DONGYUE FEDERATION
東 岳 集 團 有 限 公 司

DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

ANNOUNCEMENT OF INTERIM RESULTS FOR 2012

FINANCIAL HIGHLIGHTS
(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2012	2011
Revenue	**3,637**	5,579
Gross Profit	**987**	2,458
Gross Profit Margin	**27.13%**	44.06%
Profit before Tax	**664**	2,056
Profit and Total Comprehensive Income	**434**	1,485
Profit and Total Comprehensive Income attributable to the Shareholders	**433**	1,416
Basic Earnings per Share (RMB)	**0.20**	0.67

	As at	
	30 June 2012	31 December 2011
Total Equity	**4,903**	5,075
Net Assets per Share (RMB)	**2.31**	2.39

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June **2012** *RMB'000* **Unaudited**	2011 *RMB'000* Unaudited
Revenue	*3*	**3,636,987**	5,579,135
Cost of sales		**(2,650,160)**	(3,121,167)
Gross profit		**986,827**	2,457,968
Other income	*4*	**59,222**	20,872
Distribution and selling expenses		**(99,713)**	(110,302)
Administrative expenses		**(213,238)**	(242,134)
Finance costs		**(68,941)**	(70,713)
Share of result of an associate		**(27)**	—
Profit before tax		**664,130**	2,055,691
Income tax expense	*5*	**(229,754)**	(571,169)
Profit and total comprehensive income for the period	*6*	**434,376**	1,484,522
Profit and total comprehensive income attributable to:			
Owners of the Company		**432,675**	1,415,746
Non-controlling interests		**1,701**	68,776
		434,376	1,484,522
Earnings per share	*8*		
— basic and diluted *(RMB)*		**0.20**	0.67

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2012** *RMB'000* **Unaudited**	As at 31 December 2011 *RMB'000* Audited
Non-current assets			
Property, plant and equipment		**4,052,951**	4,093,261
Prepayment for purchase of property, plant and equipment		**65,323**	75,959
Prepayment for land lease		**5,099**	5,501
Prepaid lease payments		**700,527**	638,597
Intangible assets		**849**	1,253
Interest in an associate		**1,242**	779
Available-for-sale investments		**118,178**	80,506
Deferred tax assets		**112,398**	132,308
Goodwill		**1,354**	1,354
		5,057,921	5,029,518
Current assets			
Inventories		**544,634**	648,656
Prepaid lease payments		**16,333**	17,404
Trade and other receivables	*9*	**1,401,083**	1,516,734
Entrusted loans		**580,000**	403,000
Pledged bank deposits		**47,175**	4,340
Bank balances and cash		**1,114,781**	1,509,280
		3,704,006	4,099,414
Current liabilities			
Trade and other payables	*10*	**1,442,274**	1,310,803
Borrowings		**979,668**	894,578
Tax liabilities		**114,143**	196,638
Deferred income		**7,935**	7,215
		2,544,020	2,409,234
Net current assets		**1,159,986**	1,690,180
Total assets less current liabilities		**6,217,907**	6,719,698

	Note	As at 30 June 2012 RMB'000 Unaudited	As at 31 December 2011 RMB'000 Audited
Capital and reserves			
Share capital		**201,111**	201,111
Reserves		**4,415,178**	4,581,977
Equity attributable to the owners of the Company		**4,616,289**	4,783,088
Non-controlling interests		**286,237**	292,208
Total equity		**4,902,526**	5,075,296
Non-current liabilities			
Deferred income		**164,942**	168,029
Deferred tax liabilities		**28,788**	99,865
Borrowings		**1,121,651**	1,376,508
		1,315,381	1,644,402
		6,217,907	6,719,698

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 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
Balance at 1 January 2012 (audited)	201,111	1,238,838	127,778	(32,210)	101,098	497,046	2,649,427	4,783,088	292,208	5,075,296
Profit and total comprehensive income for the period	—	—	—	—	—	—	432,675	432,675	1,701	434,376
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	9,800	9,800
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(17,472)	(17,472)
Dividends paid	—	—	—	—	—	—	(690,876)	(690,876)	—	(690,876)
Recognition of equity-settled share-based payments	—	—	91,402	—	—	—	—	91,402	—	91,402
Balance at 30 June 2012 (unaudited)	201,111	1,238,838	219,180	(32,210)	101,098	497,046	2,391,226	4,616,289	286,237	4,902,526

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Net cash from operating activities	**1,040,319**	1,064,102
Net cash used in investing activities:		
Interest received	**46,957**	8,712
Purchase of property, plant and equipment	**(289,810)**	(461,964)
Prepayment for prepaid lease payments	**(65,733)**	—
Government grants received	**—**	9,469
Purchase of available-for-sale investments	**(37,672)**	—
Entrusted loans to third parties	**(230,000)**	—
Repayment of entrusted loans from third parties	**53,000**	—
Net cash outflow from additional capital contribution to an associate	**(490)**	—
Net cash outflow from acquisition of an associate	**—**	(490)
Net cash (outflow) inflow from pledged bank deposits	**(42,835)**	1,730
Proceeds on disposal of available-for-sale investments	**—**	8,450
Other investing cash flows	**80**	1,962
	(566,503)	(432,131)
Net cash used in financing activities:		
Proceeds from borrowings	**520,513**	632,000
Repayment of borrowings	**(690,280)**	(575,262)
Capital contribution from non-controlling interests	**9,800**	14,432
Proceeds from issue of shares	**—**	37,498
Dividends paid	**(690,876)**	(235,697)
Dividends paid to non-controlling interests	**(17,472)**	(23,955)
	(868,315)	(150,984)
Net (decrease) increase in cash and cash equivalents	**(394,499)**	480,987
Cash and cash equivalents at 1 January	**1,509,280**	594,621
Cash and cash equivalents at 30 June, represented by Bank balances and cash	**1,114,781**	1,075,608

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

3. SEGMENT INFORMATION

The operations of the Company and its subsidiaries (collectively referred to as the "Group") are organised based on the different types of goods sold. Specifically, information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. This is the basis upon which the Group is organised.

Six months ended 30 June 2012 (unaudited)

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

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

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

Six months ended 30 June 2011 (unaudited)

	Refrigerants	Polymers	Organic silicone	CER	Dichloromethane, PVC and liquid alkali	Reportable and operating 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	1,101,673	—	7,578	—	38,146	1,147,397	—	(1,147,397)	—
Total revenue-segment revenue	3,425,240	1,662,808	491,752	175,384	866,849	6,622,033	104,499	(1,147,397)	5,579,135
SEGMENT RESULTS	1,305,750	569,961	(8,220)	139,270	123,725	2,130,486	15,825	—	2,146,311

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

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

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

Inter-segment sales are charged at prevailing market rates.

4. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**5,694**	6,628
Bank deposit interest income	**8,406**	8,712
Entrusted loans interest income	**38,551**	—
Dividend income from available-for-sale investments	**2,848**	1,546
Others	**3,723**	3,986
	59,222	20,872

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current income tax		
— Current People's Republic of China ("PRC") Enterprise Income Tax	**(202,934)**	(534,640)
— Withholding tax paid *(note)*	**(77,986)**	(17,575)
	(280,920)	(552,215)
Deferred tax:		
— withholding tax for distributable profits of PRC subsidiaries	**64,679**	(33,285)
— others	**(13,513)**	14,331
	51,166	(18,954)
Total income tax expense	**(229,754)**	(571,169)

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

6. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories recognised as expenses	**2,454,761**	2,944,069
Depreciation of property, plant and equipment	**272,025**	239,953
Release of prepaid lease payments	**5,276**	4,520
Amortisation of intangible assets (included in cost of sales)	**427**	1,277
Loss on disposal of property, plant and equipment	**62**	8,590
Net foreign exchange losses	**1,632**	2,860

7. DIVIDENDS

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

The Directors determined not to make interim dividend for the six months ended 30 June 2012 and 2011.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings for the purposes of basic earnings and diluted earnings per share	**432,675**	1,415,746

	Number of shares	
	Six months ended 30 June	
	2012	2011
	'000	*'000*
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2,120,552**	2,100,134
Effect of dilutive potential ordinary shares:		
Options	**—**	13,546
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**2,120,552**	2,113,680

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

9. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**1,200,707**	1,316,164
Less: allowance for doubtful debts	**(2,924)**	(2,924)
	1,197,783	1,313,240
Prepayment for raw materials	**128,046**	123,813
Value added tax recoverable	**56,100**	65,417
Deposits and other receivables	**19,154**	14,264
	1,401,083	1,516,734

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

Customers are generally granted with credit period of less than 90 days for trade receivables. Bills receivables are generally due in 90 days or 180 days. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**1,121,528**	816,100
91–180 days	**72,924**	491,342
181–365 days	**3,805**	6,272
Over 365 days	**2,450**	2,450
	1,200,707	1,316,164

10. TRADE AND OTHER PAYABLES

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**676,604**	505,832
Receipt in advance from customers	**80,957**	71,147
Payroll payable	**343,256**	368,613
Payable for Clean Development Mechanism ("CDM") project *(Note)*	**142,823**	102,219
Payable for property, plant and equipment	**81,289**	149,855
Other tax payables	**15,179**	35,672
Other payables and accruals	**102,166**	77,465
Total	**1,442,274**	1,310,803

Note: According to the relevant PRC regulation, 65% of the proceeds from 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 RMB167,613,000 (31 December 2011: RMB9,700,000). Bill payables were secured by the Group's pledged bank deposits.

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

	30 June 2012 *RMB'000* **(unaudited)**	31 December 2011 *RMB'000* (audited)
Within 30 days	**271,868**	247,853
31–90 days	**287,565**	144,539
91–180 days	**73,900**	77,483
181–365 days	**21,849**	20,360
1–2 years	**10,595**	6,901
More than 2 years	**10,827**	8,696
	676,604	505,832

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

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

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

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

Future Prospects

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

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

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

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

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

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

Financial Review

Results Highlights

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

* Consolidated Segment Results ÷ Revenue × 100%

Segment Revenue and Operating Results

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

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

Analysis of Revenue and Operating Results

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

Refrigerants

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

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

Being the backbone refrigerants product of the Group with the largest production capacity in the world (200,000 tonnes per annum), R22 is the most widely used refrigerant in China and is generally used in household appliances. Apart from that, it has been one of the key raw materials for the production of the fluoropolymers and R125. R125 and R32 are the key mixing ingredients for other types of green refrigerants (such as R410a and R439a (independently developed by the Group)).

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

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

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

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

Polymers

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

The segment mainly includes the revenue from the production and sales of PTFE (a synthetic fluoropolymer with high level of resistance to temperature changes, electrical insulation, and ageing and chemical resistant that is used as a coating material and can also be further processed into high-end fine chemicals which can be widely applied in the chemicals, construction, electrical and electronics and automotive industries.) and HFP (a primary raw material to produce fine fluorochemicals that are used in high-end fire extinguishers and fluoro rubber). Depending on the specific market requirements, PTFE is produced and sold in the forms of suspension medium grain, suspension fine powders, dispersion resins and concentrate liquid. R22 is the basic and important raw material for both PTFE and HFP.

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

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

Organic Silicone

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

"Industrial MSG", organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals, stabilizers, lubricants and sealants, and is a key ingredient in industrial processes.

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

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

Dichloromethane, PVC and Liquid Alkali

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

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

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

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

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

CER

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

Distribution and Selling Expenses

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

Administrative Expenses

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

Finance Costs

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

Capital Expenditure

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

Liquidity and Financial Resources

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

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

Capital Structure

There has been no change in the share capital of the Company during the period under review. As at 1 January and 30 June 2002, the number of issued shares of the Company was 2,120,552,455.

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

Group Structure

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

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

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

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

Notes:

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Charge on Assets

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

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

Employees

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

Interim Dividend

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

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 2012.

Model Code for Securities Transactions by Directors

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

Audit Committee

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

The Audit Committee met with the management and external auditors on 21 August 2012, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the six months ended 30 June 2012, which have been reviewed by the Group's external 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. Liu Yi (Chairman) and Mr. Ting Leung Huel, Stephen, who are independent non-executive Directors, and Mr. Zhang Jianhong who is an executive Director.

Nomination Committee

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

Compliance with the Code on Corporate Governance Practices

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

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

Code and Revised Code Provision A.2.1

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

Mr. Zhang Jianhong is both the Chairman and Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Zhang, and believes that his appointment as both the Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

Revised Code Provision A.6.7

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

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

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 2012.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

China, 21 August 2012

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.