DONGYUE FEDERATION

東岳集團有限公司
DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號：0189

中期報告 2012
Interim Report

Contents

Corporate Information

Registered Office

Offshore Incorporations (Cayman) Ltd.
Scotia Centre
4th Floor, P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in the PRC

Dongyue International Fluoro
Silicone Material Industry Park
Zibo City
Shandong Province
the PRC

Principal Place of Business in Hong Kong

Flat 02
15th Floor AXA Centre
151 Gloucester Road
Wan Chai
Hong Kong

Website Address

www.dongyuechem.com

Directors

Executive Directors

Mr. ZHANG Jianhong *(Chairman)*
Mr. FU Kwan
Mr. LIU Chuanqi
Mr. CUI Tongzheng
Mr. YAN Jianhua
Mr. ZHANG Jian

Independent Non-Executive Directors

Mr. TING Leung Huel, Stephen
Mr. YUE Run Dong
Mr. LIU Yi

Company Secretary

Mr. NG Kwok Choi

Authorized Representatives

Mr. FU Kwan
Mr. NG Kwok Choi

Audit Committee

Mr. TING Leung Huel, Stephen *(Chairman)*
Mr. YUE Run Dong
Mr. LIU Yi

Remuneration Committee

Mr. LIU Yi *(Chairman)*
Mr. TING Leung Huel, Stephen
Mr. ZHANG Jianhong

Nomination Committee

Mr. ZHANG Jianhong *(Chairman)*
Mr. LIU Yi
Mr. TING Leung Huel, Stephen

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

Principal Bankers

China Construction Bank Corporation
Huantai Branch
134 Jianshe Road
Zibo City Huantai
Shandong Province PRC

Industrial and Commercial Bank of China Limited
Huantai Branch
7 Zhangbei Road
Zibo Huantai
Shandong Province PRC

Bank of China Limited
Huantai Branch
48 Heng Huan Road
Zibo City Huantai
Shandong Province PRC

Agricultural Bank of China Limited
Huantai Branch
101 Zhongxin Road
Suo Zhen
Zibo City Huantai
Shandong Province PRC

Bank of Communications Company Limited
Zibo Branch
100 Jin Jing Road
Zhang Dian Qu
Zibo
Shandong Province PRC

Investor Relations Consultant

A-World Consulting Limited
Unit 2401–2402
24th Floor
Tower 2 Admiralty Centre
18 Harcourt Road
Hong Kong

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Stock Code

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Business Review

During the period under review, due to the global economic downturns, uncertainties in the development trend and the slowdown of the domestic economic growth, the whole fluorochemical industry is hit hard by the decrease in both the product demand and the selling price. Compared to the corresponding period last year, the earnings of Dongyue Group Limited (the "Company" or "Dongyue") and its subsidiaries (collectively the "Group") for the first half of 2012 show a decreasing trend. The decrease in earnings is mainly due to the effects of the flagging economic growth, both domestically and globally, on the fluorochemical industry. Although the cost of raw materials also decreases, such decrease is unable to offset and soothe the negative effects brought by the decrease in product price of the Group. Accordingly, its marginal profit also decreases generally.

With the Group's innovative technology and its leading position, the sales volume of certain products continued to grow steadily. When compared to the decreasing trend of the whole industry, Dongyue has proactively controlled the possible adverse impacts on the growth of its earnings at a reasonable level. For the six months ended 30 June 2012, the Group's consolidated revenue was approximately RMB3,636,987,000, the consolidated profit attributable to the shareholders of the Company was approximately RMB432,675,000 and the basic earnings per share was RMB0.20.

In the first half year, the polymers segment performed well. R22, as a traditional refrigerant, is the raw material for the production of fluoropolymers. Since the price of R22 starts to decrease from the third quarter last year, the gross profit margin of the polymers segment increases, fully demonstrating the advantage of the fully vertically-integrated production chain of the Group. At the same time, the Group develops three new emulsion products under the polymers segment, and has started industrialized trial production and promotion in the market.

In addition, during the period under review, the Group has completed various project constructions and announced the acquisition of exploration right of two mines in Inner Mongolia, namely fluorite mine and nickel mine. Such acquisition not only ensures sufficient primary raw materials supply for the Group's current business, but also helps to secure upstream supply for the production chain of Dongyue in the near future, and better control the cost.

The ionic membrane technology of Dongyue is leading the whole industry to the world. As at 30 June 2012, our chloralkali ionic membrane customers increased to 11. Such operation involves 13 chloralkali production devices, among which the longest operation time has reached 2 years and it is estimated that 12 sets of new device will be involved in the second half of the year. Its outstanding function, which rivals other international brands, further proves the quality of the membrane material product of Dongyue and in turn boosts customers' confidence in such product.

Future Prospects

In the second half of 2012, it is expected that the climate of global economic downturn and the inflation pressure of the People's Republic of China ("China") will both persist. Facing with the peripheral adverse factors, the Group will continue to adopt measures to increase income and reduce expenditure, control costs and slash unnecessary expenses in a proactive manner with the aim of strengthening the cost efficiency of the Group. The Group's involvement in the AHF consumption reduction project, recycling and reconstruction project of the thermo-chlorination of chloromethane, production expansion and technological advancement project of R142b, 107 Silicone Rubber, PTFE and R22. Such projects are a series of specific measures to save energy, reduce consumption, enhance efficiency, reduce cost and increase added value. It is estimated that through the implementation of such measures, the cost efficiency of the Group can be further strengthened.

The Group will also proactively strengthen its management effort in various aspects:

1. enhance basic management and sustain stable production;
2. encourage technological advancement and promote commercialization of new products;
3. leverage brand strengths to push up sales efforts;
4. innovate product and services and achieve the best efficiency;
5. promote technological advancement and enhance efficiency to ensure overall operation efficiency;
6. strengthen marketing strategy and enhance sales volume;
7. optimize internal control and strengthen budget control;
8. allocate capital reasonably to maintain solid financial position.

However, as the leading enterprise of the fluorochemical industry, Dongyue can reap the largest benefit from the newly promulgated policies. In the "Twelfth Five-Year Plan" of the Chinese government, the New Material is viewed as one of the seven strategic emerging industries. Currently, the relevant businesses of Dongyue which involve high performance fluorine chemicals and functional membrane material are under the key development areas. Besides, the authority has implemented policy which requires the fluorochemical industry to undergo integration and these factors are believed to be beneficial for the Group to strengthen its products' and markets' competitiveness.

In addition, the Chinese government fully supports the promotion of the industrial policy of energy conservation and emission reduction. The government has arranged financial subsidies amounting to RMB26.5 billion. Relevant industries, including air-conditioners, flat-panel TVs, refrigerators, washing machines and water heater, which are in accord with the energy conservation standard, will be directly benefited. Such initiative does have positive influences in boosting stable growth and domestic demand, optimizing the economic structure and conserving the environment. It also helps to promote energy-efficient products of the related businesses in China and Dongyue, and is expected to perk up the sales of the Group's environmental-friendly refrigerants.

The Group will continue to leverage its excellent technological ability in a cautious and proactive manner, so as to generate more and more returns for the Shareholders.

Financial review

Results Highlights

For the six months ended 30 June 2012, the Group recorded revenue of approximately RMB3,636,987,000, representing a decrease of 34.81% over RMB5,579,135,000 of the corresponding period last year. The gross profit margin decreased to 27.13% (corresponding period of 2011: 44.06%) and the consolidated segment results margin* was 22.86% (corresponding period of 2011: 38.47%). The operating results margin was 20.16% (corresponding period of 2011: 38.11%). Should the Certified Emission Reduction (the "CER") segment and expenses on share options granted to the employees and the Directors be excluded, the operating results margin of the Group was 21.15% (corresponding period of 2011: 37.07%). During the period, the Group recorded profit before tax of approximately RMB664,130,000 (corresponding period of 2011: RMB2,055,691,000), and net profit of approximately RMB434,376,000 (corresponding period of 2011: RMB1,484,522,000), while consolidated profit attributable to the Company's owners was approximately RMB432,675,000 (corresponding period of 2011: RMB1,415,746,000). Basic earnings per share were RMB0.20 (corresponding period of 2011: RMB0.67). The unaudited consolidated results of the Group have been reviewed by the Audit Committee and the external auditor of the Company.

* Consolidated Segment Results ÷ Revenue × 100%

Segment Revenue and Operating Results

Set out below is the comparison, by reportable and operating segments, of the Group's revenue and results for the six months ended 30 June 2012 and the six months ended 30 June 2011:

	For the six months ended 30 June 2012			For the six months ended 30 June 2011		
Reportable and Operating Segments	**Revenue RMB'000**	**Results RMB'000**	**Operating Results Margin**	Revenue RMB'000	Results RMB'000	Operating Results Margin
Refrigerants	**2,010,423**	**271,873**	**13.52%**	3,425,240	1,305,750	38.12%
Polymers	**1,034,700**	**497,352**	**48.07%**	1,662,808	569,961	34.28%
Organic silicone	**560,437**	**(41,638)**	**–7.43%**	491,752	(8,220)	–1.67%
CER	**106,273**	**77,827**	**73.23%**	175,384	139,270	79.41%
Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid Alkali	**606,564**	**52,449**	**8.65%**	866,849	123,725	14.27%
Others	**225,113**	**(26,462)**	**–11.75%**	104,499	15,825	15.14%
	4,543,510	**831,401**	**18.30%**	6,726,532	2,146,311	31.91%
Less: Inter-segment sales	**(906,523)**	**—**	**—**	(1,147,397)	—	—
Consolidated	**3,636,987**	**831,401**	**22.86%**	5,579,135	2,146,311	38.47%

Analysis of Revenue and Operating Results

With the sluggish domestic and global macro-economic development, which was initiated by the vulnerable U.S. economic recovery process and the issue of European debt crisis, the fluoro-chemical industry in China has been adversely affected. Under this unfavorable situation, with its scalable vertically integrated value chain, the Group continued to capitalize on its leading market position, strong R&D capabilities and extensive sales network to expand its production capacities, to upgrade its technology level, and to optimize its product mix. As a result, during the current period under review, the Group experienced only a slight decrease in the overall production and sales volumes year-on-year. However, the slowdown in economic growth has exceeded the market expectation and the domestic as well as international demand in the industry has declined significantly, leading to a significant fall in the prices of the Group's products. Although the raw material costs decreased simultaneously, such decreases cannot be able to mitigate the negative impacts arising from the decrease in selling prices of the Group's products, resulting in the overall decrease in their profit margins.

Refrigerants

During the current period, the refrigerants segment remained to be the largest revenue contributor to the Group's revenue, accounting for approximately 37.25% (excluding inter-segment sales). The revenue decreased by 41.31% to RMB2,010,423,000 from RMB3,425,240,000 of the corresponding period last year. This segment includes the revenue from the manufacturing and sale of traditional refrigerants products (mainly R22) and new green and environmental-friendly refrigerants products (mainly R32, R125, R134a, R142b, R152a, R439a and so forth).

The slowdown in the China's property market and the home appliance products end-market has negatively affected the domestic refrigerants market. Moreover, the depressed raw materials prices (such as fluorspar, AHF and methane chloride), resulting from the weak economic momentum and rapid increase in the capacities in recent times, has intensified the fall in the selling prices of the Group's refrigerants products as compared to those of the corresponding period last year. However, thanks to the continuing expansion in the Group's production capacity and its leading market position, the Group can be able to record growth in the sales volume of certain green refrigerants (such as R134a, R32, R125, R142b and R152a) year-on-year.

Being the backbone refrigerants product of the Group with the largest production capacity in the world (200,000 tonnes per annum), R22 is the most widely used refrigerant in China 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 and R125. R125 and R32 are the key mixing ingredients for other types of green refrigerants (such as R410a and R439a (independently developed by the Group)).

During the current period under review, notwithstanding the cooling down of the domestic home appliances market, the Group can be able to record a steady sales volume of R22 year-on-year, which was mainly attributable to the continuing reduction in the global capacity, disapproval of new capacity of R22 by the Chinese government pursuant to the Montreal Protocol and its wide applicability.

Pursuant to the Montreal Protocol, R22 would be phased out as a refrigerant and would be replaced by other green refrigerants. Currently, R410a and R439a have been the two principal replacing refrigerants which have been widely applied in inverter air conditioners and other green home appliances. However, the cancellation of home appliance products subsidies in 2011 and the sluggish domestic property market has led to a decrease in the sales volume of R439a on a year-on-year basis.

In the first half year of 2012, as the Group recorded a substantial fall in the average selling prices of all of its refrigerants products, the sales revenue of this segment declined accordingly as compared to the same period last year.

The results of the refrigerants segment contributed 32.70% (corresponding period of 2011: 60.84%) of the total segment results of the Group, while its segment results margin was 13.52%, compared with 38.12% of the corresponding period last year. In the first half of 2012, there was significant fall in the selling prices of the Group's refrigerants products. Notwithstanding the fact that the raw materials (fluorspar, AHF, methane chloride, sulfuric acid, methanol, industrial salt, etc.) cost decreased significantly, such decreases are not able to offset entirely the impact arising from the decrease in the selling prices, leading to the overall decrease in this segment results margin.

Polymers

In the first half year of 2012, the revenue from the polymers segment decreased by 37.77% to RMB1,034,700,000 from RMB1,662,808,000 of the corresponding period last year. Polymers segment is the second largest contributor to the revenue of the Group, accounting approximately 28.45% of the consolidated revenue of the Group during the current period. Polymers segment, together with organic silicone segment of the Group, are regarded as falling within the "New Material Industry of China" with huge potential and business prospects.

The segment mainly includes the revenue from the production and sales of PTFE (a synthetic fluoropolymer with high level of resistance to temperature changes, electrical insulation, and ageing 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 (a primary raw material to produce fine fluorochemicals that are used in high-end fire extinguishers and fluoro rubber). Depending on the specific market requirements, PTFE is produced and sold in the forms of suspension medium grain, suspension fine powders, dispersion resins and concentrate liquid. R22 is the basic and important raw material for both PTFE and HFP.

With the weaknesses of its end-application markets, which translate into weakened domestic and international demand for the Group's products, coupled with the depressing raw material cost (R22), this segment saw a decline in its revenue in the first half year of 2012. While the sales volume of HFP remained stable, those of the PTFE experienced declined on a year-on-year basis. This unfavourable situation was further accelerated with the decline in the selling prices of PTFE and HFP.

This segment contributed 59.82% (corresponding period of 2011: 26.56%) to the total segment results of the Group, while its segment results margin increased to 48.07% from 34.28% of the corresponding period last year. In the first half of 2012, as a result of significant fall in the raw materials cost (R22), in respect of which the Group can be able to maintain nearly 100% self-sufficiency ratio, the Group can be able to struggle against the falling selling prices of PTFE and to record improvement in this segment results margin.

Organic Silicone

Accounting for 15.34% (excluding inter-segment sales) of the consolidated revenue of the Group for the current period under review, the revenue coming from the organic silicone business segment increased by 13.97% to RMB560,437,000 from RMB491,752,000. This segment mainly includes the production and sales of DMC (upstream organic silicone intermediates that are used as raw materials to produce deep proceeded silicone products, such as silicone oils, silicone rubber and silicone resins), 107 Silicone Rubber and Raw Vulcanizate (deep proceeded silicone downstream products). 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.

In the first half year of 2012, the Group recorded a surge in the sales volume of this business segment as compared to the corresponding period last year, thanks to the increase in the average production capacity for the current period as a result of the completion of the second phase expansion project regarding 100,000 tonnes per annum of organic silicone monomer and the associated technological upgrading project in 2011. In addition, the introduction of new products, such as Gross Rubber, contributed to such increase. However, the positive impact had been partly mitigated by the depressing selling prices of the Group's products in this segment. The issues surrounding the industry, such as over-capacity, technology bottleneck has yet to be resolved during the current period.

During the current period, the operating loss of this segment widened to RMB41,638,000 from RMB8,220,000 of the corresponding period last year, which translated to segment results margin of –7.43% (corresponding period of 2011: –1.67%). During the current period, the average purchase cost of silicone lump, a key raw material for the production of the Group's organic silicones, merely fell approximately 13%, which is not enough to turn this segment to a breakeven operation.

Dichloromethane, PVC and Liquid Alkali

This segment includes the revenue from the production and sale of the Group's two main side products of the Group's refrigerants segment (dichloromethane and liquid alkali) and the Group's PVC products.

During the current period, accounting for approximately 15.30% (excluding inter-segment sale) of the Group's consolidated revenue in the first half of 2012, the revenue for this segment decreased by 30.03% to RMB606,564,000 from RMB866,849,000 of the corresponding period last year.

Liquid alkali is a basic chemical for the production of the Group's methane chloride, and used in the textile, power and materials industries. Methane chloride includes dichloromethane, which is mainly used to manufacture antibiotics and as a foaming mode for polyurethane. Dichloromethane is not required to be used for the Group's production processes. The Group engaged in the production of PVC (a widely used thermoplastic polymer applied in the construction industry to replace traditional building materials) with an annual capacity of 120,000 tonnes. The production of refrigerants products generates a chemical, hydrogen chloride, which is one of the basic raw material for PVC production. Therefore, the Group's PVC production can ensure production synergies and increasing economic value generated from a self-sufficient business chain.

During the current period under review, as a result of depressing domestic construction and industrial markets, the market outlook is uncertain, resulting in the insufficient market demand. Both the sale volumes and the selling prices of PVC, liquid alkali and dichloromethane products decreased significantly as compared to the same period last year, which led to a drop in the sales revenue of this segment.

During the current period, as a result of market downturn in the chemical industry, this segment recorded an operational profit of RMB52,449,000, compared with segment profits of RMB123,725,000 in respect of the six months period ended 30 June 2011.

CER

During the current period, the Group sold a total of approximately 7,136,000 tonnes of CER units and a total amount of RMB106,273,000 (six months ended 30 June 2011: RMB175,384,000) was recorded by the Group as the CER revenue in respect of the Group's reduction in HFC23 emission for 2011 second, third and fourth quarters, which have been confirmed and endorsed by United Nations Framework Convention on Climate Change. As the selling price of CER units in European market dropped significantly, the CER revenue decreased accordingly as compared to the corresponding period of 2011. During the current period, majority of the Group's CER units can only be able to be sold at the minimum price of US$6.5 per each CER unit as stipulated by the Chinese government. This factor accounted for the fall in this segment results margin to 73.23% , compared with 79.41% of the corresponding period last year.

Distribution and Selling Expenses

During the period, the distribution and selling expenses merely decreased by 9.60% to RMB99,713,000 from RMB110,302,000 of the corresponding period last year. As the overall sales volumes of the Group's products have not altered significantly, the amount of distribution and selling expenses were steadily maintained.

Administrative Expenses

During the period, the administrative expenses decreased by 11.93% to RMB213,238,000 from RMB242,134,000 of the corresponding period last year. The decrease was mainly attributable to the decrease in the payroll expenses (excluding the expenses on share options granted to the Directors and the employees). Should the relevant expenses on share options be excluded, the administrative expenses during the period was RMB121,836,000 (corresponding period of 2011: RMB225,894,000), representing a substantial decrease of 46.06%.

Finance Costs

During the period, the finance costs merely decreased by 2.51% to RMB68,941,000 from RMB70,713,000 of the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2012, the Group's capital expenditure was approximately RMB231,880,000 (six months ended 30 June 2011: RMB511,026,000), which was mainly used in the acquisition of fixed assets including equipment and facilities for the Group's expansion projects in (1) the 10,000 tonnes per annum of R134a; (2) the 7,000 tonnes per annum of PTFE; (3) the 3,000 tonnes per year of gaseous silica and (4) the 10,000 tonnes per annum of TFE (being a raw material for the production of PTFE and HFP). The expansion projects in respect of R134a and gaseous silica have been completed during the current period.

Liquidity and Financial Resources

The Group's financial position is sound with healthy working capital management and strong operating cash flow. As at 30 June 2012, the Group's total equity amounted to RMB4,902,526,000, representing a decrease of 3.40% compared with 31 December 2011. As at 30 June 2012, the Group's bank balances and cash totaled RMB1,114,781,000 (31 December 2011: RMB1,509,280,000). During the current period under review, the Group generated a total of RMB1,040,319,000 (six months ended 30 June 2011: RMB1,064,102,000) cash inflow from its operating activities. The current ratio(1) of the Group as at 30 June 2012 was 1.46 (31 December 2011: 1.70).

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

Capital Structure

There has been no change in the share capital of the Company during the period under review. As at 1 January and 30 June 2012, the number of issued shares of the Company was 2,120,552,455.

As at 30 June 2012, the borrowings of the Group totaled RMB2,101,319,000 (31 December 2011: RMB2,271,086,000). The gearing ratio(2) of the Group was 16.75% (31 December 2011: 13.05%).

Group Structure

During the current period under review, Shandong Dongyue Chemicals Co. Ltd. ("Dongyue Chemicals"), a wholly-owned subsidiary of the Company, established Dongyue International Trade Company Ltd. ("Dongyue Trade"). Dongyue Trade, in which Dongyue Chemicals owned 100% interests, is a company established in China and during the period, Dongyue Trade has not commenced operation.

Save as disclosed above, there has been no change in the structure of the Group.

As stated in the Company's announcement dated 18 March 2012, Inner Mongolia Dongyue Fluorine Materials Co. Ltd., a wholly-owned subsidiary of the Company, entered into agreements (the "Agreements") to acquire exploration right of a nickel mine and an iron and fluorspar mine at a total consideration of RMB80 million (the "Acquisition"). Please refer to the relevant announcement for the details.

As at the date of this interim report, the conditions stipulated in the Agreements have not been fulfilled and therefore, the Acquisition has not been completed.

Notes:

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Charge on Assets

As at 30 June 2012, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,223,065,000 (31 December 2011: RMB1,609,215,000), and bank deposits of RMB47,175,000 (31 December 2011: RMB4,340,000), which were pledged to secure the Group's borrowings and the bills payables of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

The Group enters into forward contracts for managing certain risks arising from foreign currency transactions. In order to reduce the risk of holding foreign currencies, the Group normally converts the foreign currencies into RMB upon receipt while taking into account its foreign currencies payment schedule in the near future.

Employees

The Group employed 5,500 employees in total as at 30 June 2012 (31 December 2011: 5,495). The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as medical insurance and pensions to ensure competitiveness.

Interim Dividend

The Board of Directors (the "Board") did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "HKSE"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2012 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

Audit Committee

The Audit Committee of the Company was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. The existing Audit Committee comprises Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yue Run Dong and Mr. Liu Yi, all being independent non-executive Directors.

The Audit Committee met with the management and external auditor on 21 August 2012, 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 interim results for the six months ended 30 June 2012, which have been reviewed by the Group's external auditor, before proposing them to the Board for approval. The Audit Committee has reviewed the results announcement and the interim report of the Company for the six months ended 30 June 2012.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference to consider for the remuneration for Directors and senior management of the Company and other related matters. The Remuneration Committee comprises Mr. Liu Yi (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. Liu Yi and Mr. Ting Leung Huel, Stephen were appointed as the members of the Nomination Committee.

Compliance with the Code on Corporate Governance Practices

The HKSE has promulgated the Hong Kong Code on Corporate Governance Practices (the "Code") which came into effect for listed issuers' first financial year commencing on or after 1 January 2005. During the year ended 31 December 2011, the HKSE has made revision to the Code ("the Revised Code") which becomes effective from 1 April 2012. The Board has completed the review of the Revised Code. In order to continue to maintain high standard of corporate governance, the Board ensures that, taking into account the prevailing standards adopted by the Company and its own circumstances, the Company would comply with the requirements as stipulated under the Revised Code starting from the financial year ending 31 December 2012, by making the necessary disclosure, modification to the various procedures and documentation.

Throughout the six months ended 30 June 2012, save as disclosed below, the Company has complied with the Code and the Revised Code as set out in Appendix 14 to the Listing Rules.

Code and Revised Code Provision A.2.1

There was a deviation from provision A 2.1 of the Code and the Revised 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.

Revised Code Provision A.6.7

There was a deviation from provision A.6.7 of the Revised Code:

A.6.7 of the Revised Code stipulates that all of the independent non-executive Directors should attend the annual general meeting of the Company in order to develop a balanced understanding of the views of the Shareholders. Due to his urgent offshore business engagement, Mr. Liu Yi, one of the independent non-executive Directors of the Company, did not attend the annual general meeting (the "AGM") of the Company held in Hong Kong on 18 May 2012. All the other Directors who had attended the AGM had shared with Mr. Liu the views of the Shareholders raised during the AGM and the Board will finalize and inform the date of the annual general meeting as earliest as possible to make sure that all the independent non-executive Directors would attend the annual general meeting of the Company in future.

Share Options

Share Option Scheme

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 16 November 2007 (the "Scheme"), the Company may grant to, among others, the Directors of the Company and employees of the Group, for the recognition of their contribution of the Group, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for Shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the Listing Date unless further shareholders' approval had been obtained pursuant to the conditions set out in the Scheme. The total number of Shares in issue and to be issued upon exercise of all option under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

The offer for the grant of options (the "Offer") must be taken up within 28 days from the date of Offer, with a payment of HK$1.00 as consideration. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the HKSE's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate, exceed 208,000,000 which represents 10% of the total issued share capital as at the Listing Date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

As at 30 June 2012, particulars of the options granted to certain Directors and employees of the Group under the Scheme are set out below:

Name or Category of participant	Number of options: Balance as at 1 January 2012	Lapsed during the period	Exercised during the period	Outstanding as at 30 June 2012	Exercise Price HK$	Date of Grant	Exercisable from	Exercisable until
Executive Directors:								
Mr. Zhang Jianhong								
Tranche 1	3,325,000	—	—	3,325,000	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	3,325,000	—	—	3,325,000	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	3,325,000	—	—	3,325,000	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	3,325,000	—	—	3,325,000	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Liu Chuanqi								
Tranche 1	3,375,000	—	—	3,375,000	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	3,375,000	—	—	3,375,000	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	3,375,000	—	—	3,375,000	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	3,375,000	—	—	3,375,000	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Cui Tongzheng								
Tranche 1	1,250,000	—	—	1,250,000	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	1,250,000	—	—	1,250,000	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	1,250,000	—	—	1,250,000	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	1,250,000	—	—	1,250,000	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Yan Jianhua								
Tranche 1	500,000	—	—	500,000	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	500,000	—	—	500,000	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	500,000	—	—	500,000	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	500,000	—	—	500,000	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Zhang Jian								
Tranche 1	50,000	—	—	50,000	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	50,000	—	—	50,000	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	50,000	—	—	50,000	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	50,000	—	—	50,000	8.13	1 June 2011	1 June 2015	1 June 2016
Employees:								
In aggregate								
Tranche 1	28,450,000	(300,000)	—	28,150,000	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	28,450,000	(300,000)	—	28,150,000	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	28,450,000	(300,000)	—	28,150,000	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	28,450,000	(300,000)	—	28,150,000	8.13	1 June 2011	1 June 2015	1 June 2016
	147,800,000	(1,200,000)	—	146,600,000				

The fair value of the share options granted under the Scheme were determined and measured using the Black-Scholes Option Pricing Model on 1 June 2011. The significant inputs into the model were the exercise price shown above, volatility of 64.65%, dividend yield of 3.68%, an expected option life of 3.5 to 5 years and on annual interest-free interest rates of 1.00%, 1.18%, 1.34% and 1.49%. As any changes in subjective input assumptions can materially affect the fair value estimates, in the opinion of professional appraiser, the valuation model for the share options granted does not necessarily provide a reliable single measure of the fair value of the share options.

The related accounting policy for the fair value of the share options are set out in the 2011 Annual Report of the Company.

Directors

The Directors during the six months ended 30 June 2012 and up to date of this report were:

Executive Directors
Mr. Zhang Jianhong *(Chairman)*
Mr. Fu Kwan
Mr. Liu Chuanqi
Mr. Cui Tongzheng
Mr. Yan Jianhua
Mr. Zhang Jian

Independent Non-Executive Directors
Mr. Ting Leung Huel, Stephen
Mr. Yue Run Dong
Mr. Liu Yi

Director's Rights to Acquire Shares

Other than as disclosed in the section headed "Share Options" in this report, at no time during the six months ended 30 June 2012 was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Disclosure of Interests

(a) Director's and Chief Executives' interests and short positions in the Shares, underlying Shares and debentures

As at 30 June 2012, the interests or short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Mr. Zhang Jianhong	Corporate interest[1]	166,551,273 (L)	7.85 (L)
	Beneficial interest	20,447,636 (L)	0.96 (L)
Mr. Fu Kwan	Corporate interest[2]	709,646,818 (L)	33.47 (L)
Mr. Cui Tongzheng	Corporate interest[3]	156,852,363 (L)	7.40 (L)
	Beneficial interest	10,162,180 (L)	0.48 (L)
Mr. Liu Chuanqi	Corporate interest[4]	87,360,000 (L)	4.12 (L)
	Beneficial interest	19,853,454 (L)	0.94 (L)
Mr. Yan Jianhua	Beneficial interest	2,487,091 (L)	0.12 (L)
Mr. Zhang Jian	Beneficial interest	597,091 (L)	0.03 (L)

Notes:

1. Pursuant to the SFO, as Mr. Zhang Jianhong holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 166,551,273 Shares(L) held by Dongyue Team Limited.

2. These Shares are directly held by Macro-Link International Investment Co., Ltd. which in turn is wholly owned by Macro-Link Sdn. Bhd., a company in which Mr. Fu Kwan owns a 45% interest.

3. Pursuant to the SFO, as Mr. Cui Tongzheng holds 100% interest in Dongyue Initiator Limited, Mr. Cui is deemed to be interested in the 156,852,363 Shares(L) held by Dongyue Initiator Limited.

4. These Shares are held by Dongyue Wealth Limited which is wholly owned by Mr. Liu Chuanqi. Mr. Liu is deemed to be interested in the 87,360,000 Shares(L) held by Dongyue Wealth Limited under the SFO.

5. L: Long Position

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code.

(b) Substantial shareholders' and other person's interests and short positions in the Shares, underlying Shares and debentures

As at 30 June 2012, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Macro-Link International Investment Co., Ltd.	Beneficial interest[1]	709,646,818 (L)	33.47 (L)
Macro-Link Sdn. Bhd.	Corporate interest[1]	709,646,818 (L)	33.47 (L)
Dongyue Team Limited	Beneficial interest[2]	166,551,273 (L)	7.85 (L)
Dongyue Initiator Limited	Beneficial interest[3]	156,852,363 (L)	7.40 (L)

Notes:

1. These Shares are directly held by Macro-Link International Investment Co., Ltd. which in turn is wholly owned by Macro-Link Sdn Bhd, a company in which Mr. Fu Kwan owns a 45% interest.

2. Pursuant to the SFO, as Mr. Zhang Jianhong holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 166,551,273 Shares(L) held by Dongyue Team Limited.

3. Pursuant to the SFO, as Mr. Cui Tongzheng holds 100% interest in Dongyue Initiator Limited, Mr. Cui is deemed to be interested in the 156,852,363 Shares(L) held by Dongyue Initiator Limited.

4. L: Long Position

(c) Interests in other members of the Group as at 30 June 2012

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of interest	% of issued share capital/registered capital of such subsidiary
Shandong Dongyue Fluo-Silicon Materials Co. Ltd. ("Dongyue F & S")	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78%
Zibo Dongyue Lvyuan Co., Ltd.	Shandong Hi Tech Investment Co., Ltd.[1]		
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	49%
Chifeng HuaSheng Mining Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	20%
Dongying Dongyue Salt Co., Ltd. ("Dongying Dongyue Salt")	Macro-Link Asset Investment Co., Ltd	Corporate	40%
Dongying Dongyue Precision Chemicals Co., Ltd.	Macro-Link Asset Investment Co., Ltd.[2]		
Shandong Dongyue Wen He Fluorine Materials Co., Ltd.	Shandong Lai Wu Wen He Chemicals Co., Ltd.	Corporate	49%

Notes:

1. Shandong Hi Tech Investment Co., Ltd. is a 16.78% equity holder in Dongyue F & S which, in turn, owns 100% of Zibo Dongyue Lvyuan Co., Ltd. Consequently, Shandong Hi Tech Investment Co. Ltd. indirectly owns more than 10% of Zibo Dongyue Lvyuan Co., Ltd.

2. Macro-Link Asset Investment Co., Ltd. is a 40% equity holder in Dongying Dongyue Salt which, in turn, owns 75% of Dongying Dongyue Precision Chemicals Co., Ltd., with the remaining 25% owned by the Company. Consequently, Macro-Link Asset Investment Co., Ltd. indirectly owns more than 10% of Dongying Dongyue Precision Chemicals Co., Ltd..

Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at 30 June 2012, no other person (other than the Directors or the chief executive of the Company) had any interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF DONGYUE GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
Revenue	3	**3,636,987**	5,579,135
Cost of sales		**(2,650,160)**	(3,121,167)
Gross profit		**986,827**	2,457,968
Other income	4	**59,222**	20,872
Distribution and selling expenses		**(99,713)**	(110,302)
Administrative expenses		**(213,238)**	(242,134)
Finance costs		**(68,941)**	(70,713)
Share of result of an associate		**(27)**	—
Profit before tax		**664,130**	2,055,691
Income tax expense	5	**(229,754)**	(571,169)
Profit and total comprehensive income for the period	6	**434,376**	1,484,522
Profit and total comprehensive income attributable to:			
Owners of the Company		**432,675**	1,415,746
Non-controlling interests		**1,701**	68,776
		434,376	1,484,522
Earnings per share	8		
Basic and diluted (RMB)		**0.20**	0.67

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**4,052,951**	4,093,261
Prepayment for purchase of property, plant and equipment		**65,323**	75,959
Prepayment for land lease		**5,099**	5,501
Prepaid lease payments	10	**700,527**	638,597
Intangible assets		**849**	1,253
Interest in an associate	11	**1,242**	779
Available-for-sale investments		**118,178**	80,506
Deferred tax assets		**112,398**	132,308
Goodwill		**1,354**	1,354
		5,057,921	5,029,518
Current assets			
Inventories		**544,634**	648,656
Prepaid lease payments	10	**16,333**	17,404
Trade and other receivables	12	**1,401,083**	1,516,734
Entrusted loans	13	**580,000**	403,000
Pledged bank deposits		**47,175**	4,340
Bank balances and cash		**1,114,781**	1,509,280
		3,704,006	4,099,414
Current liabilities			
Trade and other payables	14	**1,442,274**	1,310,803
Borrowings	15	**979,668**	894,578
Tax liabilities		**114,143**	196,638
Deferred income		**7,935**	7,215
		2,544,020	2,409,234
Net current assets		**1,159,986**	1,690,180
Total assets less current liabilities		**6,217,907**	6,719,698

	Notes	**30.6.2012 RMB'000 (unaudited)**	31.12.2011 RMB'000 (audited)
Capital and reserves			
Share capital	16	**201,111**	201,111
Reserves		**4,415,178**	4,581,977
Equity attributable to the owners of the Company		**4,616,289**	4,783,088
Non-controlling interests		**286,237**	292,208
Total equity		**4,902,526**	5,075,296
Non-current liabilities			
Deferred income		**164,942**	168,029
Deferred tax liabilities		**28,788**	99,865
Borrowings	15	**1,121,651**	1,376,508
		1,315,381	1,644,402
		6,217,907	6,719,698

Zhang Jianhong
Director

Cui Tongzheng
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Share option reserve** RMB'000	**Merger reserve** RMB'000 (note a)	**Capital reserve** RMB'000 (note b)	**Statutory surplus reserve** RMB'000 (note c)	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
Balance at 1 January 2011 (audited)	199,356	1,202,695	24,746	(32,210)	101,098	221,822	956,759	2,674,266	192,322	2,866,588
Profit and total comprehensive income for the period	—	—	—	—	—	—	1,415,746	1,415,746	68,776	1,484,522
Shares issued upon exercise of share options	1,736	35,762	(13,728)	—	—	—	13,728	37,498	—	37,498
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	52,821	52,821
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(23,955)	(23,955)
Dividends paid (note 7)	—	—	—	—	—	—	(235,697)	(235,697)	—	(235,697)
Recognition of equity-settled shared-based payments	—	—	16,240	—	—	—	—	16,240	—	16,240
Balance at 30 June 2011 (unaudited)	201,092	1,238,457	27,258	(32,210)	101,098	221,822	2,150,536	3,908,053	289,964	4,198,017
Balance at 1 January 2012 (audited)	**201,111**	**1,238,838**	**127,778**	**(32,210)**	**101,098**	**497,046**	**2,649,427**	**4,783,088**	**292,208**	**5,075,296**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**432,675**	**432,675**	**1,701**	**434,376**
Capital contribution from non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9,800**	**9,800**
Dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(17,472)**	**(17,472)**
Dividends paid (note 7)	**—**	**—**	**—**	**—**	**—**	**—**	**(690,876)**	**(690,876)**	**—**	**(690,876)**
Recognition of equity-settled shared-based payments	**—**	**—**	**91,402**	**—**	**—**	**—**	**—**	**91,402**	**—**	**91,402**
Balance at 30 June 2012 (unaudited)	**201,111**	**1,238,838**	**219,180**	**(32,210)**	**101,098**	**497,046**	**2,391,226**	**4,616,289**	**286,237**	**4,902,526**

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 in subsidiaries were recognised as transactions with non-controlling shareholders and the corresponding discount/premium arisen there form 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Note	Six months ended 30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
Net cash from operating activities		**1,040,319**	1,064,102
Net cash used in investing activities:			
Interest received		**46,957**	8,712
Purchase of property, plant and equipment		**(289,810)**	(461,964)
Prepayment for prepaid lease payments		**(65,733)**	—
Government grants received		**—**	9,469
Purchase of available-for sale investments		**(37,672)**	—
Entrusted loans to third parties		**(230,000)**	—
Repayment of entrusted loans from third parties		**53,000**	—
Net cash outflow from additional capital contribution to an associate	11	**(490)**	—
Net cash outflow from acquisition of an associate		**—**	(490)
Net cash (outflow) inflow from pledged bank deposits		**(42,835)**	1,730
Proceeds on disposal of available-for-sale investments		**—**	8,450
Other investing cash flows		**80**	1,962
		(566,503)	(432,131)
Net cash used in financing activities:			
Proceeds from borrowings		**520,513**	632,000
Repayment of borrowings		**(690,280)**	(575,262)
Capital contribution from non-controlling interest		**9,800**	14,432
Proceeds from issue of shares		**—**	37,498
Dividends paid		**(690,876)**	(235,697)
Dividends paid to non-controlling interests		**(17,472)**	(23,955)
		(868,315)	(150,984)
Net (decrease) increase in cash and cash equivalents		**(394,499)**	480,987
Cash and cash equivalents at 1 January		**1,509,280**	594,621
Cash and cash equivalents at 30 June, represented by Bank balances and cash		**1,114,781**	1,075,608

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board:

Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets
Amendments to IAS 12	Deferred Taxes: Recovery of Underlying Assets

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Segment Information

The Group's operations are organised based on the different types of goods sold. Specifically, 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 goods delivered. This is the basis upon which the Group is organised.

Six months ended 30 June 2012

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	Certified Emission Reduction (CER) RMB'000	Dichloromethane polyvinyl chloride and liquid alkali RMB'000	Reportable and operating segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
External sales	1,354,868	1,034,700	558,010	106,273	556,466	3,610,317	26,670	—	3,636,987
Inter-segment sales	655,555	—	2,427	—	50,098	708,080	198,443	(906,523)	—
Total revenue-segment revenue	2,010,423	1,034,700	560,437	106,273	606,564	4,318,397	225,113	(906,523)	3,636,987
SEGMENT RESULTS	271,873	497,352	(41,638)	77,827	52,449	857,863	(26,462)	—	831,401

Reconciliation of segment results to consolidated profit before tax for the period:

Unallocated corporate expenses	(101,151)
Unallocated other income	2,848
Finance costs	(68,941)
Share of result of an associate	(27)
Profit before tax	664,130

3. Segment Information (Continued)

Six months ended 30 June 2011

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	CER RMB'000	Dichloromethane PVC and liquid alkali RMB'000	Reportable and operating segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
External sales	2,323,567	1,662,808	484,174	175,384	828,703	5,474,636	104,499	—	5,579,135
Inter-segment sales	1,101,673	—	7,578	—	38,146	1,147,397	—	(1,147,397)	—
Total revenue-segment revenue	3,425,240	1,662,808	491,752	175,384	866,849	6,622,033	104,499	(1,147,397)	5,579,135
SEGMENT RESULTS	1,305,750	569,961	(8,220)	139,270	123,725	2,130,486	15,825	—	2,146,311

Reconciliation of segment results to consolidated profit before for the period:

Unallocated corporate expenses	(21,453)
Unallocated other income	1,546
Finance costs	(70,713)
Profit before tax	2,055,691

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

Inter-segment sales are charged at prevailing market rates.

4. Other Income

	Six months ended 30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
Government grants	**5,694**	6,628
Bank deposit interest income	**8,406**	8,712
Entrusted loans interest income	**38,551**	—
Dividend income from available-for-sale investments	**2,848**	1,546
Others	**3,723**	3,986
	59,222	20,872

5. Income Tax Expense

	Six months ended 30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
Current income tax		
— current PRC Enterprise Income Tax	**(202,934)**	(534,640)
— withholding tax paid (note)	**(77,986)**	(17,575)
	(280,920)	(552,215)
Deferred tax:		
— withholding tax for distributable profits of PRC subsidiaries	**64,679**	(33,285)
— others	**(13,513)**	14,331
	51,166	(18,954)
Total income tax expense	**(229,754)**	(571,169)

Note: Under the New Law of the People's Public of China ("PRC"), withholding tax of 10% is imposed on dividends declared to shareholders in Hong Kong in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

6. Profit and Total Comprehensive Income for the Period

Profit for the period has been arrived at after charging the following items:

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories recognised as expenses	**2,454,761**	2,944,069
Depreciation of property, plant and equipment	**272,025**	239,953
Release of prepaid lease payments	**5,276**	4,520
Amortisation of intangible assets (included in cost of sales)	**427**	1,277
Loss on disposal of property, plant and equipment	**62**	8,590
Net foreign exchange losses	**1,632**	2,860

7. Dividends

During the current interim period, a final dividend of HK$0.400 per share in respect of the year ended 31 December 2011 (2010: HK$0.135 per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to HK$848,221,000, equivalent RMB690,876,000 (2010: HK$283,426,000, equivalent RMB235,697,000).

The directors determined not to make interim dividend for the period ended 30 June 2012 and 2011.

8. Earnings Per Share

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

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings for the purposes of basic earnings and diluted earnings per share	**432,675**	1,415,746

8. Earnings Per Share (Continued)

	Number of shares Six months ended	
	30.6.2012	30.6.2011
	'000	'000
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,120,552**	2,100,134
Effect of dilutive potential ordinary shares:		
Options	**—**	13,546
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,120,552**	2,113,680

The computation of diluted earnings per share for the six months ended 30 June 2011 and 2012 does not assume the exercise of the Company's outstanding share options granted on 1 June 2011 because the corresponding exercise prices of these share options were higher than the average market price for shares for the period from 1 June 2011 to 30 June 2011 and the six months ended 30 June 2012.

9. Movement in Property, Plant and Equipment

During the period, the addition of property, plant and equipment is approximately RMB231,880,000 (six months ended 30 June 2011: RMB511,026,000) for the expansion of its operations relating to refrigerants, polymers and organic silicone.

10. Prepaid Lease Payments

The Group's prepaid lease payments are analysed for reporting purpose as follows:

	30.6.2012	31.12.2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Analysed for reporting purposes as:		
Current portion	**16,333**	17,404
Non-current portion	**700,527**	638,597
	716,860	656,001

The amounts represent the medium-term land use rights situated in the PRC for a period of 20 to 50 years.

The Group is in the process of obtaining the land use right certificate for the medium-term leasehold land in respect of prepaid lease payments of RMB430,270,000 (31 December 2011: RMB432,565,000).

The Group has prepaid lease payments with the aggregate carrying amount of approximately RMB67,442,000 (31 December 2011: RMB71,387,000) to secure loans of the Group.

11. Interest in an Associate

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Cost of investment in an associate unlisted in the PRC	1,470	980
Share of post-acquisition profits and total comprehensive income, net of dividends received	(228)	(201)
	1,242	779

Note: On 18 February 2011, Inner Mongolia Dongyue Peak Fluorine Chemicals Co. Ltd., a subsidiary of the Company, entered into an agreement with an independent third party to establish Chifeng North Dongyue New Material Development Co., Ltd ("North Dongyue"). As at 30 June 2012, North Dongyue has a registered capital of RMB3,000,000 (31 December 2011: RMB2,000,000). The Group holds 49% equity interest in North Dongyue and accounts for the investment as interest in an associate.

12. Trade and Other Receivables

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Trade receivables	1,200,707	1,316,164
Less: allowance for doubtful debts	(2,924)	(2,924)
	1,197,783	1,313,240
Prepayment for raw materials	128,046	123,813
Value added tax recoverable	56,100	65,417
Deposits and other receivables	19,154	14,264
	1,401,083	1,516,734

Included in the trade receivables are bills receivables amounting to RMB733,411,000 (31 December 2011: RMB1,122,200,000).

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 aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

12. Trade and Other Receivables (Continued)

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Within 90 days	1,121,528	816,100
91–180 days	72,924	491,342
181–365 days	3,805	6,272
Over 365 days	2,450	2,450
	1,200,707	1,316,164

13. Entrusted Loans

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Entrusted loans (note)	580,000	403,000

Note: The balances as at 30 June 2012 represent entrusted loans to several independent third parties amounting to RMB580,000,000 (31 December 2011: RMB403,000,000), which include unsecured balances of RMB560,000,000 (31 December 2011: RMB403,000,000) and secured by shares of another independence third party of RMB20,000,000 (31 December 2011: nil). The entrusted loans bear interest ranging from 8.45% to 12% (2011: 7.8% to 12%) per annum with maturity of one year.

14. Trade and Other Payables

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Trade payables	676,604	505,832
Receipt in advance from customers	80,957	71,147
Payroll payable	343,256	368,613
Payable for CDM project (Note)	142,823	102,219
Payable for property, plant and equipment	81,289	149,855
Other tax payables	15,179	35,672
Other payables and accruals	102,166	77,465
Total	1,442,274	1,310,803

Note: According to the relevant PRC regulation, 65% of the proceeds from Shandong Dongyue HFC-23 Decomposition Project ("CDM Project") belong to PRC government and the Group has collected this portion on behalf of the PRC government.

14. Trade and Other Payables (Continued)

Included in the trade payables are bill payables amounting to RMB167,613,000 (31 December 2011: RMB9,700,000). Bill payables were secured by the Group's pledged bank deposits.

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

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Within 30 days	**271,868**	247,853
31–90 days	**287,565**	144,539
91–180 days	**73,900**	77,483
181–365 days	**21,849**	20,360
1–2 years	**10,595**	6,901
More than 2 years	**10,827**	8,696
	676,604	505,832

15. Borrowings

During the period, the Group obtained new loans amounting to approximately RMB520,513,000 (six months ended 30 June 2011: RMB632,000,000). The loans carry interest at variable market rates promulgated by the People's Bank of China Benchmark Interest Rate.

As at 30 June 2012, secured bank borrowings of RMB248,721,000 (31 December 2011: RMB376,360,000) were secured by the Group's building and plant and equipment with the aggregate carrying amount of approximately RMB936,046,000(31 December 2011: RMB1,316,701,000) and prepaid lease payments with the aggregate carrying amount of approximately nil (31 December 2011: RMB2,941,000).

As at 30 June 2012, secured other loan made by a financial institution represents borrowings of US$25,313,000 (equivalent RMB160,099,000) (31 December 2011: US$28,125,000 (equivalent RMB178,226,000)), which was secured by the Group's building and plant and equipment with the aggregate carrying amount of approximately RMB219,577,000 (31 December 2011: RMB221,127,000) and prepaid lease payments with carrying amount of approximately RMB67,442,000 (31 December 2011: RMB68,446,000).

16. Share Capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK$0.1 each		
Authorised:		
As at 1 January, 30 June 2011, 1 January and 30 June 2012	4,000,000	382,200
Issued and fully paid:		
At 1 January 2011	2,099,450	199,356
Exercise of share options (note)	20,876	1,736
At 30 June 2011	2,120,326	201,092
Exercise of share options	226	19
As at 1 January 2012 and at 30 June 2012	2,120,552	201,111

Note: During the six months ended 30 June 2011, approximately 20,876,000 share options were exercised and as a result approximately 20,876,000 ordinary shares were issued. Net proceeds of approximately RMB37,498,000 were raised, of which RMB1,736,000 and RMB35,762,000 are recorded as share capital and share premium respectively.

There was no change in the share capital during the six months ended 30 June 2012.

17. Share-Based Payments

The Company's Pre-IPO Share Option Scheme and Share Option Scheme (the "Schemes") were adopted pursuant to a resolution passed on 16 November 2007 for the primary purpose of providing incentives to directors and eligible employees. Under the Schemes, the board of directors of the Company may grant options to eligible employees, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

Details of specific categories of options are as follows:

Pre-IPO Share Option Scheme:

Option type	Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
Option to directors					
Option A	16/11/2007	16/11/2007 to 10/12/2010	10/12/2010 to 10/12/2011	HK$2.16	HK$0.756
Option to other employees					
Option B	16/11/2007	16/11/2007 to 10/12/2010	10/12/2010 to 10/12/2011	HK$2.16	HK$0.687

Share Option Scheme:

Option type	Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
Option to directors					
Option C	01/06/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK$8.13	HK$3.067
Option D	01/06/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK$8.13	HK$3.201
Option E	01/06/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK$8.13	HK$3.314
Option F	01/06/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK$8.13	HK$3.411
Option to other employees					
Option G	01/06/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK$8.13	HK$3.067
Option H	01/06/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK$8.13	HK$3.201
Option I	01/06/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK$8.13	HK$3.314
Option J	01/06/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK$8.13	HK$3.411

17. Share-Based Payments (Continued)

The following table discloses the movement of the share options during the six months ended 30 June 2012:

Option type	Outstanding at 31.12.2011 '000	Granted '000	Exercised '000	Forfeited '000	**Outstanding at 30.06.2012 '000**
Option C	8,500	—	—	—	**8,500**
Option D	8,500	—	—	—	**8,500**
Option E	8,500	—	—	—	**8,500**
Option F	8,500	—	—	—	**8,500**
Option G	28,450	—	—	(300)	**28,150**
Option H	28,450	—	—	(300)	**28,150**
Option I	28,450	—	—	(300)	**28,150**
Option J	28,450	—	—	(300)	**28,150**
	147,800	—	—	(1,200)	**146,600**

The following table discloses the movement of the share options during the six months ended 30 June 2011:

Option type	Outstanding at 31.12.2010 '000	Granted '000	Exercised '000	Outstanding at 30.06.2011 '000
Option A	11,116	—	(10,890)	226
Option B	9,986	—	(9,986)	—
Option C	—	8,500	—	8,500
Option D	—	8,500	—	8,500
Option E	—	8,500	—	8,500
Option F	—	8,500	—	8,500
Option G	—	29,000	—	29,000
Option H	—	29,000	—	29,000
Option I	—	29,000	—	29,000
Option J	—	29,000	—	29,000
	21,102	150,000	(20,876)	150,226

The estimated fair values of the options granted on 1 June 2011 at the date of grant was approximately RMB405,174,000. These fair values were calculated using the Black-Scholes option pricing model.

17. Share-Based Payments (Continued)

The inputs into the model were as follows:

Share price	HK$8.13
Exercise price	HK$8.13
Expected life	3.5–5 years
Expected volatility	64.65%
Dividend yield	3.68%
Risk-free interest rate	1.00%–1.49%

Expected volatility was determined by using the annualized historical stock price volatility of the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the expenses of approximately RMB91,402,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB16,240,000) in relation to share options granted by the Company included in administrative expense.

18. Capital Commitments

At the end of the reporting date, the Group had outstanding capital commitments as follows:

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**51,100**	38,552
Capital expenditure in respect of acquisition of equity investments contracted for but not provided in the condensed consolidated financial statements (Note)	**37,949**	75,611
Capital expenditure in respect of acquisition of intangible assets contracted for but not provided in the consolidated financial statements	**78,000**	78,000
	167,049	192,163

Note: The entity is a private entity that was incorporated in the Cayman Islands. In 2011, the Company entered into a subscription agreement with Shandong Peninsula Ocean Blue Economic Investment Co., Ltd. ("SPOBE") to subscribe 20,000,000 shares in SPOBE. During the six months ended 30 June 2012, the Company has subscribed for another 6,000,000 shares for the consideration of US$6,000,000 (equivalent to approximately RMB37,672,000). After the completion share placing and allotment, the equity interest held by the Company remained unchanged at 18.18%. The acquisition of the remaining 6,000,000 shares will take place upon receipt of notice from the major shareholders of SPOBE.

The Group's 18.18% interest in SPOBE is accounted for as available-for-sale investment and is measured at cost less impairment because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

19. Lease Commitments

At the end of the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
Within one year	6,171	6,190
In the second to fifth years inclusive	23,216	23,666
Over five years	70,646	74,935
	100,033	104,791

20. Related Party Transactions

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended	
	30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
Short-term employee benefits	16,765	1,334
Post-employment benefits	7	17
Share-based payments	30,675	4,222
	47,447	5,573

21. Seasonality

Sales of refrigerants are affected by seasonality. The period from March to July is generally the peak season of sales of refrigerants due to the higher temperature in the PRC. Sales of refrigerants in the first quarter of the year is usually the lowest during the whole year due to the lower temperature in the PRC, the New Year's holiday, the Chinese spring holiday and annual inspection on production facilities. Other products generally are not affected by seasonality factors.

Dongyue International Fluoro Silicone Material Industry Park
中國山東桓台東岳氟硅材料產業園區
Tel 電話：(0086)-533-8510072
Fax 傳真：(0086)-533-8513000
Website 網址：http://www.dongyuechem.com