DONGYUE FEDERATION

DONGYUE GROUP LIMITED
東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

ANNOUNCEMENT OF INTERIM RESULTS FOR 2017

FINANCIAL HIGHLIGHTS

(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2017	2016
Revenue	**4,790**	3,828
Gross Profit	**1,505**	791
Gross Profit Margin	**31.42%**	20.67%
Profit before Tax	**953**	444
Profit and Total Comprehensive Income for the Period	**751**	319
Profit and Total Comprehensive Income for the Period attributable to owners of the Company	**710**	309
Basic Earnings per Share (RMB)	**0.34**	0.15

	As at	
	30 June 2017	31 December 2016
Total Equity	**6,436**	5,686
Net Assets per Share (RMB)	**3.05**	2.69

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	*3*	**4,789,657**	3,828,078
Cost of sales		**(3,284,215)**	(3,036,862)
Gross profit		**1,505,442**	791,216
Other income	*4*	**38,574**	82,108
Distribution and selling expenses		**(163,670)**	(137,402)
Administrative expenses		**(313,293)**	(170,174)
Research and development expenses		**(50,023)**	(30,698)
Finance costs		**(61,419)**	(89,378)
Share of results of associates		**(2,902)**	(1,580)
Profit before tax		**952,709**	444,092
Income tax expense	*5*	**(202,277)**	(124,860)
Profit and total comprehensive income for the period	*6*	**750,432**	319,232
Profit and total comprehensive income attributable to:			
– Owners of the Company		**710,402**	308,512
– Non-controlling interests		**40,030**	10,720
		750,432	319,232
Earnings per share	*8*		
– Basic (RMB)		**0.34**	0.15
– Diluted (RMB)		**0.34**	0.15

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	Notes	**30 June 2017** *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**3,753,780**	3,874,258
Prepayments for purchase of property, plant and equipment		**13,533**	8,682
Prepayment for land lease		**82,000**	82,000
Prepaid lease payments		**467,593**	472,533
Intangible assets		**103,319**	107,225
Interests in associates		**7,381**	10,283
Available-for-sale investments		**1,272,959**	1,152,959
Deferred tax assets		**278,551**	451,653
Goodwill		**150,813**	85,894
Deposit paid for acquisition of an associate		**–**	59,800
		6,129,929	6,305,287
Current assets			
Inventories		**868,403**	710,968
Properties for sale		**1,161,408**	407,220
Prepaid lease payments		**11,690**	13,603
Trade and other receivables	*9*	**2,051,428**	1,208,975
Entrusted loans		**30,000**	30,000
Pledged bank deposits		**47,545**	106,703
Bank balances and cash		**1,416,530**	2,082,361
		5,587,004	4,559,830

	Notes	**30 June 2017** *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Current liabilities			
Trade and other payables	*10*	**2,465,443**	1,950,444
Deposits from pre-sale of properties		**262,958**	98,527
Borrowings		**1,373,500**	1,797,700
Tax liabilities		**73,887**	61,534
Deferred income		**29,066**	27,925
		4,204,854	3,936,130
Net current assets		**1,382,150**	623,700
Total assets less current liabilities		**7,512,079**	6,928,987
Capital and reserves			
Share capital		**200,397**	200,397
Reserves		**5,897,353**	5,187,611
Equity attributable to the owners of the Company		**6,097,750**	5,388,008
Non-controlling interests		**338,359**	298,243
Total equity		**6,436,109**	5,686,251
Non-current liabilities			
Deferred income		**237,428**	252,057
Deferred tax liabilities		**152,742**	58,679
Borrowings		**685,800**	932,000
		1,075,970	1,242,736
		7,512,079	6,928,987

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company									
	Share Capital *RMB'000*	Share premium *RMB'000*	Share option reserve *RMB'000*	Merger reserve *RMB'000* *(Note a)*	Capital reserve *RMB'000* *(Note b)*	Statutory Surplus reserve *RMB'000* *(Note c)*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2016 (audited)	200,540	1,226,972	391,844	(32,210)	101,534	737,882	2,174,977	4,801,539	270,836	5,072,375
Profit and total comprehensive income for the period	–	–	–	–	–	–	308,512	308,512	10,720	319,232
Transfer	–	–	–	–	327	–	–	327	61	388
Shares repurchased and cancelled	(143)	(2,048)	–	–	–	–	–	(2,191)	–	(2,191)
Balance at 30 June 2016 (unaudited)	200,397	1,224,924	391,844	(32,210)	101,861	737,882	2,483,489	5,108,187	281,617	5,389,804
Balance at 1 January 2017 (audited)	200,397	1,224,924	–	(32,210)	102,040	737,882	3,154,975	5,388,008	298,243	5,686,251
Profit and total comprehensive income for the period	–	–	–	–	–	–	710,402	710,402	40,030	750,432
Transfer	–	–	–	–	460	–	–	460	86	546
Dividend paid	–	–	–	–	–	–	(1,120)	(1,120)	–	(1,120)
Balance at 30 June 2017 (unaudited)	200,397	1,224,924	–	(32,210)	102,500	737,882	3,864,257	6,097,750	338,359	6,436,109

Notes:

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

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**371,745**	588,075
INVESTING ACTIVITIES		
Entrusted loans to third parties	**–**	(284,500)
Purchase of property, plant and equipment	**(307,313)**	(169,616)
Purchase of intangible assets	**(3,019)**	–
Placement of pledged bank deposits	**–**	(149,221)
Repayment of entrusted loans from third parties	**–**	590,800
Interest received	**3,651**	5,054
Proceeds from release of pledged bank deposits	**59,158**	–
Proceeds from disposals of property, plant and equipment	**–**	957
Changes of deposit for acquisition of an associate	**59,800**	7,250
Cash inflow from acquisition of a subsidiary	**1,968**	–
Cash paid for acquisition of available-for-sale investments	**(120,000)**	–
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	**(305,755)**	724
FINANCING ACTIVITIES		
Proceeds from borrowings	**272,000**	850,956
Repayment of borrowings	**(942,400)**	(1,012,869)
Interest paid	**(61,421)**	(89,378)
Shares repurchased and cancelled	**–**	(2,191)
NET CASH USED IN FINANCING ACTIVITIES	**(731,821)**	(253,482)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(665,831)**	335,317
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	**2,082,361**	1,467,426
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	**1,416,530**	1,802,743

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" 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.

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the amendments to International Financial Reporting Standards ("IFRSs").

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

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these 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 products and property development. Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of products and property development. This is the basis upon which the Group is organised.

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

- Polymers;
- Refrigerants;
- Organic silicone;

- Dichloromethane, PVC and liquid alkali;
- Property development – development of residential properties at Shandong Province, the PRC.
- Other operations – manufacturing and sales of side-products of refrigerants segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment.

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

Six months ended 30 June 2017

	Polymers	**Refrigerants**	**Organic Silicone**	**Dichloromethane PVC and liquid alkali**	**Property development**	**Reportable segments' total**	**Other operations**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	**1,417,108**	**1,215,491**	**1,129,495**	**796,873**	**99,335**	**4,658,302**	**131,355**	**–**	**4,789,657**
Inter-segment sales	**–**	**709,481**	**–**	**2,999**	**–**	**712,480**	**520,778**	**(1,233,258)**	**–**
Total revenue – segment revenue	**1,417,108**	**1,924,972**	**1,129,495**	**799,872**	**99,335**	**5,370,782**	**652,133**	**(1,233,258)**	**4,789,657**
SEGMENT RESULTS	**312,716**	**224,209**	**202,770**	**171,134**	**33,813**	**944,642**	**87,408**	**–**	**1,032,050**
Unallocated corporate expenses									**(15,020)**
Finance costs									**(61,419)**
Share of results of associates									**(2,902)**
Profit before tax									**952,709**

Six months ended 30 June 2016

	Polymers	Refrigerants	Organic Silicone	Dichloromethane PVC and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	1,095,402	831,283	832,540	526,988	453,163	3,739,376	88,702	–	3,828,078
Inter-segment sales	–	525,876	–	1,233	–	527,109	278,610	(805,719)	–
Total revenue – segment revenue	1,095,402	1,357,159	832,540	528,221	453,163	4,266,485	367,312	(805,719)	3,828,078
SEGMENT RESULTS	152,053	123,350	30,856	23,325	187,439	517,023	26,132	–	543,155
Unallocated corporate expenses									(8,105)
Finance costs									(89,378)
Share of results of associates									(1,580)
Profit before tax									444,092

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

Inter-segment sales are charged at prevailing market rates.

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(note)*	**27,844**	22,588
Bank deposits interest income	**3,651**	5,054
Interest income on entrusted loan	**–**	20,804
Others	**7,079**	33,662
	38,574	82,108

Notes:

The government grants are mainly for the expenditures on research activities which are recognised as expenses in the period in which they are incurred.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC enterprise income tax ("EIT")		
– Current year	**98,830**	116,151
– Over provision in prior years	**(2,095)**	(7,343)
– Land Appreciation Tax ("LAT" *(note (a))*)	**10,250**	20,369
	106,985	129,177
Deferred tax charge		
– Withholding tax for distributable profits of PRC subsidiaries *(note (b))*	**26,684**	5,254
– Others	**68,608**	(9,571)
	95,292	(4,317)
Total income tax expense	**202,277**	124,860

Notes:

(a) LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

(b) According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No.1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax asset/liability of RMB26,684,000 (six months ended 30 June 2016: RMB5,254,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the period.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging/(crediting) the following items:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Amortisation of intangible assets	**5,624**	5,556
Depreciation of property, plant and equipment	**349,668**	358,626
	355,292	364,182
Cost of inventories recognised as an expense	**3,302,057**	3,036,862
Amortisation of prepaid lease payments	**6,853**	6,668

7. DIVIDENDS

During the interim period ended 30 June 2017, no dividend was declared and paid to the owners of the Company (six months ended 30 June 2016: nil).

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 June	
	2017	2016
	'000	*'000*
	(unaudited)	(unaudited)
Earning for the period attributable to owners of the Company for The purposes of basic and diluted earnings per share *(RMB)*	**710,402**	308,512
Weighted average number of ordinary shares for The purposes of basic and diluted earnings per share	**2,111,689**	2,111,901

The computation of diluted earnings per share for the six months ended 30 June 2016 does not assume the exercise of all of the Company's outstanding share options as the exercise prices of those options are higher than the average market price of the shares.

9. TRADE AND OTHER RECEIVABLES

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Trade receivables	**1,404,895**	1,146,024
Less: allowance for doubtful debts	**(16,930)**	(25,669)
	1,387,965	1,120,355
Prepayments for raw materials	**103,878**	25,851
Value added tax receivables	**1,365**	5,629
Prepaid taxes	**138,110**	–
Amount due from associates	**150,640**	–
Deposits and other receivables	**269,470**	57,140
	2,051,428	1,208,975

Included in the trade receivables are bills receivable amounting to RMB939,360,000 at 30 June 2017 (31 December 2016: RMB882,106,000).

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

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Within 90 days	**901,869**	873,868
91-180 days	**449,998**	209,690
181-365 days	**29,500**	35,608
1 year-2 year	**6,598**	1,189
	1,387,965	1,120,355

10. TRADE AND OTHER PAYABLES

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Trade payables *(note (a))*	**1,171,202**	1,086,516
Receipt in advance from customers	**115,511**	107,609
Payroll payable	**248,908**	173,293
Payable for property, plant and equipment	**100,717**	109,072
Other tax payables	**134,428**	108,939
Other deposits in relation to property development project	**58,000**	58,000
Construction cost payables for properties under development for sale	**62,614**	191,982
Other payables and accruals *(note (b))*	**574,063**	115,033
Total	**2,465,443**	1,950,444

Notes:

(a) Included in the trade payables are bills payable amounting to RMB154,628,000 (31 December 2016: RMB201,000,000). Bills payable are secured by the Group's pledged bank deposits.

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

(b) Included in other payables and accruals are amount of RMB250,378,000 due to an independent third party by the newly acquired subsidiary, Shandong Dongyue Union Property Co., Limited.

The amount was unsecured, interest free and repayable on demand, and has been fully repaid by the Group as at the date of this report.

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

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Within 30 days	**571,585**	610,672
31-90 days	**377,341**	263,635
91-180 days	**183,011**	158,432
181-365 days	**14,845**	34,155
1-2 years	**17,720**	12,194
More than 2 years	**6,700**	7,428
	1,171,202	1,086,516

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2017, domestic and overseas economic conditions as well as pressure in respect of environmental protection posed great impact on the development of fluorosilicone industry. During the period under review, the recovery of international economic situation and increasing pressure in respect of international environmental protection contributed to an increase in the demand for domestic fluorosilicone chemical products; domestically, the grim situation of environmental protection generated certain effects on the production of fluorosilicone industry. In light of such a market situation, Dongyue seized opportunities and, riding on its leadership position in the industry, achieved good performance by grabbing market share based on the situation of environmental protection, yielding satisfactory results at Dongyue's 30th anniversary.

I. In the first half of 2017, conforming the economic and environmental protection situation, the Group took advantage of its position leading in the industry to seize market share, giving rise to a substantial increase in its results. During the period under review, the Group recorded revenue of approximately RMB4,789,657,000, representing an increase of 25.12% as compared with the corresponding period of last year; gross profit margin was 31.43%, up by 10.76 percentage points as compared with the corresponding period of last year; and profit before tax amounted to RMB952,709,000, representing an increase of 114.53% as compared with the corresponding period of last year.

II. During the period under review, the substantial increase in the Group's results was mainly attributable to the significant increase in the price of fluorosilicone products as a result of the short supply of products resulting from greater pressure over production and marketing in the fluorosilicone industry under the effects of domestic environmental protection policy. By leveraging this opportunity, the Group implemented its environment-friendly production strategy which had been adhered to by the Group all the time to carry out production in accordance with higher environment production standards with a view to achieving production and marketing of products at full capacity and capturing the market successfully, to ultimately bring about more revenue for the Group.

III. While expanding the market, the Group continued to adhered to independent research and development and plotted out the future centering on "two alternatives". During the period, the Company completed research and development for 5 new product projects and 1 technical improvement project. In addition, 12 new product projects and 11 technical improvement projects were in progress. In the first half of the year, the Group submitted a total of 9 patent applications and obtained 5 patent rights.

IV. Thanks to the enhancement of the Group's informatisation and automation in 2016, the Group upgraded its intelligent management and control to a new level. During the period under review, the Group set up an intelligent management and control centre which subjected the Group's production and operation to centralise management and control, and became a milestone of the informatisation and automation construction of the Group.

V. In the first half of the year, the Group engaged a professional internal control team to review its internal control and conduct detailed streamlining for its internal control process, which enhanced the overall internal control level and reduced management risks of the Group.

Prospect

Given the current economic and environmental protection, the Group's income, profit and profit margin saw increase in the first half of 2017. The Group's major objective for the second half of the year will still be enhancement of profitability. In view of the increasing pressure in respect of environmental protection, the Group will make the following strategic deployments depending on the specific conditions:

I. The Group will implement safe and environment-friendly production in accordance with higher standards. The "DuPont Safety Management" system has been introduced to deepen the concept of safe and environment-friendly production for all the staff of the Group. In terms of safety, the Group will expedite the construction of a standard and professional occupational health centre to improve the health care conditions; in respect of environmental protection, the Group will put more efforts on environmental protection at source and implement strict management and control of process to propel emission reduction, striving to achieve the goal of "zero" emission. In light of the increasing pressure in terms of safety and environmental protection, this initiative is conducive to the stabilisation of production, guaranteeing market competitiveness and enhancement of market share of products.

II. Insisting on market-oriented, the Group will accomplish return visit to customers, market and strategic partners, aiming to realise the goal of "three increases", i.e. "increase in sales", "increase in gross profit" and "increase in payment collection". As for supply, the Group will strictly control costs and complete the automated upgrade of purchase to improve the purchase efficiency.

III. The Group will further increase investment in research and development to build standardised intermediate test bases, enabling such bases to accommodate modernised R&D and application experiments; and set up various reaction databases, analysis databases and application databases for research of products; the Group will proactively engage in the research of catalysts, initiators, ingredients for formula, etc. which are used by the Company's existing products to generate high added value, high quality and high yield; and stress and increase incentive measures for R&D achievements.

IV. With the intelligent management and control centre, the Group will further promote informatisation and automation reform to reduce management costs and risks.

The management of the Group is conscious of the pressure and challenges in the market in the first half of 2017, and is of the view that the market situation during the period is a hard-won opportunity for the Group, by virtue of which the Group recorded satisfactory results in the first half of the year. As such, in the second half of the year, the management of the Group will seize this opportunity to further enhance the Group's competitiveness in the market in accordance with the strategy established to maintain its leading position in the industry and create stable and considerable returns for investors.

Financial review

Results Highlights

For the six months ended 30 June 2017, the Group recorded revenue of approximately RMB4,789,657,000, representing an increase of 25.12% over RMB3,828,078,000 of the corresponding period last year. The gross profit margin increased to 31.43% (corresponding period of 2016: 20.67%) and the consolidated segment results margin* was 21.55% (corresponding period of 2016: 14.19%). The operating results margin** was 21.23% (corresponding period of 2016: 13.98%). During the period, the Group recorded profit before tax of approximately RMB952,709,000 (corresponding period of 2016: RMB444,092,000), and net profit of approximately RMB750,432,000 (corresponding period of 2016: RMB319,232,000), while consolidated profit attributable to the Company's owners was approximately RMB710,402,000 (corresponding period of 2016: RMB308,512,000). Basic earnings per share were RMB0.34 (corresponding period of 2016: RMB0.15). The unaudited consolidated results of the Group have been reviewed by the Audit Committee and the external auditor of the Company.

* Consolidated Segment Results Margin = Consolidated Segment Results ÷ Revenue × 100%

** Operating Results Margin = (Profit before Tax + Finance Costs + Share of results of associates) ÷ 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 2017 and the six months ended 30 June 2016:

	For the six months ended 30 June 2017			For the six months ended 30 June 2016		
Reportable and Operating Segments	**Revenue** *RMB'000*	**Results** *RMB'000*	**Segment Results Margin**	Revenue *RMB'000*	Results *RMB'000*	Segment Results Margin
Fluoropolymer	**1,417,108**	**312,716**	**22.07%**	1,095,402	152,053	13.88%
Refrigerants	**1,215,491**	**224,209**	**18.45%**	831,283	123,350	14.84%
Organic silicone	**1,129,495**	**202,770**	**17.95%**	832,540	30,856	3.71%
Dichloromethane, PVC and Liquid Alkali	**796,873**	**171,134**	**21.48%**	526,988	23,325	4.43%
Property development	**99,335**	**33,813**	**34.04%**	453,163	187,439	41.36%
Others	**131,355**	**87,408**	**66.54%**	88,702	26,132	29.46%
Total	**4,789,657**	**1,032,050**	**21.55%**	3,828,078	543,155	14.19%

Analysis of Revenue and Operating Results

During the period under review, the consolidated profit attributable to the Company's owners increased by 130.27% from RMB308,512,000 of the corresponding period of last year to RMB710,402,000. The substantial increase was attributable to the increase in price of varying degrees as a result of the short supply of products in the fluorosilicone chemical industry under the effects of domestic and international economies and pressure on environmental protection during the period under review. Nevertheless, building on its environmentally production technologies, the Group achieved full production capacity and promising sales performance, attained greater market share and brought in more revenue, leading to a substantial surge in results during the period.

During the period under review, except the property development segment, all other segments recorded varying degrees of increases in both revenue and results.

Fluoropolymer

This segment has become the No. 1 segment in terms of revenue, and the largest business sector of the Group. During the period under review, the short supply and the price surge of upstream raw materials (including R22) led to a sharp price rise of products in the fluoropolymer segment. The increase in the results of the fluoropolymer segment was one of the pivotal factors driving the substantial growth of the Group's overall results. During the period, the revenue from external sales of the fluoropolymer segment increased by 29.37% from RMB1,095,402,000 of the corresponding period of last year to RMB1,417,108,000, accounting for 29.59% (corresponding period of 2016: 28.61%) of the Group's total revenue from external sales. The segment's results increased by 105.66% from RMB152,053,000 of the corresponding period of last year to RMB312,716,000, accounting for 30.30% (corresponding period of 2016: 27.99%) of the Group's total revenue.

The raw materials of the fluoropolymer segment are R22 and R142b produced by the Group. R22 is used to produce TFE (a fluorocarbon) which is, in turn, used to produce PTFE (a synthetic fluoropolymer with strong resistance to temperature changes, electrical insulation, and ageing and chemical resistance that is used as a coating material and can also be further processed into high-end fine chemicals and be widely applied in chemicals, construction, electrical and electronics and automotive industries) and HFP (an important organic fluorochemical monomer, which can be used to produce various fine chemicals). Furthermore, the refrigerants segment of the Group supplied R22 and R142b as the raw materials for producing a variety of downstream fluoropolymer fine chemicals, including FEP (fluorinated ethylene propylene, modified materials of PTFE, produced with HFP added in TFE, mainly used in the lining for wire insulation layers, thin-walled tubes, heat shrinkable tubes, pumps, valves and pipes), FKM (fluorine rubber, a specialized fluorinated material mainly used in the fields of aerospace, automotive, machinery and petro-chemical industries because of its superior mechanical property and excellent resistance to oil, chemicals and heat), PVDF (the fluorocarbon polymerized from VDF which is produced from R142b, mainly used in a fluorine coating resin, fluorinated powder coating resin and lithium battery electrode binding material) and VDF, of which Shandong Huaxia Shenzhou New Materials Co., Ltd. ("Huaxia Shenzhou") has been engaged in the production. Other fluorinated fine chemicals, including PPVE, PSVE and HFPO, are another major manufacturing segments of Huaxia Shenzhou.

This segment will be the key business sector for the Group's development in future, especially Huaxia Shenzhou in light of its high barrier of technology, high added value of products, few enterprises in domestic market with a capability of production in large scale and heavy weight of enterprises in domestic markets relying on imports. In order to fill the domestic blank and to achieve "two alternatives", the Group will make great efforts on development of this portion of business, expansion of capacity of products, research and development for high-end new products, improvement of quality of products and catching up with international leading standard for production.

Refrigerants

During the period under review, the revenue from external sales of the refrigerant segment increased by 46.22% from RMB831,283,000 of the corresponding period of last year to RMB1,215,491,000, accounting for 25.38% (corresponding period of 2016: 21.72%) of the Group's total revenue from external sales. The results of the segment increased by 81.77% from RMB123,350,000 of the corresponding period of last year to RMB224,209,000, accounting for 21.72% (corresponding period of 2016: 22.71%) of the Group's total results. During the period, under the effects of the environmental policies, the upstream raw materials of refrigerants products were in short supply and it was difficult to process pollution-carrying by-products, causing hindrance on production, short supply in the market and sharp rise of price in the refrigerant industry. Relying on the advantages of the entire industrial chain, the Company minimised the effects of the aforementioned factors and reached full production capacity and higher sales volume, driving a significant increase in both revenue and results.

The refrigerant segment's products mainly include traditional refrigerants (mainly R22), new green and environment-friendly refrigerant products (mainly R32, R125, R134a and R410a). The products are sold to both domestic and international customers, with some products being supplied to the fluoropolymer segment as raw materials. Being the core product of this segment, R22 is the most widely used refrigerant in China and is generally used in household appliances. R22 also serves as the key raw material for several of our main products (such as PTFE and HFP) produced by the fluoropolymer segment. R125 and R32 are the key refrigerant mixtures for some mixed green refrigerants (such as R410a) to replace R22. R134a is mainly used for air conditioners of automobile, while R152a is used as a refrigerant, blowing agent, aerosol and cleaning agent. R142b serves as a refrigerant, temperature control medium, intermediate of aviation propellant and raw materials for producing VDF.

Organic Silicone

During the period under review, the revenue from external sales of the organic silicone segment increased by 35.67% from RMB832,540,000 of the corresponding period of last year to RMB1,129,495,000, accounting for 23.58% (corresponding period of 2016: 21.75%) of the Group's total revenue from external sales. The segment's results increased by 557.15% from RMB30,856,000 of the corresponding period of last year to RMB202,770,000, accounting for 19.65% (corresponding period of 2016: 5.68%) of the Group's total results. The organic silicone segment made a turnaround from loss in 2016. During the period under review, the breakthrough in increase of results became one of the important drivers for the improvement in the Group's results. The increase was attributable to the environmental pressure and the phasing-out of obsolete capacity within the industry after years of losses.

The products of the organic silicone segment mainly include DMC (upstream organic silicone intermediates that are used as raw materials to produce deep-processed mid-stream and downstream silicone products, such as silicone oils, silicone rubber and silicone resins), 107 Silicone Rubber, Raw Vulcanizate and Gross Rubber (collectively referred to as "Silicone Rubbers", deeply processed silicone rubber products, and Raw Vulcanizate is a key raw material for producing Gross Rubber), and other by-products and high-end mid-stream and downstream products such as Gaseous Silica and Silicone Oils. Known as "Industrial MSG", organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, chemical stabilizers, lubricants and sealants and is a key ingredient in industrial processes. The segment produces silicone monomers with silicone powder and the Group's self-produced chloromethane and further processes them into silicone intermediates (mainly DMC). Certain portion of the silicone intermediates are for sale and the remaining portions are used to produce Silicone Rubbers and other organic silicone products for the segment.

Dichloromethane, PVC and Liquid Alkali

During the period under review, the revenue from external sales of the dichloromethane, PVC and liquid alkali segment increased by 51.21% from RMB526,988,000 of the corresponding period of last year to RMB796,873,000, accounting for 16.64% (corresponding period of 2016: 13.77%) of the Group's total revenue from external sales. The segment's results increased by 633.69% from RMB23,325,000 of the corresponding period of last year to RMB171,134,000, accounting for 16.58% (corresponding period of 2016: 4.29%) of the Group's total revenue. Most products of the segment are basic chemical products. Due to the improvement of economic situation and the growing environmental pressure, the segment also recorded a substantial increase in the product price.

The segment's main products are methane chloride, liquid alkali and PVC. Methane chloride includes dichloromethane, which is for sale and mainly used to produce antibiotics and served as a foaming mode for polyurethane. Other ingredients of methane chloride are used as a raw material for production in the refrigerant segment and the organic silicone segment. Liquid alkali is a basic chemical product for the production of methane chloride and used in the textile, power and materials industries. The PVC (a thermoplastic polymer) produced by the segment is mainly used in the construction industry to replace traditional building materials. The basic raw material for producing PVC is hydrogen chloride, which is generated during production of refrigerants. Therefore, the production of PVC has boosted the economic value created by the self-sufficient business chain.

Property Development

The Project comprises, among others, the residential portion of two adjacent parcels of land. They are located to the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, PRC with a total site area of 189,381 square meters. The residential portion occupies 157,187 square meters, comprising 23 residential buildings with a total GFA of approximately 296,000 square meters to be developed in five phases.

As at June 30, 2017, most residential units of the Project had been sold out and there were only few houses unsold at the beginning of the period. Therefore, during the period under review, there was a sharp drop in the revenue and results of the segment. During the period under review, the Project's revenue decreased by 78.08% from RMB453,163,000 of the corresponding period of last year to RMB99,335,000, and the proportion of the Project's revenue in the Group's total revenue also decreased from 11.84% of the corresponding period of last year to 2.07%; the segment's results decreased by 81.96% to RMB33,813,000 from RMB187,439,000 of the corresponding period of last year, with the proportion in the Group's total results down from 34.51% of the corresponding period of last year to 3.28%.

Others

This segment includes the revenue from the production and sale of other by-products from the Group's operating segments, such as Ammonium Bifluoride, Hydrofluoric Acid and Bromine. During the period under review, the segment's revenue increased by 48.09% to RMB131,355,000 from RMB88,702,000 of the corresponding period of last year. The segment's profit increased by 234.49% to RMB87,408,000 from RMB26,132,000 of the corresponding period of last year.

Distribution and Selling Expenses

During the period, the distribution and selling expenses merely increased by 19.12% to RMB163,670,000 from RMB137,402,000 of the corresponding period last year, which was mainly attributable to an increase in transportation cost incurred from (i) an increase in quantities sold during the period and (ii) an increase in unit transportation cost.

Administrative Expenses

During the period, the administrative expenses increased by 84.10% to RMB313,293,000 from RMB170,174,000 of the corresponding period last year, which was mainly attributable to (i) an increase in salary during the period; (ii) an increase in foreign exchange losses recorded; and (iii) an increase in the written-off expenses of idle assets of the Company.

Finance Costs

During the period, the finance costs decreased by 31.28% to RMB61,419,000 from RMB89,378,000 of the corresponding period last year, which was mainly attributable to the substantial decrease in the amount of the borrowings of the Group compared to the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2017, the Group's aggregate capital expenditure was approximately RMB305,623,000 (six months ended 30 June 2016: RMB163,628,000). The Group's capital expenditure mainly for the acquisition of fixed assets for the Group's expansion of operations.

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 2017, the Group's total equity amounted to RMB6,436,109,000 representing an increase of 13.18% compared with 31 December 2016. As at 30 June 2017, the Group's bank balances and cash totaled RMB1,416,530,000 (31 December 2016: RMB2,082,361,000). The decrease in bank balances and cash is attributable to the stable and sound operating results of the Company during the period. Thus, the Company reduced its size of borrowings and its bank balance and cash, in order to reduce its finance cost. During the period under review, the Group generated a total of RMB371,745,000 (six months ended 30 June 2016: RMB588,075,000) cash inflow from its operating activities. The acquisition of Shandong Boda Real Estate Development Co., Ltd through bonds acquisition has affected the current operating cash inflow of the Company in a certain extent. The current ratio(1) of the Group as at 30 June 2017 was 1.34 (31 December 2016: 1.16).

As at 30 June 2017, the Company's balances of bills receivable amounted to RMB939,360,000 (31 December 2016: RMB882,106,000). The Company usually settles external purchases through bills receivable directly. As at 30 June 2017, the balances of bills receivables and bank balances and cash reached RMB2,355,890,000 (31 December 2016: RMB2,964,467,000), which was sufficient to meet the working capital needs of the Company.

Capital Structure

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. The number of issued shares of the Company is 2,111,689,455 as at 30 June 2017.

As at 30 June 2017, the borrowings of the Group totaled RMB2,059,300,000 (31 December 2016: RMB2,792,700,000). The gearing ratio(2) of the Group was 9.54% (31 December 2016: 10.22%).

Group Structure

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

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 2017, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB8,431,000 (31 December 2016: RMB8,669,000), and bank deposits of RMB47,545,000 (31 December 2016: RMB106,703,000), which were pledged to secure the Group's borrowings and the bills payable of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's functional currency is RMB with most of the transactions settled in RMB. However, foreign currencies (mainly 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.

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 5,587 employees in total as at 30 June 2017 (31 December 2016: 5,660). The Group implemented its remuneration policy and bonus based on the performance of the Group and its employees. The Group provided benefits such as medical insurance and pensions to ensure competitiveness.

Interim Dividend

The Board of Directors (the "Board") did not declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

OTHER INFORMATION

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

During the current period, 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 2017.

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 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 2017 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. Yang Xiaoyong and Mr. Yue Rundong, all being independent non-executive Directors.

The Audit Committee met with the management and external auditors on 28 August 2017, 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 2017, which have been reviewed by the Group's external auditors, before proposing them to the Board for approval.

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

Nomination Committee

The Company established a Nomination Committee with written terms of reference on 18 March 2012 to be responsible for the appointment of new Director(s) of the Company and other related matters. Mr. Zhang Jianhong was appointed as the chairman of the Nomination Committee and Mr. Ting Leung Huel, Stephen and Mr. Yang Xiaoyong were appointed as the members of the Nomination Committee.

Corporate Governance Committee

The Corporate Governance Committee was established by the Board with written terms of reference with effect from 21 March 2013 to be responsible for the corporate governance of the Company and other related matters. Mr. Zhang Jianhong was appointed as the chairman of the Corporate Governance Committee and Mr. Liu Chuanqi and Mr. Zhang Bishu were appointed as the members of the Corporate Governance Committee.

Risk Management Committee

The Risk Management Committee was established by the Board with written term of reference with effect from 13 August 2015 to be responsible for the risk management of the Company and other related matters. Mr. Ting Leung Huel, Stephen was appointed as the chairman of the Risk Management Committee, Mr. Yang Xiaoyong and Mr. Yue Rundong were appointed as the members of the Risk Management 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. Afterwards, the HKSE has made revision to the Code ("the Revised Code") which becomes effective from 1 January and 1 April 2012 and 1 September 2013.

Throughout the six months ended 30 June 2017, save as disclosed below, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Code"), except for Code Provision A.2.1.

Code Provision A.2.1

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

Provision Code A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Jianhong is both the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning. Further, the Board considers that this structure will not impair the balance of power, which has been closely monitored by the Board, which comprises experienced and high caliber individuals. The Board has full confidence in Mr. Zhang and believes that the current arrangement is beneficial to the business prospect of the Group.

ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the Company's website at www.dongyuechem.com and the website of the HKSE at www.hkexnews.hk. The Interim Report will also be available at the websites of the Company and the HKSE and will be dispatched to shareholders of the Company before the end of September 2017.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 28 August 2017

As at the date of this announcement, the Board comprised Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Zhang Jian, Mr. Zhang Bishu and Mr. Zhang Zhefeng as executive Directors; and Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Yue Rundong as independent non-executive Directors.