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DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

Announcement of Interim Results for 2011

FINANCIAL HIGHLIGHTS

- Revenue amounted to RMB5,579,135,000, representing an increase of 115.34% over RMB2,590,832,000 of the corresponding period last year
- Gross profit amounted to RMB2,457,968,000, representing an increase of 272.88% over RMB659,180,000 of the corresponding period last year
- Gross profit margin increased to 44.06% from 25.44%, representing an increase of 18.62%
- Consolidated segment results margin (excluding CER segment) increased to 37.14% from 16.46%
- Profit before tax was RMB2,055,691,000, representing a substantial increase of 414.13% over RMB399,839,000 of the corresponding period last year
- Profit and total comprehensive income was RMB1,484,522,000, representing a substantial increase of 411.32% over RMB290,333,000 of the corresponding period last year
- Profit and total comprehensive income attributable to the owners of the Company was RMB1,415,746,000, representing a substantial increase of 416.51% over RMB274,100,000 of the corresponding period last year
- At 30 June 2011, total equity amounted to RMB4,198,017,000, representing an increase of 46.45% over RMB2,866,588,000 as at 31 December 2010
- At 30 June 2011, net assets per share was RMB1.98, representing an increase of 44.53% over RMB1.37 as at 31 December 2010
- Basic earnings per share were RMB0.67, compared with RMB0.13 of the corresponding period last year

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2011	2010
		<i>RMB'000</i> Unaudited	<i>RMB'000</i> Unaudited
Revenue	3	5,579,135	2,590,832
Cost of sales		<u>(3,121,167)</u>	<u>(1,931,652)</u>
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		<u>—</u>	<u>1,192</u>
Profit before tax		2,055,691	399,839
Income tax expense	5	<u>(571,169)</u>	<u>(109,506)</u>
Profit and total comprehensive income for the period	6	<u>1,484,522</u>	<u>290,333</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		1,415,746	274,100
Non-controlling interests		<u>68,776</u>	<u>16,233</u>
		<u>1,484,522</u>	<u>290,333</u>
Earnings per share	8		
— basic and diluted (<i>RMB</i>)		<u>0.67</u>	<u>0.13</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2011 <i>RMB'000</i> Unaudited	As at 31 December 2010 <i>RMB'000</i> Audited
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		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		—	411,900
Prepaid lease payments		625,858	220,201
Intangible assets		2,074	3,352
Interest in an associate		490	—
Available-for-sale investments		29,277	37,727
Deferred tax assets		104,242	91,252
Goodwill		1,354	1,354
		<u>4,899,684</u>	<u>4,673,532</u>
Current assets			
Inventories		612,276	493,623
Prepaid lease payments		14,792	6,214
Trade and other receivables	9	2,340,298	1,114,187
Pledged bank deposits		14,208	15,938
Bank balances and cash		1,075,608	594,621
		<u>4,057,182</u>	<u>2,224,583</u>
Current liabilities			
Trade and other payables	10	1,564,130	971,944
Borrowings		1,195,153	1,323,266
Tax liabilities		332,959	101,522
Deferred income		9,422	9,160
		<u>3,101,664</u>	<u>2,405,892</u>
Net current assets (liabilities)		<u>955,518</u>	<u>(181,309)</u>
Total assets less current liabilities		<u>5,855,202</u>	<u>4,492,223</u>

	As at 30 June 2011 RMB'000 Unaudited	As at 31 December 2010 RMB'000 Audited
<i>Note</i>		
Capital and reserves		
Share capital	201,092	199,356
Reserves	<u>3,706,961</u>	<u>2,474,910</u>
Equity attributable to the owners of the Company	3,908,053	2,674,266
Non-controlling interests	<u>289,964</u>	<u>192,322</u>
Total equity	<u>4,198,017</u>	<u>2,866,588</u>
Non-current liabilities		
Deferred income	180,504	175,408
Deferred tax liabilities	71,669	40,549
Borrowings	<u>1,405,012</u>	<u>1,409,678</u>
	<u>1,657,185</u>	<u>1,625,635</u>
	<u><u>5,855,202</u></u>	<u><u>4,492,223</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital	Share premium	Share option reserve	Merger reserve	Capital reserve	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	Total
	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 share-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 CASH FLOWS

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Net cash from (used in) operating activities	<u>1,064,102</u>	<u>(15,263)</u>
Net cash used in investing activities:		
Interest received	8,712	5,948
Purchase of property, plant and equipment	(396,552)	(185,690)
Prepayment for 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	<u>11,652</u>	<u>44,095</u>
	<u>(432,131)</u>	<u>(201,485)</u>
Net cash used in financing activities:		
New bank loans raised	632,000	1,316,499
Repayment 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	<u>(23,955)</u>	<u>—</u>
	<u>(150,984)</u>	<u>(82,441)</u>
Net increase (decrease) in cash and cash equivalents	480,987	(299,189)
Cash and cash equivalents at 1 January	<u>594,621</u>	<u>853,509</u>
Cash and cash equivalents at 30 June, represented by Bank balances and cash	<u><u>1,075,608</u></u>	<u><u>554,320</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and 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.

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

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

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

Six months ended 30 June 2010

	Refrigerants	Polymers	Organic silicone	CER	Dichloromethane, PVC and Liquid alkali	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
	(Restated)			(Restated)	(Restated)				
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	<u>1,921,811</u>	<u>562,417</u>	<u>295,305</u>	<u>38,188</u>	<u>679,465</u>	<u>3,497,186</u>	<u>46,927</u>	<u>(953,281)</u>	<u>2,590,832</u>
SEGMENT RESULTS	<u>315,732</u>	<u>66,582</u>	<u>3,010</u>	<u>32,958</u>	<u>29,323</u>	<u>447,605</u>	<u>5,606</u>	<u>—</u>	<u>453,211</u>

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	<u>1,192</u>
Profit before tax	399,839
Income tax expense	<u>(109,506)</u>
Profit and total comprehensive income for the period	<u>290,333</u>

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.

4. OTHER INCOME

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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
	<u>20,872</u>	<u>17,646</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current PRC Enterprise Income Tax	<u>(552,215)</u>	<u>(99,595)</u>
Deferred tax:		
— withholding tax for distributable profits of PRC subsidiaries	(33,285)	(11,061)
— others	14,331	1,150
	<u>(18,954)</u>	<u>(9,911)</u>
Total income tax expense	<u>(571,169)</u>	<u>(109,506)</u>

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 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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

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 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic earnings and diluted earnings per share	<u>1,415,746</u>	<u>274,100</u>
	Number of shares	
	Six months ended	
	30 June	
	2011	2010
	'000	'000
	(Unaudited)	(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	<u>13,546</u>	<u>—</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,113,680</u>	<u>2,083,623</u>

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. TRADE AND OTHER RECEIVABLES

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

	30 June 2011 RMB'000 (Unaudited)	31 December 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 amounted 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 June 2011 RMB'000 (Unaudited)	31 December 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

10. TRADE AND OTHER PAYABLES

	30 June 2011 RMB'000 (Unaudited)	31 December 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 CDM project (<i>Note</i>)	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	<u>1,564,130</u>	<u>971,944</u>

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 June 2011 RMB'000 (Unaudited)	31 December 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
	<u>525,707</u>	<u>386,011</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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 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 auditors of the Company.

* Consolidated Segment Results $\div$ Revenue $\times$ 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 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, 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%
	6,726,532	2,146,311	31.91%	3,544,113	453,211	12.79%
Less: Inter-segment sales	(1,147,397)	—	—	(953,281)	—	—
Consolidated	<u>5,579,135</u>	<u>2,146,311</u>	<u>38.47%</u>	<u>2,590,832</u>	<u>453,211</u>	<u>17.49%</u>

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).

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 storage 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.

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.

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.

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.

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 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 auditors 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 auditors, before proposing them to the Board for approval.

Remuneration Committee

The Company has established a Remuneration Committee to consider the remuneration for Directors and senior management of the Company. The Remuneration Committee comprises Mr. 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.

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 2011.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 15 August 2011

As at the date of this announcement, the Board comprised Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Mr. Yan Jianhua and Mr. Zhang Jian as executive Directors; and Mr. Ting Leung Huel, Stephen, Mr. Yue Run Dong and Mr. Liu Yi as independent non-executive Directors.