



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

Interim Report 中期報告 2011

A central graphic featuring the word 'NEW' in large, white, bold, sans-serif capital letters. The text is set against a blue, cloud-like background. This central element is surrounded by a large, circular arrangement of smaller circles. The top half of these circles are blue, and the bottom half are green, creating a sunburst or ripple effect. The background of the entire page is a light green to yellow gradient with a subtle dot pattern.

NEW

Environmental
Protection 新環保

Energies
新能源

Materials
新材料

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Corporate Information

Registered Office

Offshore Incorporation (Cayman) Ltd.
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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

1501 Top Glory Tower
262 Gloucester Road
Causeway Bay
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

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

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Stock Code

0189

Management Discussion and Analysis

Business Review

Leveraging on the global economic growth and the support from the “Twelfth Five-Year Plan” of the People’s Republic of China (the “PRC”), the financial results of Dongyue Group Limited (the “Company” or “Dongyue”) and its subsidiaries (collectively the “Group”) for the first half of 2011 achieved significant growth. The production capacity of the Group was almost fully utilized. Besides, with the increase in production and enhancement in techniques, cost efficiency of the Group was strengthened, offsetting the effect of the price rise of fluorite.

The economy of scale of the Group was remarkably improved. In the first half of 2011, the Group captured the opportunities afforded by the improving economy and market and fully leveraged our technological innovations, strength in business scale and our integrated operations to ensure product quality and to meet the market demand; the Group encouraged technological advancement and innovations, thereby significantly improved our overall operation efficiency. The Group achieved satisfactory result for the first half of 2011. For the six months period ended 30 June 2011, the Group’s consolidated revenue was RMB5,579,135,000, representing a significant increase of 115.34% as compared with RMB2,590,832,000 of the corresponding period last year. The Company’s consolidated profit attributable to shareholders was approximately RMB1,415,746,000, representing a significant increase of 416.51% as compared with RMB274,100,000 of the corresponding period last year. The basic earnings per share was RMB0.67, representing a substantial increase of 415.38% as compared with RMB0.13 of the same period last year.

The Group’s production chain was even more comprehensive. During the first half of 2011, the project construction of the Group was in well progress. A total of 5 major projects have commenced production, namely (1) R22 project with an annual production capacity of 50,000 tonnes; (2) anhydrous fluoride project launched by Shandong Dongyue Wen He Fluorine Materials Co., Ltd. (“Dongyue Wen He”), the subsidiary of the Company, with an annual capacity of 15,000 tonnes; (3) methane chloride project with an annual production capacity of 60,000 tonnes; (4) silicone rubber expansion and reconstruction project with an annual production capacity of 20,000 tonnes; and (5) Yellow River Diversion Project. These projects enabled the Group to satisfy the keen external demand on our products, and further optimized our raw material allocation and the construction of public utilities in the production base.

The advancement of the Group’s production know-how further optimized our production technology. During the first half of 2011, the Company completed various technological revamp projects, signifying a year of record high of the Company in respect of economic efficiency with technological advancement and innovations. The furtherance of the Company’s technological level, the more competitive was our market.

Achievement in technological innovation was demonstrated in the smooth operation of the chloralkali ionic membrane, which was produced by the Group, in Zhong Yan Chang Zhou Chemical Co., Ltd., chloralkali factory in Cang Zhou Da Hua Huang Hua and the production equipment of fluorosilica chloralkali of Dongyue, with its function rivaling some renowned membrane models overseas. The ionic membrane project has broken the technology barricade and monopolization of the overseas countries, forming a series of proprietary technologies. Such achievement in research was awarded the Shandong Province First Prize in Technological Invention, and is currently being the recommended project of the province for the application for the National Technological Invention Award. Besides, Dongyue has been responsible for formulating 3 national standards for ionic membrane, on which strong emphasis is laid from the National Development and Reform Commission and the PRC National Standard Committee, which have granted the approval for enacting such standards without undergoing complicated procedures.

Management Discussion and Analysis (continued)

Environmental standard was further improved. The integrated displacement of the Group's production base has substantially reduced, with the external displacement lowered by 3 points compared with last year. The accomplishment rate of total drainage of the production base was 100% while the accomplishment rate of drainage of the Group was also enhanced, thereby, optimizing the displacement standard and reducing the operational cost of water treatment of the Group.

Future Prospects

In the second half of 2011, it is expected that the growth of the global economy will continue to be slow with the tightening of austerity policies for the domestic macro economy and the intensification of inflation pressure. We anticipate that the price of refrigerant products of the Group will be lowered moderately, but the price of fluoropolymer will remain high. Aiming at a solid growth in the second half of the year, the Group will operate with caution and prudentially.

Capitalization on the support from the policy of the "Twelfth Five-Year Plan" of the PRC in respect of new materials and new energies, the Group is aimed at "Build the Global Base of Membrane Material to Establish into a World-class Branded Company", while maintaining its high investment in scientific research according to the philosophy of technological innovation so as to enhance the technological element of our products and strengthen the stamina of corporate development in the future.

Financial Review

Results Highlights

For the six months ended 30 June 2011, the Group recorded revenue of approximately RMB5,579,135,000, representing an increase of 115.34% over the corresponding period last year. The gross profit margin was 44.06% (corresponding period of 2010: 25.44%) and the consolidated segment results margin* was 38.47% (corresponding period of 2010: 17.49%). Should the Certified Emission Reduction ("CER") segment be excluded, the consolidated segment results margin of the Group was 37.14% (corresponding period of 2010: 16.46%). During the period, the Group recorded profit before tax of approximately RMB2,055,691,000 (corresponding period of 2010: RMB399,839,000), and net profit of approximately RMB1,484,522,000 (corresponding period of 2010: RMB290,333,000), while consolidated profit attributable to the Company's owners was approximately RMB1,415,746,000 (corresponding period of 2010: RMB274,100,000), representing a substantial increase of 416.51% over the corresponding period last year. Basic earnings per share were RMB0.67 (corresponding period of 2010: RMB0.13). The unaudited consolidated results of the Group have been reviewed by the Audit Committee and the external auditor of the Company.

* $\text{Consolidated Segment Results} \div \text{Revenue} \times 100\%$

Management Discussion and Analysis (continued)

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 2011 and the six months ended 30 June 2010:

Reportable and Operating Segments	For the six months ended 30 June 2011			For the six months ended 30 June 2010 (Note)		
	Revenue (RMB'000)	Results (RMB'000)	Operating Results Margin	Revenue (RMB'000)	Results (RMB'000)	Operating Results Margin
Refrigerants	3,425,240	1,305,750	38.12%	1,921,811	315,732	16.43%
Polymers	1,662,808	569,961	34.28%	562,417	66,582	11.84%
Organic silicone	491,752	(8,220)	-1.67%	295,305	3,010	1.02%
CER	175,384	139,270	79.41%	38,188	32,958	86.30%
Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid alkali	866,849	123,725	14.27%	679,465	29,323	4.32%
Others	104,499	15,825	15.14%	46,927	5,606	11.95%
Less: Inter-segment sales	6,726,532 (1,147,397)	2,146,311 —	31.91% —	3,544,113 (953,281)	453,211 —	12.79% —
Consolidated	5,579,135	2,146,311	38.47%	2,590,832	453,211	17.49%

Note: Certain comparative figures have been restated in order to conform with the current year's new segmental reporting.

Analysis of Revenue

During the period under review, capitalizing on the continuing strong domestic and international demand for the Group's products, expansion of the Group's production capacity, the overseas capacity shutdown in fluorochemical industry, strong competitiveness of the Group's products and improvement in the Group's operation and production efficiencies, the Group recorded a significant increase in both the sales volumes as well as the selling prices of the Group's products, which led to a remarkable improvement in the Group's revenue.

Refrigerants

During the current period, the refrigerants segment remained to be the largest contributor to the revenue of the Group, accounting for approximately 41.65% (excluding inter-segment sales). The revenue increased by 78.23% to RMB3,425,240,000 from RMB1,921,811,000 of the corresponding period last year. The segment mainly includes the revenue from the production and sales of traditional and environmental-friendly refrigerant products (R22, R439a, R134a, R32, R152a, R142b, R125 and so forth).

As compared to the corresponding period of 2010, there showed a generally significant increase in both sales volume and selling price of the Group's refrigerants products, thanks to the favourable industry environment and the expansion of the Group's refrigerants products (50,000 tonnes per annum R22 new capacity and 5,000 tonnes per annum R125 new capacity commencing operations during 2011).

Management Discussion and Analysis (continued)

Being the largest refrigerants products of the Group, R22 is the most widely used refrigerant in the PRC and is generally used for air-conditioning and refrigeration purposes. In addition, it has been one of the key raw materials for the production of fluoropolymers and other environmental-friendly refrigerants. Its keen domestic and international demand as refrigerants and raw materials and the supply shortage have been driving up its prices very significantly.

R134a is a type of refrigerant which is mainly used in automobile air conditioning systems in the PRC. As a result of its booming demand, its price was increased substantially on a year-to-year basis which led to the substantial increase in the revenue arising from its sales.

In the world to date, the principal replacements for the refrigerant R22 are R439a (independently developed by the Group) and R410a and their Ozone Depletion Potential (ODP) are both 0, which have already seen them being widely applied and used on many occasions in the PRC. For this reason, many household equipment producers tended to strongly demand R439a from the Group for their new environmental-friendly household appliances. As for R125, it is one of the key ingredients of the above-mentioned environmental-friendly refrigerants. With the on-going global awareness of environmental protection, the demand for the green refrigerants become more and more immense, leading to robust demand growth for R125, which the Group can be able to capture by increasing new capacity of 5,000 tonnes per annum during the current period.

Polymers

During the current period, the revenue of the polymers segment substantially increased by 195.65% to RMB1,662,808,000 from RMB562,417,000 of the corresponding period last year. Polymers segment is the second largest contributor to the revenue of the Group, accounting for approximately 29.80% of the consolidated revenue of the Group in the first half of 2011.

The segment mainly includes the revenue from the production and sales of PTFE (a kind of fluoropolymer with high chemical stability, high and low temperature resistant, ageing resistant, chemical resistant, good insulation properties, which have been widely applied in the chemicals, construction, electrical and electronics and automotive industries), HFP (an organic fluorochemical monomer, which can be used to produce various fine chemicals) and downstream high-performance PTFE chemicals (such as aqueous dispersion rubber and concentrates).

As a result of the global shutdown of R22 production facilities, continuing strong demand pulled from chemicals, construction, electrical and electronics industries, global supply shortage and the leading market position of the Group with strong brand name reputation, PTFE demonstrated remarkable price and sales volume surges, leading to a substantial jump in the sales revenue of this business segment. Moreover, the surge in the revenue coming from the sales of HFP and the launch of the new PTFE products as well as downstream high-performance PTFE chemicals also contributed to the growth in revenue of this business segment.

Management Discussion and Analysis (continued)

Organic Silicone

Accounting for 8.68% (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 66.52% to RMB491,752,000 from RMB295,305,000. The segment mainly includes the revenue from the production and sales of DMC or D4 (organic silicone intermediates that are used as raw materials to produce further proceeded silicone products), and further proceeded silicone products (silicone oils, silicone rubber, silicone resins). Organic silicone is widely used in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals, stabilizers, lubricants and sealants and are an important ingredient in industrial processes.

The completion of the expansion project regarding 100,000 tonnes per annum of organic silicone monomer, the associated technological upgrading project which led to an increase of total organic silicone monomer capacity to 180,000 tonnes per annum and the 20,000 tonnes per annum of the raw vulcanizate during the current period have all led to the substantial enlargement of the related production capacity in this business segment, which together with the surge in the market prices of the Group's products, contributed to the growth in the revenue of this business segment during the current period under review.

Dichloromethane, PVC and Liquid alkali

The segment includes the revenue from the production and sales of the side products of the refrigerants segment (dichloromethane, PVC and Liquid alkali).

During the current period, accounting for approximately 14.85% (excluding inter-segment sale) of the Group's consolidated revenue in the first half of 2011, the revenue for this segment increased by 27.58% to RMB866,849,000 from RMB679,465,000 of the corresponding period last year.

Thanks to the continued recovery of the domestic China economy, the sales of PVC (a widely used thermoplastic polymer applied in the construction industry to replace traditional building materials), dichloromethane (colorless liquid mainly used as reaction media in the pharmaceutical industry) and liquid alkali (a fundamental chemical raw material widely used in the textile, agriculture, construction materials, power, electronics and metallurgical industries) all recorded substantial growth in amount and volume. The 60,000-tonne annual production capacity methane chloride expansion project also contributed to such growth.

CER

The segment includes the revenue from the Clean Development Mechanism (the "CER revenue") project registered under United Nations Framework Convention on Climate Change ("UNFCCC"), whereby the Group decomposes HFC23 (greenhouse gas) generated from the Group's production process of refrigerants in order to reduce HFC23 emission and to obtain tradable carbon units endorsed by UNFCCC.

In 2010, there appeared political obstacles over the approval of the CER revenue by UNFCCC. However, such obstacles have been cleared off and the related verification, submission and approval processes and procedures have returned to normal status. During the current period under review, a total amount of RMB175,384,000 (corresponding period of 2010: RMB38,188,000) was recorded by the Group as the CER revenue in respect of the Group's reduction in HFC23 emission for 2009 fourth quarter, 2010 first and second quarters, which have been confirmed and endorsed by UNFCCC.

Analysis of Operating Results

Refrigerants

The results of the refrigerants segment contributed 60.84% (corresponding period of 2010: 69.67%) of the total segment results of the Group, while its segment results margin was 38.12%, compared with 16.43% of the corresponding period last year. In the first half of 2011, as a result of the continued market recovery, the average prices of all the Group's refrigerants products rose significantly on a year-to-year basis. Notwithstanding the fact that the raw materials (fluorite, anhydrous fluoride, methane chloride, sulfuric acid, methanol, silicone lump, trichloroethylene, etc.) cost increased substantially, with the Group's fully vertically-integrated production value chain and high self-sufficiency ratio for the key raw materials, the Group can be able to improve its operating results margins substantially.

Polymers

The polymers segment contributed approximately 26.56% (corresponding period of 2010: 14.69%) to the total segment results of the Group, while its segment results margin increased significantly to 34.28% from 11.84% of the corresponding period last year. In the first half of 2011, the polymers segment performed particularly well in terms of operating results margin. The average selling prices of polymer products increased by more than 140% on a year-to-year basis and the Group can maintain nearly 100% self-sufficiency ratios for the key raw materials in this business segment (R22, TFE, CFM). Moreover, the Group exercised stringent control over its operating costs as well as its production and recycling processes, leading to a substantial enhancement of the operating efficiency and minimizing the wastage ratios.

Organic Silicone

The contribution made by the organic silicone segment accounted for about -0.38% (corresponding period of 2010: 0.66%) of the total segment results of the Group. The operating results margin of the segment decreased to -1.67% from 1.02% of the corresponding period last year. The drop in the segment results margin is mainly attributable to, notwithstanding the operation of this segment becoming much more scalable and the increase in the selling prices of DMC and D4, the positive impact arising therefrom has been more than offset by the negative impact arising from the soaring material and operating costs.

Dichloromethane, PVC and Liquid alkali

The results of the dichloromethane, PVC and Liquid alkali contributed 5.76% (corresponding period of 2010: 6.47%) of the total segment results of the Group, while its segment results margin was 14.27%, compared with 4.32% of the corresponding period last year. In the first half of 2011, as a result of the increase in the selling prices of these products, which can mitigate the negative impact arising from the increase in the raw material costs, there showed improved operating results margin for this segment.

Distribution and Selling Expenses

During the period, the distribution and selling expenses increased by 26.02% to RMB110,302,000 from RMB87,527,000 of the corresponding period last year. The increase was mainly attributable to the increase in the transportation expenses as a result of the increase in the sales revenue.

Administrative Expenses

During the period, the administrative expenses increased by 74.80% to RMB242,134,000 from RMB138,524,000 of the corresponding period last year. The increase was mainly attributable to the increase in the payroll expenses.

Management Discussion and Analysis (continued)

Finance Costs

During the period, the finance costs increased by 35.65% to RMB70,713,000 from RMB52,128,000 of the corresponding period last year. This was mainly due to the increase in the borrowing interest rates in the PRC.

Capital Expenditure

For the six months ended 30 June 2011, the Group's capital expenditure was approximately RMB511,026,000 (six months ended 30 June 2010: RMB302,696,000), which was mainly used in the acquisition of fixed assets including equipment and facilities for the Group's expansion projects in the segments of refrigerants, polymers and organic silicone.

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 2011, the Group's total equity amounted to RMB4,198,017,000, representing an increase of 46.45% compared with 31 December 2010. As at 30 June 2011, the Group's bank balances and cash totaled RMB1,075,608,000 (31 December 2010: RMB594,621,000). During the current period under review, the Group generated a total of RMB1,064,102,000 (six months ended 30 June 2010: cash outflow of RMB15,263,000) cash inflow from its operating activities. The current ratio⁽¹⁾ of the Group as at 30 June 2011 was 1.31 (31 December 2010: 0.92).

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

On 24 June 2011, the Company issued and allotted a total of 20,875,625 new shares at HK\$2.16 per share as a result of the exercise of the Pre-IPO share options. After the issuance, as at 30 June 2011, the number of issued shares of the Company had increased to 2,120,325,546.

Save as disclosed above, there had been no change in the share capital of the Company during the period under review.

As at 30 June 2011, the borrowings of the Group totaled RMB2,600,165,000 (31 December 2010: RMB2,732,944,000). The gearing ratio⁽²⁾ of the Group was 26.64% (31 December 2010: 42.72%).

Group Structure

During the current period under review, Shandong Dongyue Chemicals Co. Ltd. ("Dongyue Chemicals"), a wholly-owned subsidiary of the Company, established Shandong Dongyue Union Property Co., Ltd. ("Dongyue Property"). Dongyue Property, in which Dongyue Chemicals owned 100% equity interests, is a company established in the PRC for the establishment of a research and development centre with focus on research and development of, among other things, ionic membrane and functional membrane. Dongyue Property targets to commence the establishment in the second half of 2011. Furthermore, Dongyue Chemicals formed Dongyue Wen He in the PRC by having 51% equity interests. The principal activity of Dongyue Wen He is to manufacture anhydrous fluoride for internal consumption with an annual production capacity of 15,000 tonnes. Dongyue Wen He commenced operations in June 2011.

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

Management Discussion and Analysis (continued)

In addition, two subsidiaries of the Company, Guangdong Dongyue Fluorine Chemicals Co., Ltd. and Shandong Dongyue Silicone Rubber Co. Ltd., were dissolved into liquidation.

Save as disclosed above, during the current period under review, there has been no change in the structure of the Group.

Charge on Assets

As at 30 June 2011, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,493,805,000 (31 December 2010: RMB840,126,000), and bank deposits of RMB14,208,000 (31 December 2010: RMB15,938,000), which were pledged to secure the Group's borrowings and the bill 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 does not have any hedging policy to manage the risk 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 5,671 employees in total as at 30 June 2011 (31 December 2010: 4,696). 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 2011 (six months ended 30 June 2010: Nil).

Other Information

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 2011.

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 2011 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 on 16 November 2007 in accordance with Appendix 14 to the Listing Rules. The existing Audit Committee comprises Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yue Run Dong and Mr. Liu Yi, all being independent non-executive Directors.

The Audit Committee met with the management and external auditor on 15 August 2011, 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 2011, which have been reviewed by the Group's external auditor, before proposing 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 2011.

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. Liu Yi (Chairman) and Mr. Ting Leung Huel, Stephen, who are independent non-executive Directors, and Mr. Zhang Jianhong who is an executive Director.

Compliance with the Code on Corporate Governance Practices

Throughout the six months ended 30 June 2011, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

Code Provision A.2.1

There was a deviation from provision A 2.1 of the 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.

Share Options

(a) Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency and attract and retain participants whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved and amended by written resolutions of all the shareholders of the Company dated 16 November 2007, are similar to the terms of the Post-IPO Share Option Scheme:

- (a) the subscription price per Share shall be the IPO's Offer Price per Share;
- (b) grants of options are subject to the Listing Committee of the HKSE granting the approval of the listing of, and permission to deal in, the Shares which fall to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;
- (c) save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of Shares on the HKSE.

All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

Period of exercise of the relevant percentage of the option	Maximum percentage of options exercisable
A period of twelve months commencing on the first anniversary date of the date on which dealings in the Shares first commence on the HKSE (the "Listing Date")	30% of the total number of options granted
A period of twelve months commencing on the second anniversary date of the Listing Date	30% of the total number of options granted
A period of twelve months commencing on the third anniversary date of the Listing Date	40% of the total number of options granted

Other Information (continued)

As at 30 June 2011, particulars of the options granted to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme are set out below:

Name or Category of participant	Balance as at 1 January 2011	Number of options			Exercise price HK\$	Date of Grant	Exercisable from	Exercisable until
		Lapsed during the period	Exercised on 24 June 2011 (Note)	Outstanding as at 30 June 2011				
Directors:								
Mr. Zhang Jianhong	4,084,363	—	(4,084,363)	—	2.16	16 November 2007	10 December 2010	10 December 2011
Mr Liu Chuanqi	3,630,545	—	(3,630,545)	—	2.16	16 November 2007	10 December 2010	10 December 2011
Mr Cui Tongzheng	2,949,817	—	(2,949,817)	—	2.16	16 November 2007	10 December 2010	10 December 2011
Mr. Yan Jianhua	226,909	—	(226,909)	—	2.16	16 November 2007	10 December 2010	10 December 2011
Mr. Zhang Jian	226,909	—	—	226,909	2.16	16 November 2007	10 December 2010	10 December 2011
Employees:								
In aggregate	9,983,991	—	(9,983,991)	—	2.16	16 November 2007	10 December 2010	10 December 2011
	21,102,534	—	(20,875,625)	226,909				

Valuation of the share options granted under the Pre-IPO Share Option Scheme and its related accounting policy are set out in the 2010 Annual Report of the Company. As any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the valuation model for the share options does not necessarily provide a reliable single measure of the fair value of the share options.

Note: The closing price of the Company's Shares immediately before the date on which the options were exercised was HK\$7.47 per Share.

(b) 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.

Other Information (continued)

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.

On 1 June 2011, the Company granted share options under the Scheme to subscribe for an aggregate of 150,000,000 Shares. The details of such grant of share options are set out as follows:

Total number of share options granted: 150,000,000, which has been equally divided into 4 tranches: Tranche 1, Tranche 2, Tranche 3 and Tranche 4

Exercise price of share options granted: HK\$8.13 per Share

Closing price of the Shares immediately before the date on which the options were granted: HK\$7.98 per Share

Validity period of the share options:

- (i) Tranche 1 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2012 and expiring on 1 June 2016.
- (ii) Tranche 2 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2013 and expiring on 1 June 2016.
- (iii) Tranche 3 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2014 and expiring on 1 June 2016.
- (iv) Tranche 4 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2015 and expiring on 1 June 2016.

Other Information (continued)

Among the 150,000,000 share options granted, 34,000,000 of which were granted to the following Directors as follows:

Name of Director	Position held with the Company	Number of share options granted				Total
		Tranche 1	Tranche 2	Tranche 3	Tranche 4	
Mr. Zhang Jianhong	Chairman and Executive Director	3,325,000	3,325,000	3,325,000	3,325,000	13,300,000
Mr. Liu Chuanqi	Executive Director	3,375,000	3,375,000	3,375,000	3,375,000	13,500,000
Mr. Cui Tongzheng	Executive Director	1,250,000	1,250,000	1,250,000	1,250,000	5,000,000
Mr. Yan Jianhua	Executive Director	500,000	500,000	500,000	500,000	2,000,000
Mr. Zhang Jian	Executive Director	50,000	50,000	50,000	50,000	200,000
		8,500,000	8,500,000	8,500,000	8,500,000	34,000,000

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 2010 Annual Report of the Company.

Directors

The Directors during the six months ended 30 June 2011 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 2011 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 2011, 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 any of 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)	7.86 (L)
	Beneficial interest	20,447,636 (L)	0.96 (L)
Mr. Fu Kwan	Corporate interest ²	706,646,818 (L)	33.33 (L)
Mr. Cui Tongzheng	Corporate interest ³	148,852,363 (L)	7.02 (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	2,397,091 (L)	0.11 (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.

Other Information (continued)

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 148,852,363 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 2011, 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 2011, 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	706,646,818 (L)	33.33 (L)
Macro-Link Sdn. Bhd.	Corporate interest ¹	706,646,818 (L)	33.33 (L)
Dongyue Team Limited	Beneficial interest ²	166,551,273 (L)	7.86 (L)
Dongyue Initiator Limited	Beneficial interest ³	148,852,363 (L)	7.02 (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 148,852,363 Shares(L) held by Dongyue Initiator Limited.
4. L: Long Position

Other Information (continued)

(c) Interests in other members of the Group as at 30 June 2011

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 Lyuan 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 Macro-Link Salt Co., Ltd. ("Macro-Link Salt")	Macro-Link Asset Investment Co., Ltd	Corporate	40%
Dongying Marco-Link Precision Chemical Co., Ltd.	Macro-Link Asset Investment Co., Ltd. ²		
Dongyue Wen He	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 Chlorine Co., Ltd. Consequently, Shandong Hi Tech Investment Co. Ltd. indirectly owns more than 10% of Zibo Dongyue Chlorine Co., Ltd.
2. Macro-Link Asset Investment Co., Ltd. is a 40% equity holder in Macro-Link Salt which, in turn, owns 75% of Dongying Macro-Link Precision Chemical Co., Ltd., with the remaining 25% owned by the Company. Consequently, Macro-Link Asset Investment Co., Ltd. indirectly owns more than 10% of Dongying Macro-Link Precision Chemical 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 2011, 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.



Report on Review of Interim Financial Information

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 interim financial information set out on pages 21 to 40, which comprises the condensed consolidated statement of financial position of Dongyue Group Limited (the “Company”) and its subsidiaries as of 30 June 2011 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 this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making enquiries, 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	Six months ended	
		30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Revenue	3	5,579,135	2,590,832
Cost of sales		(3,121,167)	(1,931,652)
Gross profit		2,457,968	659,180
Other income	4	20,872	17,646
Distribution and selling expenses		(110,302)	(87,527)
Administrative expenses		(242,134)	(138,524)
Finance costs		(70,713)	(52,128)
Share of result of an associate		—	1,192
Profit before tax		2,055,691	399,839
Income tax expense	5	(571,169)	(109,506)
Profit and total comprehensive income for the period	6	1,484,522	290,333
Profit and total comprehensive income attributable to:			
Owners of the Company		1,415,746	274,100
Non-controlling interests		68,776	16,233
		1,484,522	290,333
Earnings per share	8		
Basic and diluted (RMB)		0.67	0.13

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Notes	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	4,070,977	3,822,394
Prepayment for purchase of property, plant and equipment		65,412	79,198
Prepayment for land lease		—	6,154
Deposit for auction of leasehold land	10	—	411,900
Prepaid lease payments	11	625,858	220,201
Intangible assets		2,074	3,352
Interest in an associate	12	490	—
Available-for-sale investments		29,277	37,727
Deferred tax assets		104,242	91,252
Goodwill		1,354	1,354
		4,899,684	4,673,532
Current assets			
Inventories		612,276	493,623
Prepaid lease payments	11	14,792	6,214
Trade and other receivables	13	2,340,298	1,114,187
Pledged bank deposits		14,208	15,938
Bank balances and cash		1,075,608	594,621
		4,057,182	2,224,583
Current liabilities			
Trade and other payables	14	1,564,130	971,944
Borrowings	15	1,195,153	1,323,266
Tax liabilities		332,959	101,522
Deferred income		9,422	9,160
		3,101,664	2,405,892
Net current assets (liabilities)		955,518	(181,309)
Total assets less current liabilities		5,855,202	4,492,223

Condensed Consolidated Statement of Financial Position (continued)

At 30 June 2011

	Notes	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Capital and reserves			
Share capital	16	201,092	199,356
Reserves		3,706,961	2,474,910
Equity attributable to the owners of the Company		3,908,053	2,674,266
Non-controlling interests		289,964	192,322
Total equity		4,198,017	2,866,588
Non-current liabilities			
Deferred income		180,504	175,408
Deferred tax liabilities		71,669	40,549
Borrowings	15	1,405,012	1,409,678
		1,657,185	1,625,635
		5,855,202	4,492,223

Zhang Jianhong
Director

Cui Tongzheng
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company							Total	Non-controlling interests	Total
	Share capital	Share premium	Share option reserve	Merger reserve	Capital reserve	Statutory surplus reserve	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010 (audited)	197,854	1,175,109	31,011	(32,210)	144,407	139,989	358,486	2,014,646	230,627	2,245,273
Profit and total comprehensive income for the period	—	—	—	—	—	—	274,100	274,100	16,233	290,333
Dividends payable to non-controlling interests	—	—	—	—	—	—	—	—	(1,923)	(1,923)
Non-controlling interests arising on the acquisition of subsidiaries	—	—	—	—	—	—	—	—	32,131	32,131
Dividends paid	—	—	—	—	—	—	(64,110)	(64,110)	—	(64,110)
Recognition of equity-settled shared-based payments	—	—	2,068	—	—	—	—	2,068	—	2,068
Balance at 30 June 2010 (unaudited)	197,854	1,175,109	33,079	(32,210)	144,407	139,989	568,476	2,226,704	277,068	2,503,772
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	—	—	—	—	—	—	(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

Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2011

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 minority shareholders in subsidiaries were recognised as transactions with minority shareholders and the corresponding discount/premium arisen therefrom 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 2011

	Six months ended	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Net cash from (used in) operating activities	1,064,102	(15,263)
Net cash used in investing activities:		
Interest received	8,712	5,948
Purchase of property, plant and equipment	(396,552)	(185,690)
Prepayment of purchase of property, plant and equipment	(65,412)	(79,198)
Government grants received	9,469	8,249
Interest bearing loan advances to third parties	—	(543,745)
Repayment of interest bearing loan advances to third parties	—	544,245
Net cash inflow from acquisition of subsidiaries	—	4,611
Other investing cash flows	11,652	44,095
	(432,131)	(201,485)
Net cash used in financing activities:		
New bank loans raised	632,000	1,316,499
Repayments of borrowings	(575,262)	(1,334,830)
Net cash inflow of capital contribution from non-controlling interest	14,432	—
Proceeds from issue of shares	37,498	—
Dividends paid	(235,697)	(64,110)
Dividends paid to non-controlling interests	(23,955)	—
	(150,984)	(82,441)
Net increase (decrease) in cash and cash equivalents	480,987	(299,189)
Cash and cash equivalents at 1 January	594,621	853,509
Cash and cash equivalents at 30 June, represented by Bank balances and cash	1,075,608	554,320

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

1. Basis of Preparation

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

The condensed consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

2. Principal Accounting Policies

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

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board.

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards that have been issued after the date of the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

IAS 1 (Amendment)	Presentation of Items of Other Comprehensive income ¹
IAS 19 (as revised in 2011)	Employee Benefits ²
IFRS 10	Consolidated Financial Statement ²
IFRS 11	Joint Arrangements ²
IFRS 12	Disclosures of Interests in Other Entities ²
IFRS 13	Fair Value Measurement ²
IAS 27 (as revised in 2011)	Separate Financial Statement ²
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement. The application of IFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

2. Principal Accounting Policies (continued)

The directors of the Company anticipate that the application of other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. Segment Information

The following is an analysis of the Group's revenue and results by reportable and operating segment for the period under review. During the current period, two operating segments, namely "Certified Emission Reduction ("CER")" and "dichloromethane, polyvinyl chloride ("PVC") and liquid alkali", which were previously included in the operating segment of "refrigerants", are now reported separately to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The corresponding items of segment information for the comparative period have been restated to conform with the current period presentation.

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 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 tax and consolidated profit for the period:

Unallocated corporate expenses (net)	(19,907)
Finance costs	(70,713)
Profit before tax	2,055,691
Income tax expense	(571,169)
Profit and total comprehensive income for the period	1,484,522

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

3. Segment Information (continued)

Six months ended 30 June 2010

	Refrigerants RMB'000 (Restated)	Polymers RMB'000	Organic silicone RMB'000	CER RMB'000 (Restated)	Dichloromethane, PVC and liquid alkali RMB'000 (Restated)	Reportable segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
External sales	1,030,519	562,417	256,077	38,188	660,692	2,547,893	42,939	—	2,590,832
Inter-segment sales	891,292	—	39,228	—	18,773	949,293	3,988	(953,281)	—
Total revenue- segment revenue	1,921,811	562,417	295,305	38,188	679,465	3,497,186	46,927	(953,281)	2,590,832
SEGMENT RESULTS	315,732	66,582	3,010	32,958	29,323	447,605	5,606	—	453,211

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

Unallocated corporate expenses (net)	(2,436)
Finance costs	(52,128)
Share of result of an associate	1,192
Profit before tax	399,839
Income tax expense	(109,506)
Profit and total comprehensive income for the period	290,333

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.

Inter-segment sales are charged at prevailing market rates.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

4. Other Income

	Six months ended	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Government grants	6,628	8,436
Interest income	8,712	5,948
Bargain purchase on acquisition of subsidiaries	—	1,920
Dividend income from available-for-sale investments	1,546	—
Others	3,986	1,342
	20,872	17,646

5. Income Tax Expense

	Six months ended	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Current PRC Enterprise Income Tax	(552,215)	(99,595)
Deferred tax:		
— withholding tax for distributable profits of PRC subsidiaries	(33,285)	(11,061)
— others	14,331	1,150
	(18,954)	(9,911)
Total income tax expense	(571,169)	(109,506)

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	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Cost of inventories recognised as expenses	2,944,069	1,922,416
Depreciation of property, plant and equipment	239,953	193,744
Release of prepaid lease payments	4,520	3,585
Amortisation of intangible assets (included in cost of sales)	1,277	1,598
Loss on disposal of property, plant and equipment	8,590	—
Share of tax of an associate (included in share of result of an associate)	—	502
Net foreign exchange losses	2,860	5,575

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

7. Dividends

During the current interim period, a final dividend of HK\$13.5 cents per share in respect of the year ended 31 December 2010 (2010: HK\$3.5 cents per share in respect of the year ended 31 December 2009) 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 RMB235,697,000 (2010: RMB64,110,000).

The directors determined not to make interim dividend for the period ended 30 June 2011 and 2010.

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	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Earnings for the purposes of basic earnings and diluted earnings per share	1,415,746	274,100

	Number of shares Six months ended	
	30.6.2011 '000 (unaudited)	30.6.2010 '000 (unaudited)
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,100,134	2,083,623
Effect of dilutive potential ordinary shares: Options	13,546	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	2,113,680	2,083,623

The computation of diluted earnings per share for the six months ended 30 June 2010 does not assume the exercise of the Company's outstanding share options granted on 16 November 2007 because the corresponding exercise prices of these share options were higher than the average market price for shares for the six months ended 30 June 2010. The computation of diluted earnings per share for the six months ended 30 June 2011 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.

9. Movement In Property, Plant and Equipment

During the period, the addition of property, plant and equipment is approximately RMB511,026,000 (six months ended 30 June 2010: RMB302,696,000) for the expansion of its operations relating to refrigerants, polymers and organic silicone.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

10. Deposit for Auction of Leasehold Land

In December 2010, the Group paid RMB411,900,000 as a deposit for an auction of two parcels of land located in the PRC with a total site area of approximately 189,381 square meters. The balance represented the full consideration of the two parcels of land. In current period, the Group entered into land use rights transfer agreements with Zibo City Bureau of Land and Resources with regards to the two parcels of land and accordingly, the deposit is transferred to prepaid lease payments. As at 30 June 2011, the Group is in the process of obtaining the land use right certificate.

11. Prepaid Lease Payments

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

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Analysed for reporting purposes as:		
Current portion	14,792	6,214
Non-current portion	625,858	220,201
	640,650	226,415

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 RMB414,002,000 (31 December 2010: RMB2,509,000).

The Group has pledged land use rights in respect of prepaid lease payments with the aggregate carrying amount of approximately RMB37,531,000 (31 December 2010: RMB17,379,000) to secure bank loans of the Group.

12. Interest in an Associate

	30.6.2011 RMB'000 (unaudited)
Cost of investment in an associate unlisted in the PRC	490
Share of post-acquisition profits and total comprehensive income, net of dividends received	—
	490

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") with a registered capital of RMB1,000,000. The Group holds 49% equity interest in North Dongyue and accounts for the investment as interest in an associate.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

13. Trade and Other Receivables

The Group allows an average credit period of about 90 days to its trade customers.

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Trade receivables	2,046,581	847,780
Less: allowance for doubtful debts	(3,166)	(3,416)
	2,043,415	844,364
Prepayment for raw materials	156,360	104,994
Value added tax recoverable	50,342	48,073
Deposits and other receivables	15,181	41,756
Entrusted Loan	75,000	75,000
	2,340,298	1,114,187

Included in the trade receivables are bills receivables amounting to RMB1,563,067,000 (31 December 2010: RMB682,830,000). The entrusted loan to a third party amounting to RMB75,000,000 (31 December 2010: RMB75,000,000) which bears interest at 8.45% per annum and will mature in October 2011.

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

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Within 90 days	1,884,155	773,899
91–180 days	159,285	70,476
181–365 days	418	185
Over 365 days	2,723	3,220
	2,046,581	847,780

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

14. Trade and Other Payables

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Trade payables	525,707	386,011
Receipt in advance from customers	137,595	63,465
Payroll payable	358,720	209,438
Payable for Clean Development Mechanism ("CDM project") (Note)	210,502	—
Payable for property, plant and equipment	200,597	203,710
Other tax payables	57,029	38,127
Other payables and accruals	73,980	71,193
Total	1,564,130	971,944

Note: According to the relevant PRC regulation, 65% of the proceeds from CDM project belong to PRC government and the Group has collected this portion on behalf of the PRC government.

Included in the trade payables are bill payables amounting to RMB11,000,000 (31 December 2010: RMB28,500,000). 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:

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Within 30 days	349,309	269,366
31–90 days	81,583	67,872
91–180 days	62,989	19,866
181–365 days	18,441	5,792
More than 1 year	13,385	23,115
	525,707	386,011

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

15. Borrowings

During the period, the Group obtained new loans amounting to approximately RMB632,000,000 (six months ended 30 June 2010: RMB1,316,499,000). The loans carry interest at variable market rates promulgated by the People's Bank of China Benchmark Interest Rate.

As at 30 June 2011, borrowings included secured borrowings of RMB624,765,000 (31 December 2010: RMB818,514,000) which were secured by the Group's property, plant and equipment with net book value of approximately RMB1,456,274,000 (31 December 2010: RMB822,747,000) and prepaid lease payments with net book value of approximately RMB37,531,000 (31 December 2010: RMB17,379,000).

16. Share Capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK\$0.1 each		
Authorised:		
As at 1 January and 30 June 2011	4,000,000	382,200
Issued and fully paid:		
At 1 January 2010 and 30 June 2010	2,083,623	197,854
As at 1 January 2011	2,099,450	199,356
Exercise of share options (note)	20,876	1,736
As at 30 June 2011	2,120,326	201,092

Note: During the period, 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.

17. Share-Based Payments

The Company's Pre-IPO Share Option Scheme and Share Option Scheme (the "Schemes") was 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.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

17. Share-Based Payments (continued)

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 major directors					
Option A	16/11/2007	16/11/2007 to 10/12/2008	10/12/2008 to 10/12/2009	HK\$2.16	HK\$0.740
Option B	16/11/2007	16/11/2007 to 10/12/2009	10/12/2009 to 10/12/2010	HK\$2.16	HK\$0.748
Option C	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 D	16/11/2007	16/11/2007 to 10/12/2008	10/12/2008 to 10/12/2009	HK\$2.16	HK\$0.620
Option E	16/11/2007	16/11/2007 to 10/12/2009	10/12/2009 to 10/12/2010	HK\$2.16	HK\$0.658
Option F	16/11/2007	16/11/2007 to 10/12/2010	10/12/2010 to 10/12/2011	HK\$2.16	HK\$0.687

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

17. Share-Based Payments (continued)

Share Option Scheme:

Option type	Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
Option to major directors					
Option G	01/06/2011	1/6/2011 to 1/6/2012	1/6/2012 to 1/6/2016	HK\$8.13	HK\$3.067
Option H	01/06/2011	1/6/2011 to 1/6/2013	1/6/2013 to 1/6/2016	HK\$8.13	HK\$3.201
Option I	01/06/2011	1/6/2011 to 1/6/2014	1/6/2014 to 1/6/2016	HK\$8.13	HK\$3.314
Option J	01/06/2011	1/6/2011 to 1/6/2015	1/6/2015 to 1/6/2016	HK\$8.13	HK\$3.411
Option to other employees					
Option K	01/06/2011	1/6/2011 to 1/6/2012	1/6/2012 to 1/6/2016	HK\$8.13	HK\$3.067
Option L	01/06/2011	1/6/2011 to 1/6/2013	1/6/2013 to 1/6/2016	HK\$8.13	HK\$3.201
Option M	01/06/2011	1/6/2011 to 1/6/2014	1/6/2014 to 1/6/2016	HK\$8.13	HK\$3.314
Option N	01/06/2011	1/6/2011 to 1/6/2015	1/6/2015 to 1/6/2016	HK\$8.13	HK\$3.411

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

17. Share-Based Payments (continued)

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 30.6.2011 '000
Option C	11,116	—	10,890	226
Option F	9,986	—	9,986	—
Option G	—	8,500	—	8,500
Option H	—	8,500	—	8,500
Option I	—	8,500	—	8,500
Option J	—	8,500	—	8,500
Option K	—	29,000	—	29,000
Option L	—	29,000	—	29,000
Option M	—	29,000	—	29,000
Option N	—	29,000	—	29,000
	21,102	150,000	20,876	150,226

The following table discloses the movement of the share options during the six months ended 30 June 2010:

Option type	Outstanding at 31.12.2009 '000	Granted '000	Exercised '000	Outstanding at 30.6.2010 '000
Option B	7,999	—	—	7,999
Option C	11,116	—	—	11,116
Option E	8,662	—	—	8,662
Option F	11,098	—	—	11,098
	38,875	—	—	38,875

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.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

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 RMB16,240,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB2,068,000) in relation to share options granted by the Company.

18. Capital Commitments

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

	30.6.2011 RMB'000 (unaudited)	31.12.2010 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	95,148	68,536

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:

	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (audited)
Within one year	6,157	1,742
In the second to fifth years inclusive	23,668	22,785
Over five years	77,906	78,378
	107,731	102,905

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2011

20. Related Party Transactions

The Group entered into the following related party transactions during the period:

- (a) Purchase of raw materials from

	Six months ended	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Non-controlling interest	—	21,935
Associate	—	11,784
	—	33,719

- (b) Compensation of key management personnel

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

	Six months ended	
	30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
Short-term employee benefits	1,334	4,851
Post-employment benefits	17	45
Share-based payments	4,222	2,066
	5,573	6,962

21. Major Non-Cash Transactions

During the period, approximately RMB38,389,000 (for the six months ended 30 June 2010: nil) addition of property, plant and equipment of the Group is contributed by the non-controlling interest as part of capital contribution from non-controlling interest.

22. 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.



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