinhai and Zibo Juqiang, respectively, as Limited Partners, and RMB100,000,000 by China Capital as the general partner. The capital contribution to the Fund will be made in stages in accordance with the partnership agreement.

During the year ended 31 December 2021, the Group made capital contribution of RMB60,000,000 to Zibo Runxin, representing 33.66% of equity interest of Zibo Runxin. As the Zibo Runxin was managed and controlled by a general partner which was not a company controlled by the Company, in the opinion of the directors of the Company, the Company was not in a position to exercise control over this company. The directors of the Company have elected to designate this investment in equity instruments at FVTOCI as they are held for long-term strategic purposes.

As at 31 December 2021, the directors of the Company considered, and as agreed by the independent professional valuer engaged by the Group, the fair value of the investment in Zibo Runxin was approximately RMB53,726,000.

11. TRADE AND OTHER RECEIVABLES

	2021	2020
	RMB'000	RMB'000
Trade receivables (<i>note</i>)	2,309,447	1,236,340
Less: allowance for credit losses	(2,260)	(4,112)
	2,307,187	1,232,228
Prepayments for raw materials	115,069	132,912
Value added tax receivables	80,007	127,575
Prepaid land value increment tax	–	21,785
Deposit paid for property development	38,000	58,217
Deposits and other receivables	149,313	154,502
	<u>2,689,576</u>	<u>1,727,219</u>

Note: Included in the trade receivables are bills receivables amounting to RMB2,015,258,000 at 31 December 2021 (2020: RMB989,825,000).

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

	2021	2020
	RMB'000	RMB'000
Within 90 days	1,736,823	714,383
91 – 180 days	569,118	515,283
181 – 365 days	1,246	2,562
	<u>2,307,187</u>	<u>1,232,228</u>

12. TRADE AND OTHER PAYABLES

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	2,588,251	1,961,700
Contract liabilities – sale of chemical products	232,921	114,962
Contract liabilities – sale of properties	612,994	1,438,080
Payroll payable (<i>Note (i)</i>)	439,263	315,045
Payable for property, plant and equipment (<i>Note (ii)</i>)	279,480	167,886
Other tax payables	61,419	40,270
Construction cost payables for properties under development for sale	128,924	78,403
Other payables and accruals	321,119	136,639
	<u>4,664,371</u>	<u>4,252,985</u>

Notes:

- (i) As at 31 December 2021, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to RMB25,613,000 (2020: RMB19,065,000). 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.

13. BORROWINGS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Unsecured bank loans	584,100	1,904,550
Secured bank loans	40,000	—
	624,100	1,904,550
Less: amounts due within one year shown under current liabilities	(268,600)	(1,406,650)
Amounts show under non-current liabilities	355,500	497,900
Carrying amounts are repayable as follows:		
Within one year	268,600	1,406,650
More than one year, but not exceeding two years	355,500	497,900
	624,100	1,904,550

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the complex domestic and international environment in 2021, and the resurgence of the COVID-19 pandemic, the global economy has begun to recover. However, substantial uncertainties still exist in the market, while domestic policies and the market are constantly changing, resulting in greater volatility in the fluorosilicon industry. Under this operating environment, the Group capitalised on the strengths developed in the industry over the years and quickly seized the opportunities from the changes in the industry. As the results, the Group reported significant business growth and also achieved remarkable results in the Group's history. The growth in the Group's results and the development of high-end products in the fluorosilicon industry have further strengthened the Group's leading position in the fluorosilicon industry in the PRC.

BUSINESS REVIEW

1. Focused products driving significant increase in results

The changes in the market in 2021 have brought some unique opportunities to the Group. The Group's management made prompt judgments based on the market circumstances and formulated strategies that were inline with the market trend. Such strategies have successfully improved the Group's profitability, bringing significant improvement to the Group's business performance, and creating remarkable results in the Group's history. During the year, the Group's revenue increased by 57.74%, gross profit margin increased by 10 percentage points and net profit increased by 197.01%. During the year, with the growing demand from the domestic new energy industry, power battery grade PVDF became a rapidly emerging product in the fluorosilicon industry. With advanced technology, comprehensive industrial chain and large production scale, the Group has become a key supplier to the downstream clients in the new energy sector, and this product has become an important growth component for the Group during the year. With the significant growth of the PVDF market, the price of its raw material, R142b, has also increased rapidly. With a well-established industrial chain, the Group's internally generated and sold R142b, which is an important growth driver for the Group's profit. The market for organic silicon products also improved significantly during the year, making it an important profit generator and growth contributor for the Group's results. In addition, the Group's other key product markets also recorded various degrees of rebound during the year, which helped the Group achieve an excellent overall performance.

2. Further increasing research and development (“R&D”) efforts

The Group has always believed that innovation is an important factor for the Group to maintain its leading position in the industry, so the management of the Group highly values technological R&D. The Group has achieved different levels of growth in research and development expenses for six consecutive years, and the R&D expenses have increased significantly in recent years. During the year, the R&D expenses amounted to approximately RMB838,893,000, representing a year-on-year increase of 42.07% and reaching 5.29% of revenue. At present, six subsidiaries of the Company have been assessed as high-tech enterprises and are entitled to the preferential taxation policies. During the year, the Group had a total of 92 new products, including high-end products such as environmentally friendly dispersion resins for high-end seals and high-performance polyvinylidene fluoride resins for power lithium-ion batteries. During the year, the Group submitted 93 patent applications and was granted approval of 70 patents, and currently has over 460 valid patents. The Group participated in the formulation of 21 standards, including 1 national standard, 3 industry standards and 9 group standards. During the year, the Group signed 18 new collaborative projects with universities and research institutes and currently has 43 projects under research. During the year, the Group had a total of 573 R&D staff.

3. Project construction progressing well

Based on the market situation, the management of the Group has determined that there is significant market potential for a number of important products of the Group in the future. In order to seize the market opportunities, the Group has decided to increase the construction of projects to expand the production capacity of products with favourable market prospects. The management of the Group has designated this year as the “Year of Construction for Dongyue” for the construction of a number of important projects with the Group completing a total of 104 projects of various types during the year. The first phase of the 20,000-ton PTFE project was completed, increasing the production capacity of PTFE products by 10,000 tons/year, with the total production capacity now reaching 55,000 tons/year. The construction of 5000 tons/year FEP project was also completed, doubling the total FEP production capacity from the original capacity. The trial production of Dongyue Organosilicon’s 300,000 tons/year organic silicon monomer and 200,000 tons/year organic silicon downstream deep-processing projects have begun at the end of the year. The construction of auxiliary raw materials 100,000-tons/year chloromethane project and 100,000-tons/year other methane chloride project was completed in the second half of the year and is currently undergoing trial production. The 30,000-tons/year anhydrous fluoride project, the waste acid recycling project and the wastewater recycling project are also underway as planned. With high market attention, the new 10,000-tons/year PVDF project received full approval at the end of the year and construction has begun. During the year, the Group’s capital expenditure reached approximately RMB4,803,248,000, representing an increase of 152.74% from approximately RMB1,900,497,000 in 2020.

4. Safe and environmentally friendly production ensuring stable operation

Stable production and operation are the basis for good performance. During the year, domestic policies had substantially impacted the industry, resulting in unstable production in the industry. The Group has always insisted on strict and high standards of safe and environmentally friendly production to ensure the stable production and operation of the Group's overall industrial chain, which enabled the Group to occupy the market with adequate product supply in an unstable market environment and underpinned the Group's leading position in the industry.

PROSPECT

In 2021, the Group successfully seized the opportunity in the market to create remarkable performance in its history by making the right decisions and striving diligently. However, the market in 2022 is still full of uncertainties and the Group will not let down its guard. In this regard, the Group will have the following development plans:

1. Accelerating project construction to put the project into operation as soon as possible

To seize the opportunities brought by the market, the Group has deployed a large number of projects in advance for construction. The funds raised by the Group through the placing in 2021 will effectively facilitate the construction of the Group's planned projects and assist the Group's healthy development. In 2022, the Group's new 10,000 tons/year PVDF project is expected to be completed and put into operation in October. Upon completion of this project, together with the expansion project to be completed in 2022 through technical transformation, the Group's total PVDF production capacity will reach 25,000 tons/year. According to the Group's plan, the total production capacity of PVDF will reach 55,000 tons/year by 2025, and the total production capacity of its raw material R142b will reach 100,000 tons/year, and the remaining production capacity of the plan is currently under preparation. The newly expanded capacity will not only be used to produce coating grade PVDF, water treatment membrane grade PVDF, and solar backsheet membrane grade PVDF, but will also focus more on new power cell grade PVDF. Dongyue Organosilicon's 300,000 tons/year organic silicon monomer and 200,000 tons/year organic silicon downstream deep-processing projects have started trial production at the end of 2021. After it is put into operation, the production capacity of Dongyue Organosilicon's will be more than doubled. The remaining raw materials, energy, energy saving and environmental protection projects will be completed and put into operation as soon as possible. The Group will do its best to accelerate the construction of the project in order to respond to the fleeting market opportunities.

2. Further increase R&D efforts, allowing market to lead the R&D direction

As an innovative high-tech enterprise, R&D has always been a top priority in the Group's development. The development and progress of technology cannot be separated from the support and protection of high-performance materials, especially the excellent performance of fluorosilicon materials. Currently, the Group has formulated a new sales strategy for downstream applications of high-end materials, and has fully commenced in-depth cooperation with important downstream customers and leading enterprises, focusing on the material requirements of downstream enterprises and exploring a large number of downstream high-end application markets. In order to solve the current and future problems of material development and import substitution, the Group forms a more solid strategic supply relationship and secures market share in advance, which can form a series of more comprehensive and high-end product portfolio and a more solid technical and market protection for the Group.

3. Clarifying the direction of future development

The Group will continue to develop its business related to the fluorosilicon industry industrial chain, further expand its business upstream and downstream in the industrial chain, and refine and penetrate into the fluorosilicon industry, providing a foundation for the sustainable development of the Group in the future. The Group will strengthen the high degree of integration of the industrial chain and value chain, plan an integrated, green and intelligent industrial cluster, and achieve energy and resources support.

4. Comprehensive risk prevention and control

The internal and external risks are the main factors affecting the development of a business, and the Group is exposed to a large number of internal and external risks. To maintain stable development is an important measure to prevent and control internal and external risks. In the future, the Group will take further steps to control policy risks, safety and environmental risks, compliance risks, financial risks and investment risks, while strengthening the independence and authority of the internal control department, forming risk control reports, formulating countermeasure strategies and complementing procedures and systems to minimise risks as much as possible.

We have delivered a good performance and established a good foundation in 2021. In the uncertain yet highly anticipated 2022, we will make every effort to develop in accordance with the strategies set by the management. We are already in the fierce front line of this era of development, and we believe we will be able to seize the opportunities brought by the times to achieve further rapid development. We will continue to strive for favourable results in 2022 to reward our investors for their long-standing trust and support.

FINANCIAL REVIEW

Results Highlights

For the year ended 31 December 2021, the Group recorded revenue of approximately RMB15,843,947,000, representing an increase of 57.74% over RMB10,044,313,000 in the previous year. Gross profit margin increased to 32.93% (2020: 22.35%) and the operating margin was 23.01% (2020: 11.04%). During the year under review, the Group recorded equity-settled share based payments in connection with 62,570,000 options granted to employees and directors of the Group recognized as an expense in the amount of approximately RMB293,774,000 during the year and such expense was charged to profit for the year of the Group. As a result, the Group recorded profit before taxation of approximately RMB3,244,209,000 (2020: RMB1,016,621,000), and net profit of approximately RMB2,681,545,000 (2020: RMB902,856,000), while consolidated profit attributable to the Company's owners was approximately RMB2,074,843,000 (2020: RMB772,167,000). Basic earnings per share was RMB0.98 (2020: RMB0.37).

The Board recommended the payment of a final dividend of HK\$0.34 (2020: HK\$0.14) per share to the shareholders whose names appear on the register of members of the Company on 20 June 2022.

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 2021 and 2020:

Reportable and Operating Segments	For the year ended 31 December 2021			For the year ended 31 December 2020		
	Revenue <i>RMB'000</i>	Results <i>RMB'000</i>	Operating Results Margin	Revenue <i>RMB'000</i>	Results <i>RMB'000</i>	Operating Results Margin
Polymers	4,825,266	1,449,771	27.88%	3,191,941	436,461	13.67%
Organic Silicon	4,184,131	1,267,885	30.30%	2,453,749	281,494	11.47%
Refrigerants	3,337,155	637,632	17.41%	2,066,120	189,464	9.17%
Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid Alkali	1,537,795	136,612	8.17%	1,224,183	42,294	3.45%
Property development	1,454,359	25,125	1.73%	725,118	102,066	14.08%
Others	505,241	129,010	25.34%	383,202	57,463	15.00%
Consolidated	<u>15,843,947</u>	<u>3,646,035</u>	<u>23.01%</u>	<u>10,044,313</u>	<u>1,109,242</u>	<u>11.04%</u>

Analysis of Revenue and Operating Results

During the period under review, impacted by the domestic and international economic circumstances and policies, the Group experienced strong market demand on a number of products and significant increase in product prices, which contributed to substantial growth in the Group's results. Looking at the situation of each segment, apart from the property development segment, all other segments recorded various degrees of growth in external sales revenue and results.

Fluoropolymers

During the period under review, the external sales of fluoropolymers segment was RMB4,825,266,000, representing a year-on-year increase of 51.17% (2020: RMB3,191,941,000), accounting for 30.45% (2020: 31.78%) of the Group's total external sales. The segment results recorded a profit of RMB1,449,771,000, representing an increase of 232.17% as compared with RMB436,461,000 in the same period of the previous year.

During the year, due to the emergence of the lithium battery industry in the PRC, the demand for PVDF surged and product prices increased significantly, leading to a 176.04% increase in product sales revenue, which was an important growth driver for the Group's results. The market for other fluoropolymers has rebounded and the application of fluoropolymers in high-end fields has increased, resulting in strong demand for the corresponding products with various product price increases.

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 specialised 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 formed another major production category of Huaxia Shenzhou.

Refrigerants

During the period under review, the refrigerants segment's external sales increased by 61.52% to RMB3,337,155,000 from RMB2,066,120,000 in the previous year, accounting for 21.06% (2020: 20.57%) of the Group's total external sales. The segment results recorded a profit of RMB637,632,000, representing an increase of 236.55% from a profit of RMB189,464,000 in the same period of the previous year.

During the period under review, the growth in sales revenue and results of the Refrigerants segment was mainly attributable to the price increase on a number of refrigerant products. Among these products, R142b, which is used as a raw material for PVDF products, a PVDF fluoropolymer, recorded a 447.02% increase in sales revenue due to demand surge on PVDF, which also led to strong demand on R142b, resulting in a significant product price increase.

The Group has the largest production capacity of R22 in the world. Being the Group's backbone refrigerant products, R22 is an important refrigerant. Apart from that, R22 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.

Organic Silicon

During the year, the organic silicon segment's external sales increased by 70.52% to RMB4,184,131,000 from RMB2,453,749,000 in the previous year, accounting for 26.41% (2020: 24.43%) of the Group's total external sales. The segment results recorded a profit of RMB1,267,885,000, representing an increase of 350.41% from a profit of RMB281,494,000 in the previous year. During the period under review, benefiting from the rebounding growth of the downstream demand side of the industry and the positive impact of industry policies, the market demand for organic silicon segment products was strong and prices significantly increased year-on-year, which also became an important factor for the growth of the Group's results.

This segment mainly included the revenue from the production and sales of DMC (upstream organic silicon intermediates that are used as raw materials to produce deep processed mid-stream and downstream silicon products, such as silicon oils, silicon rubber and silicon resins), 107 Silicon Rubber, Raw Vulcanizate and Gross Rubber (collectively referred to as “Silicon Rubbers”, deep processed organic silicon 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 Silicon Oils. Named as “Industrial MSG”, organic silicon is widely applied in aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals stabilisers, lubricants and sealants and is a key ingredient in industrial processes. The Group initially produces silicon monomers with silicon powder and internally generated chloromethane and further processes them to become silicon intermediates (mainly DMC), with certain portion of which the Group produces for Silicon Rubbers and other organic silicon products. The Group can also produce and generate other byproducts and high-end downstream products, such as Gaseous Silica and Silicon Oils through its production processes.

Dichloromethane, PVC and Liquid Alkali

During the year under review, the segment’s external sales increased by 25.62% to RMB1,537,795,000 from RMB1,224,183,000 in the previous year, accounting for 9.71% (2020: 12.19%) of the Group’s total external sales. The segment results recorded a profit of RMB136,612,000, representing a year-on-year decrease of 223.01% (2020: profit of RMB42,294,000). The products of this segment are chemical commodities and as impacted by the economic recovery, the market demand for these products rebounded during the year and the prices of these products increased, resulting in higher sales revenue and results.

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

Property Development

As at the date hereof, this segment includes 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. The segment’s external sales during the year was RMB1,454,359,000, representing an increase of 100.57% as compared to that in 2020 (2020: RMB725,118,000), accounting for 9.18% of the Group’s total external sales. The segment results were RMB25,125,000, representing a decrease of 75.38% as compared with that in 2020 (2020: RMB102,066,000).

Others

During the period under review, the external sales of the segment was RMB505,241,000, representing an increase of 31.85% as compared with RMB383,202,000 in the previous year. The segment results recorded a profit of RMB129,010,000 (2020: RMB57,463,000), representing a year-on-year increase of 124.51%. Since the performance of the segment was highly correlated to the market environment, the segment results increased as the market rebounded during the year.

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

Distribution and Selling Expenses

During the year under review, the distribution and selling expenses decreased slightly by 4.87% to RMB336,451,000 from RMB353,683,000 of the previous year.

Administrative Expenses

During the year under review, the administrative expenses increased by 155.93% to RMB913,264,000 from RMB356,845,000 of the previous year. The increase is mainly attributable to the equity-settled share based payments of RMB293,774,000 incurred during the year. During the year ended 31 December 2021, 62,570,000 options were granted to employees and directors of the Group. As there was no vesting conditions attached to the options granted, the fair value of the options at the date of grant was recognized as one-off expense in the amount of approximately RMB[293,774,000] during the year and such expense was charged to profit for the year of the Group.

Finance Costs

During the year under review, the finance costs decreased by 21.95% to RMB81,606,000 from RMB104,560,000 of last year. The decrease in finance costs is attributable to the decrease in the borrowings of the Group.

Capital Expenditure

For the year ended 31 December 2021, the Group's aggregate capital expenditure was approximately RMB4,803,248,000 (2020: RMB1,900,497,000). The Group's capital expenditure is mainly allocated for the construction of the new production lines.

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 2021, the Group's total equity amounted to RMB15,638,623,000, representing an increase of 48.51% as compared with that as at 31 December 2020. As at 31 December 2021, the Group's bank balances and cash totalled RMB5,102,552,000 (2020: RMB4,275,728,000). The increase in the Group's bank balance and cash is attributable to (1) the fund raised from the placing of shares; and (2) the increase in cash flow from operating activities. During the year, the Group generated a total of RMB3,914,053,000 (2020: RMB2,260,565,000) net cash inflow from its operating activities. The current ratio⁽¹⁾ of the Group as at 31 December 2021 was 2.11 (31 December 2020: 1.73).

Taking the above figures into account, together with the available bank balances and cash, the unutilised banking credit facilities, bank's support and the Group's sufficient operational cash flows, the management is confident that the Group has adequate resources to settle any debts and to finance its daily operational and capital expenditures.

Capital Structure

During the year under review, the Company (1) placed 145,000,000 new shares under the general mandate (the "Placing Shares") and (2) repurchased and cancelled a total of 1,499,000 ordinary shares of the Company (the "Buyback Shares"). After the issue of the Placing Shares and cancellation of the Buyback Shares, the number of issued shares of the Company is 2,255,190,455 as at 31 December 2021.

As at 31 December 2021, the borrowings of the Group totalled RMB624,100,000 (2020: RMB1,904,550,000). The gearing ratio⁽²⁾ of the Group was -28.54% (2020: -22.52%). The negative gearing ratio as at 31 December 2021 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 2021, 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 RMB355,500,000 which are repayable in full after one year but not exceeding five years. The current portion of borrowings amounted to approximately RMB268,600,000. 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 2021 were 4.30% (2020: 4.87%) and 1.17% (2020: 3.72%) per annum, respectively. The lower weighted average effective interest rate for the year on fixed rate borrowings is due to the discount on the special loan for technical improvement loans during the period. As at 31 December 2021, 85.74% (31 December 2020: 89.55%) of the Group's borrowings bear variable interest rate.

As at 31 December 2021 and 2020, the Group's borrowings were denominated in RMB only.

Notes:

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Equity

Net Debt = Total Borrowings – Bank Balances and Cash

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 2021, the Group's bank deposits of RMB129,611,000 (2020: RMB290,788,000) were used for bills payable, undrawn borrowing facilities, deposits of letters of credit and supervision deposit from presale of properties. In accordance with the requirements of the PRC property industry, the property companies are required to deposit supervision deposits in their escrow accounts, which cannot be used until the completion of construction and the provision of residential mortgage loans for the customers. As at 31 December 2021, the relevant bank deposits were RMB124,145,000 (2020: RMB211,800,000).

As at 31 December 2020, the Group has certain property, plant and equipment and right-of use assets/ lease prepayments with an aggregate book value of approximately RMB61,037,000 pledged to the Group's borrowing, which was fully repaid and the respective pledged assets were released during the year ended 31 December 2021.

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 6,824 employees in total as at 31 December 2021 (2020: 5,576). 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\$0.34 (the “Final Dividend”) (2020: HK\$0.14) per share in respect of the year 2021, to the shareholders whose names appear on the register of members of the Company (the “Register”) on 20 June 2022, 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 9 June 2022. 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 2021 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the year.

Employee Option Scheme

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

On 9 July 2021, the Board has resolved to grant options to a total of 1,372 selected employees to purchase a total of 62,570,000 option shares at an exercise price of HK\$4.27 per option share, with an exercise period of 5 calendar years commencing from 9 July 2021 and expiring on 8 July 2026, both dates inclusive.

During the year ended 31 December 2021, 18,460,000 shares have been purchased by the Trustee under the Employee Option Scheme. After the grant of the option shares to the selected employees during the year, as at 31 December 2021, 16,810,000 shares are held by the Trustee under the Employee Option Scheme.

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

Place of New Shares under the General Mandate

On 31 August 2021, the Company and the placing agents entered into the placing agreement, pursuant to which the Company has conditionally agreed to place through the placing agents 145,000,000 new ordinary shares (“Placing Shares”) to not less than six placees, who and whose respective ultimate beneficial owner(s), as applicable, are independent third parties to the Group, at the placing price of HK\$23.00 (“Placing Price”) per Placing Share. The Placing Price represented a discount of approximately 14.18% to the closing price of HK\$26.80 per Share as quoted on the HKSE on 31 August 2021, being the date of the placing agreement.

On 8 September 2021, the completion of placing took place and an aggregate of 145,000,000 Placing Shares have been placed to not less than six placees at the Placing Price per Placing Share pursuant to the terms and conditions of the placing agreement. The gross proceeds and the net proceeds (after deduction of the relevant expenses and fees) from the placing amounted to HK\$3.335 billion and approximately HK\$3.31 billion, respectively. The net price per Placing Share was approximately HK\$22.82.

The Placing Shares represent: (a) approximately 6.87% of the issued share capital of the Company immediately before completion; and (b) approximately 6.43% of the issued share capital of the Company as enlarged upon completion.

The Board is of the view that the Placing would enable the Company to broaden its shareholder base and to finance the planned rapid development and expansion of the business and production capacity of the Group, which is in the interests of the Company and its shareholders as a whole.

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

During the year, the Company repurchased, on The Stock Exchange of Hong Kong Limited (the “HKSE”), a total of 1,499,000 ordinary shares of the Company (the “Buyback Shares”) at a price range of HK\$11 to HK\$11.6 per share. The aggregate consideration for the Buyback Shares is approximately HK\$16,889,180, which was funded from internal resources of the Company. The Buyback Shares were validly cancelled on 30 December 2021.

The Directors performed the share repurchase in accordance with the share repurchase mandate granted by its shareholders at the annual general meetings and in the best interests of the Company and its shareholders as a whole. The share repurchases were carried out having considered the market conditions and financial arrangements, the Directors believe that the share repurchase would enhance the value of the Company and its shareholders in the long term.

In January 2022, the Company also repurchased, on the HKSE, a total of 1,501,000 ordinary shares of Company at price range of HK\$10.58 to HK\$11.10 per shares with aggregate consideration of HK\$16,403,120, which was funded from internal resources of the Company and shares were validly cancelled on 25 February 2022.

Other than as disclosed above and under the section “Employee Option Scheme”, 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 2021.

Audit Committee

The audit committee of the Company was established on 16 November 2007 in accordance with Appendix 14 to the Listing Rules. The audit committee comprises Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yue Rundong (resigned on 11 March 2021), Mr. Yang Xiaoyong and Mr. Ma Zhizhong (appointed on 11 March 2021), all being independent non-executive Directors.

Scope of work of Messrs. Elite Partners CPA Limited

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Elite Partners CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Elite Partners CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Elite Partners CPA Limited on the preliminary announcement.

The audit committee met with the management on 11 March 2022, 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 2021 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 (resigned on 11 March 2021), Mr. Wang Weidong (appointed on 11 March 2021) 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, Mr. Yue Rundong (resigned on 11 March 2021) and Mr. Ma Zhizhong (appointed on 11 March 2021) were appointed as the members of the risk management committee.

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 2021.

(2) Closure of Register of Members

The Board announces that the Register will be closed from 6 June to 9 June 2022, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 2 June 2022.

The Board further announces that the Register will be closed from 16 June to 20 June 2022, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 15 June 2022.

The expected date for payment of the Final Dividend is 15 July 2022.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 21 March 2022

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