DONGYUE FEDERATION

# DONGYUE GROUP LIMITED
# 東岳集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 189)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR 2014

**FINANCIAL HIGHLIGHTS**
*(in RMB million, unless otherwise stated)*

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| Revenue | **3,512** | 3,196 |
| Gross Profit | **513** | 512 |
| Gross Profit Margin | **14.62%** | 16.02% |
| Profit before Tax | **269** | 245 |
| Profit and Total Comprehensive Income for the Period | **195** | 190 |
| Profit and Total Comprehensive Income for the Period attributable to the Shareholders | **192** | 212 |
| Basic Earnings per Share (RMB) | **0.09** | 0.10 |

| | As at | |
|---|---|---|
| | **30 June 2014** | 31 December 2013 |
| Total Equity | **5,583** | 5,511 |
| Net Assets per Share (RMB) | **2.64** | 2.60 |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Six months ended 30 June 2014 RMB'000 Unaudited | 2013 RMB'000 Unaudited |
|---|---|---|---|
| **Revenue** | 3 | **3,511,830** | 3,195,844 |
| Cost of sales | | **(2,998,358)** | (2,684,017) |
| Gross profit | | **513,472** | 511,827 |
| Other income | 4 | **124,887** | 94,563 |
| Distribution and selling expenses | | **(120,906)** | (118,368) |
| Administrative expenses | | **(135,384)** | (149,143) |
| Research and development expenses | | **(29,674)** | (30,072) |
| Finance costs | | **(83,372)** | (63,477) |
| Share of results of associates | | **–** | 168 |
| Gain on disposal of an associate | | **36** | – |
| **Profit before tax** | | **269,059** | 245,498 |
| Income tax expense | 5 | **(74,431)** | (55,159) |
| **Profit and total comprehensive income for the period** | 6 | **194,628** | 190,339 |
| **Profit and total comprehensive income (expense) for the period attributable to:** | | | |
| Owners of the Company | | **191,607** | 211,711 |
| Non-controlling interests | | **3,021** | (21,372) |
| | | **194,628** | 190,339 |
| **Earnings per share** | | | |
| – basic and diluted (RMB) | 8 | **0.09** | 0.10 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **As at 30 June 2014** *RMB'000* **Unaudited** | As at 31 December 2013 *RMB'000* Audited |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,478,843** | 4,494,015 |
| Prepayment for purchase of property, plant and equipment | | **123,894** | 54,556 |
| Prepayment for land lease | | **1,144** | 367 |
| Prepaid lease payments | | **552,039** | 562,117 |
| Intangible assets | | **175,230** | 179,241 |
| Interests in associates | | **1,539** | 17,038 |
| Available-for-sale investments | | **1,195,283** | 195,283 |
| Deferred tax assets | | **171,818** | 166,451 |
| Goodwill | | **85,894** | 85,894 |
| | | **6,785,684** | 5,754,962 |
| **Current assets** | | | |
| Inventories | | **646,245** | 700,054 |
| Properties under development for sale | | **627,078** | 569,488 |
| Prepaid lease payments | | **16,782** | 15,272 |
| Trade and other receivables | *9* | **1,486,892** | 1,218,239 |
| Entrusted loans | | **943,000** | 425,000 |
| Pledged bank deposits | | **214,350** | 106,320 |
| Bank balances and cash | | **1,138,981** | 1,243,296 |
| | | **5,073,328** | 4,277,669 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **2,116,793** | 1,604,381 |
| Deposits from pre-sale of properties | | **785,275** | 438,784 |
| Borrowings | | **1,577,413** | 866,474 |
| Tax liabilities | | **64,759** | 16,736 |
| Deferred income | | **10,623** | 12,797 |
| | | **4,554,863** | 2,939,172 |
| **Net current assets** | | **518,465** | 1,338,497 |
| **Total assets less current liabilities** | | **7,304,149** | 7,093,459 |

| | As at 30 June 2014 *RMB'000* Unaudited | As at 31 December 2013 *RMB'000* Audited |
|---|---|---|
| **Capital and reserves** | | |
| Share capital | **200,922** | 201,013 |
| Reserves | **5,136,622** | 5,065,836 |
| Equity attributable to the owners of the Company | **5,337,544** | 5,266,849 |
| Non-controlling interests | **245,498** | 243,979 |
| **Total equity** | **5,583,042** | 5,510,828 |
| **Non-current liabilities** | | |
| Deferred income | **243,450** | 246,377 |
| Deferred tax liabilities | **38,987** | 50,164 |
| Borrowings | **1,438,670** | 1,286,090 |
| | **1,721,107** | 1,582,631 |
| | **7,304,149** | 7,093,459 |

## 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 2013 (audited)** | 201,111 | 1,238,838 | 270,825 | (32,210) | 101,098 | 627,139 | 2,541,514 | 4,948,315 | 278,543 | 5,226,858 |
| Profit and total comprehensive income (expense) for the period | – | – | – | – | – | – | 211,711 | 211,711 | (21,372) | 190,339 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (9,892) | (9,892) |
| Dividends paid | – | – | – | – | – | – | (219,428) | (219,428) | – | (219,428) |
| Recognition of equity-settled share-based payments | – | – | 48,099 | – | – | – | – | 48,099 | – | 48,099 |
| Shares repurchased | (74) | (2,117) | – | – | – | – | – | (2,191) | – | (2,191) |
| **Balance at 30 June 2013 (unaudited)** | 201,037 | 1,236,721 | 318,924 | (32,210) | 101,098 | 627,139 | 2,533,797 | 4,986,506 | 247,279 | 5,233,785 |
| **Balance at 1 January 2014 (audited)** | **201,013** | **1,236,038** | **345,787** | **(32,210)** | **101,098** | **699,065** | **2,716,058** | **5,266,849** | **243,979** | **5,510,828** |
| Profit and total comprehensive income for the period | **–** | **–** | **–** | **–** | **–** | **–** | **191,607** | **191,607** | **3,021** | **194,628** |
| Transfer | **–** | **–** | **–** | **–** | **–** | **364** | **(364)** | **–** | **–** | **–** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,502)** | **(1,502)** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **–** | **(143,315)** | **(143,315)** | **–** | **(143,315)** |
| Recognition of equity-settled share-based payments | **–** | **–** | **24,938** | **–** | **–** | **–** | **–** | **24,938** | **–** | **24,938** |
| Shares repurchased and cancelled | **(91)** | **(2,444)** | **–** | **–** | **–** | **–** | **–** | **(2,535)** | **–** | **(2,535)** |
| **Balance at 30 June 2014 (unaudited)** | **200,922** | **1,233,594** | **370,725** | **(32,210)** | **101,098** | **699,429** | **2,763,986** | **5,337,544** | **245,498** | **5,583,042** |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| **Net cash from operating activities** | **1,099,751** | 550,059 |
| **Net cash used in investing activities:** | | |
| Interest received | **103,088** | 49,579 |
| Purchase of property, plant and equipment | **(354,377)** | (311,111) |
| Payment of prepaid land lease | **(777)** | (169,212) |
| Dividends received from associates | **446** | – |
| Dividends received from available-for-sale investments | **2,535** | 5,302 |
| Entrusted loans to third parties | **(748,000)** | (626,000) |
| Repayment of entrusted loans from third parties | **230,000** | 325,000 |
| Proceeds from disposal of an associate | **15,089** | – |
| Capital contribution to an associate | **–** | (15,000) |
| Purchase of available-for-sale investments | **(1,000,000)** | – |
| Acquisition of a subsidiary | **–** | (445,894) |
| Placement of pledged bank deposits | **(245,850)** | (77,212) |
| Proceeds from release of pledged bank deposits | **137,820** | 65,700 |
| Proceeds from disposals of property, plant and equipment | **3,186** | 1,298 |
| Purchase of intangible assets | **(1,250)** | (4,059) |
| Repayment from a non-controlling shareholder of a subsidiary | **10,000** | – |
| | **(1,848,090)** | (1,201,609) |
| **Net cash from (used in) financing activities:** | | |
| Proceeds from borrowings | **1,466,775** | 740,000 |
| Repayments of borrowings | **(603,256)** | (641,975) |
| Interest paid | **(72,143)** | (63,344) |
| Shares repurchased and cancelled | **(2,535)** | (2,191) |
| Dividends paid | **(143,315)** | (219,428) |
| Dividends paid to non-controlling interests | **(1,502)** | (9,892) |
| | **644,024** | (196,830) |
| **Net decrease in cash and cash equivalents** | **(104,315)** | (848,380) |
| **Cash and cash equivalents at 1 January** | **1,243,296** | 1,682,728 |
| **Cash and cash equivalents at 30 June, represented by Bank balances and cash** | **1,138,981** | 834,348 |

# 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 "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.

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | *Investment Entities;* |
| Amendments to IAS 32 | *Offsetting Financial Assets and Financial Liabilities;* |
| Amendments to IAS 36 | *Recoverable Amount Disclosures for Non-Financial Assets;* |
| Amendments to IAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting; and* |
| IFRIC-Int 21 | *Levies.* |

The application of the above new Interpretation and 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 Group's reportable and operating segments are based on the different types of products and property development. Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance is also presented based on types of products and property development.

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

**Six months ended 30 June 2014 (unaudited)**

| | Polymers | Organic silicone | Refrigerants | Dichloromethane, polyvinyl chloride ("PVC") and liquid alkali | Property development | 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 | **1,138,797** | **737,716** | **946,669** | **591,373** | **–** | **3,414,555** | **97,275** | **–** | **3,511,830** |
| Inter-segment sales | **–** | **668** | **617,305** | **42,225** | **–** | **660,198** | **229,088** | **(889,286)** | **–** |
| Total revenue-segment revenue | **1,138,797** | **738,384** | **1,563,974** | **633,598** | **–** | **4,074,753** | **326,363** | **(889,286)** | **3,511,830** |
| SEGMENT RESULTS | **207,302** | **(27,323)** | **191,816** | **13,234** | **(9,345)** | **375,684** | **12,426** | **–** | **388,110** |
| Unallocated corporate expenses | | | | | | | | | **(38,250)** |
| Unallocated other income | | | | | | | | | **2,535** |
| Finance costs | | | | | | | | | **(83,372)** |
| Gain on disposal of an associate | | | | | | | | | **36** |
| Profit before tax | | | | | | | | | **269,059** |

**Six months ended 30 June 2013 (unaudited)**

| | Polymers | Organic silicone | Refrigerants | Dichloromethane, PVC and liquid alkali | Property development | 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 | 984,190 | 659,336 | 1,004,103 | 428,579 | – | 3,076,208 | 119,636 | – | 3,195,844 |
| Inter-segment sales | – | 2,816 | 468,957 | 26,640 | – | 498,413 | 206,827 | (705,240) | – |
| Total revenue-segment revenue | 984,190 | 662,152 | 1,473,060 | 455,219 | – | 3,574,621 | 326,463 | (705,240) | 3,195,844 |
| SEGMENT RESULTS | 295,890 | 23,250 | 25,091 | (36,221) | (6,476) | 301,534 | 57,939 | – | 359,473 |
| Unallocated corporate expenses | | | | | | | | | (55,968) |
| Unallocated other income | | | | | | | | | 5,302 |
| Finance costs | | | | | | | | | (63,477) |
| Share of results of associates | | | | | | | | | 168 |
| Profit before tax | | | | | | | | | 245,498 |

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 results of associates and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. No segment information on assets and liabilities is presented as such information is not reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

## 4. OTHER INCOME

| | Six months ended | |
|---|---|---|
| | **30.6.2014** | 30.6.2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Government grants | **10,041** | 8,330 |
| Bank deposits interest income | **9,668** | 5,595 |
| Interest income on entrusted loans | **93,420** | 43,984 |
| Dividend income from available-for-sale investments | **2,535** | 5,302 |
| Others *(Note)* | **9,223** | 31,352 |
| | **124,887** | 94,563 |

*Note:* For the six months ended 30 June 2013, included an amount of compensation received from an independent third party on Shandong Dongyue HFC-23 Decomposition Project amounting to approximately RMB24,869,000 due to the independent third party's failure to fulfil its obligations as stated in the agreement in accordance with the contractual agreement entered into by the Group with the independent third party.

## 5. INCOME TAX EXPENSE

| | Six months ended | |
|---|---|---|
| | **30.6.2014** | 30.6.2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Current PRC Enterprise Income Tax | **(74,866)** | (81,844) |
| Deferred tax: | | |
| – withholding tax for distributable profits of PRC subsidiaries *(Note)* | **(5,926)** | (6,351) |
| – others | **6,361** | 33,036 |
| | **435** | 26,685 |
| Total income tax expense | **(74,431)** | (55,159) |

*Note:* According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No. 1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Details Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. As a result, deferred tax liability of RMB5,926,000 (six months ended 30 June 2013: RMB6,351,000) on the undistributed earnings of subsidiaries has been recognised in profit or loss for the period.

## 6. PROFIT FOR THE PERIOD

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

| | Six moths ended | |
|---|---|---|
| | **30.6.2014** | 30.6.2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Cost of inventories recognised as expenses | **2,986,109** | 2,675,401 |
| Depreciation of property, plant and equipment | **331,772** | 307,982 |
| Release of prepaid lease payments | **8,568** | 6,001 |
| Amortisation of intangible assets (included in cost of sales) | **5,261** | 3,546 |
| (Gain) loss on disposal of property, plant and equipment | **(26)** | 144 |
| Net foreign exchange (gains) losses | **(6,015)** | 6,535 |
| Recognition (reversal) of impairment on trade receivables | **3,781** | (1,279) |
| Write-down of inventories (included in cost of sales) | **6,988** | 5,070 |

## 7. DIVIDENDS

During the current interim period, a final dividend of HK$0.085 per share in respect of the year ended 31 December 2013 (six months ended 30 June 2013: HK$0.130 per share in respect of the year ended 31 December 2012) 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$180,044,000, equivalent to RMB143,315,000 (six months ended 30 June 2013: HK$275,672,000, equivalent to RMB219,428,000).

The directors determined not to declare interim dividend for the six months ended 30 June 2014 and 2013.

## 8. EARNINGS PER SHARE

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

| | **Six months ended** | |
|---|---|---|
| | **30.6.2014** | 30.6.2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Earnings for the purposes of basic earnings and diluted earnings per share | **191,607** | 211,711 |

| | **Number of shares Six months ended** | |
|---|---|---|
| | **30.6.2014** | 30.6.2013 |
| | ***'000*** | *'000* |
| | **(unaudited)** | (unaudited) |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **2,118,324** | 2,120,525 |

The computation of diluted earnings per share for the six months ended 30 June 2013 and 2014 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 of the shares during the six months ended 30 June 2013 and 2014.

## 9. TRADE AND OTHER RECEIVABLES

| | **30.6.2014** | 31.12.2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Trade receivables | **1,325,325** | 1,054,504 |
| Less: allowance for doubtful debts | **(9,181)** | (6,169) |
| | **1,316,144** | 1,048,335 |
| Prepayment for raw materials | **58,152** | 85,304 |
| Value added tax receivables | **10,369** | 21,334 |
| Prepaid taxes arising from pre-sale of properties | **58,991** | 30,714 |
| Advance to a non-controlling shareholder of a subsidiary | **–** | 10,000 |
| Deposits and other receivables | **43,236** | 22,552 |
| | **1,486,892** | 1,218,239 |

Included in the trade receivables are bills receivable amounting to RMB877,852,000 (31 December 2013: RMB811,604,000).

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

| | **30.6.2014** | 31.12.2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Within 90 days | **1,080,883** | 955,840 |
| 91-180 days | **221,775** | 86,345 |
| 181-365 days | **13,486** | 6,150 |
| | **1,316,144** | 1,048,335 |

## 10. TRADE AND OTHER PAYABLES

| | **30.6.2014** | 31.12.2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Trade payables | **1,414,708** | 941,408 |
| Receipt in advance from customers | **71,195** | 62,048 |
| Payroll payable | **211,730** | 224,847 |
| Payable for property, plant and equipment | **152,368** | 117,647 |
| Other tax payables | **14,470** | 12,203 |
| Other deposits in relation to property development project | **98,464** | 110,955 |
| Other payables and accruals | **153,858** | 135,273 |
| | **2,116,793** | 1,604,381 |

Included in the trade payables are bills payable amounting to RMB793,100,000 (31 December 2013: RMB295,490,000). Bills payable were secured by the Group's pledged bank deposits.

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

| | **30.6.2014** | 31.12.2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Within 30 days | **570,567** | 686,530 |
| 31-90 days | **638,023** | 174,941 |
| 91-180 days | **167,410** | 52,744 |
| 181-365 days | **18,688** | 12,929 |
| 1-2 years | **13,199** | 8,254 |
| More than 2 years | **6,821** | 6,010 |
| | **1,414,708** | 941,408 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In the first half of 2014, the prices of certain fluorochemical products of Dongyue Group Limited (the "Company") and its subsidiaries (together the "Group") were on the rebound, with the domestic and international market demand for fluorinated new materials continuing to grow and the fluorochemical industry showing signs of recovery. However, the prices of many fluorochemical products were still below the level for the same period last year while the positive prospects of the fluorinated new materials have stimulated the emergence of new capacity, as a result, the sustainability of such recovery has yet to be tested. While the demand of the organic silicone industry has been growing every year, the problems such as structural overcapacity and lack of innovation of the domestic manufacturers remained unsolved, with the product prices struggling at the low level. Facing both market opportunities and challenges, the Group took quick actions while taking full advantage of its superiorities in terms of brand, scale, R&D and innovation, and achieved the following encouraging results:

I. The Group recorded significant growth in both sales volume and revenue. During the first half of 2014, the Group launched a campaign known as "Boost Output and Compete in Efficiency (創增量比效益)", which was intended to increase production in a stable and efficient manner. The Group also actively launched new products and developed new customers through marketing activities such as the product launch activities held in Dubai and Beijing International Refrigeration Exhibition, and as a result, the product sales of its principal business segments, such as the Refrigerants, Polymers and Organic Silicone, all recorded remarkable growth, with their market shares further expanding. The sales revenue also shook off the depression for the last two years, with that of every business segment recording a year-on-year increase except for the Certified Emission Reduction (the "CER") business.

II. The product mix was more diversified, with broader scope of application. The Group launched 12 new products developed independently in the first half of 2014, including organic silicone products such as high-end liquid silicone rubber for food application, high-end liquid silicone rubber for LED packaging and dimethyl silicone oil as well as fluorinated polymers such as FEP for electronic wire application, fluorine rubber for oil seals and granule polyvinylidene fluoride materials, which secured new profit sources for the Group.

III. The production process was also optimized, with cost effectiveness further enhanced. In the first half of 2014, aiming at resolving the deficiencies of the facilities and igniting their potentials, the Group kicked off 12 technology upgrade projects, e.g. recycling of heat residue from methyl chloride, recycling and transformation of PFOA, quality improvement and transformation of granulated materials, which remarkably optimized the existing production processes, improved product quality and comprehensive utilization of the by-products and further reduced the overall production costs.

IV. The management expertise was further enhanced. During the first half of 2014, the Group focused on improving its internal management in terms of systematization and the application of forms and information technology while introducing advanced management concepts and the supporting systems and steadily implementing the online process review and approval system across the Group, so as to standardize the process and improve efficiency. Meanwhile, the Group organized a number of training sessions and seminars for the management personnel, which further improved the execution power of its employees.

**Future Prospects**

Since the beginning of this year, the world economy has been on the track of slow recovery, starting low but steady. It is expected such an average recovery trend can be maintained throughout the second half of the year. The economic policies introduced by the new leaders of China focusing on transformation have gradually brought China's economy into an era of slow growth. As seen in the existing circumstances, the prospects of the fluorochemical industry remained uncertain, and the overall recovery of the organic silicone industry is expected to take some time, given the present overcapacity pressure. Against this backdrop, the Group is to focus on the following areas on the basis of prudent operation while adhering to its basic guidelines known as Refresh Thoughts, Integrate Innovation, Enhance Management and Transform & Upgrade:

I. Continuing to accelerate development of new products as well as new features and use of the existing products; Continuing to accelerate development of high-end fluoropolymers such as PFA, FEVE and FVMQ, so as to complete the industrialization process of the new products as soon as possible; Meanwhile, accelerating the process of elimination of outdated products and development of substitution of the existing products, accelerating transition of the products from singularity to diversity in terms of functionality and features.

II. Accelerating optimization of the product evaluation system, and improving the technical services. Optimizing and upgrading the process evaluation system on a global scale, improving the evaluation standards and processing technology, so as to match the features of the products with market demand and provide a guarantee for R&D of new products and generally enhance the service.

III. Continuing to optimize the systems and processes, and enhance the intensified management expertise; Under the guideline of informatization of the systems and processes, optimizing the systems and processes of the Group on a global scale and complete our work manuals, so as to establish an efficient, standard, regular and workable system of processes.

IV. Accelerating construction of the innovation platform. Building the innovation platforms, recruiting talents on innovation and strengthening the Group's role in driving and supporting internal innovation based on its product chain, market demand and the status of technical expertise of the Group.

V. Launching the customer credit management and evaluation system. Categorizing customers according to their strength, credit records, purchase stability and potential, clarifying their lines of credit and improving the rationality of the accounts receivable and customer credit management.

Fluorine and silicone materials, due to their irreplaceable excellent properties, are widely used in construction, electronic and IT, electrical appliance, automobile, textile, agriculture, pharmaceutical, petrochemical, aerospace, military, food and new energy industries and fields, with new applications and technologies constantly emerging and the overall demand growing year by year. As the only high-tech enterprise spanning across the organic fluorine and organic silicone sectors in China, the Company is destined to be the biggest beneficiary of the development of silicon and fluoride industry. The management of the Company is highly confident of the future development of the Group, and will follow the latest development trend of fluorine and silicone industry, while maintaining a sound and stable operation, so as to generate stable and long-term returns on the investment of our shareholders.

## Financial review

### *Results Highlights*

For the six months ended 30 June 2014, the Group recorded revenue of approximately RMB3,511,830,000, representing an increase of 9.89% over RMB3,195,844,000 of the corresponding period last year. The gross profit margin decreased to 14.62% (corresponding period of 2013: 16.02%) and the consolidated segment results margin* was 11.05% (corresponding period of 2013: 11.25%). The operating results margin was 10.03% (corresponding period of 2013: 9.66%). During the period, the Group recorded profit before tax of approximately RMB269,059,000 (corresponding period of 2013: RMB245,498,000), and net profit of approximately RMB194,628,000 (corresponding period of 2013: RMB190,339,000), while consolidated profit attributable to the Company's owners was approximately RMB191,607,000 (corresponding period of 2013: RMB211,711,000). Basic earnings per share were RMB0.09 (corresponding period of 2013: RMB0.10). 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 2014 and the six months ended 30 June 2013:

| Reportable and Operating Segments | **For the six months ended 30 June 2014** | | | For the six months ended 30 June 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue** *RMB'000* | **Results** *RMB'000* | **Operating Results Margin** | Revenue *RMB'000* | Results *RMB'000* | Operating Results Margin |
| Polymers | **1,138,797** | **207,302** | **18.20%** | 984,190 | 295,890 | 30.06% |
| Organic silicone | **738,384** | **(27,323)** | **-3.70%** | 662,152 | 23,250 | 3.51% |
| Refrigerants | **1,563,974** | **191,816** | **12.26%** | 1,473,060 | 25,091 | 1.70% |
| Dichloromethane, PVC and Liquid Alkali | **633,598** | **13,234** | **2.09%** | 455,219 | (36,221) | -7.96% |
| Property development | **–** | **(9,345)** | **–** | – | (6,476) | – |
| Others | **326,363** | **12,426** | **3.81%** | 326,463 | 57,939 | 17.75% |
| | **4,401,116** | **388,110** | **8.82%** | 3,901,084 | 359,473 | 9.21% |
| Less: Inter-segment sales | **(889,286)** | **–** | **–** | (705,240) | – | – |
| Consolidated | **3,511,830** | **388,110** | **11.05%** | 3,195,844 | 359,473 | 11.25% |

***Analysis of Revenue and Operating Results***

During the period, although there showed signs of progressive macro-economic recovery in United States and European countries, foreign industrial and manufacturing markets did not in general demonstrate strong economic recovery momentum. Furthermore, as a result of structural economic adjustment of the People's Republic of China (the "PRC"), the slowdown in the domestic economic growth continued and the manufacturers were prudent in setting out their production strategies, which adversely affected the market demand for majority of industrial and manufacturing products. In this accord, except for 3,000 tonnes per annum of PVDF (Polyvinylidene Fluoride) and 5,000 tonnes per annum of VDF (Vinylidene Flouride) (both belonging to downstream products within the Polymers segment), the Group had no massive new capacities coming into operation during the period.

However, having regard to the wide applicability of the fluorochemical and organic silicone products with favourable characters, the market demand still showed constant growth during the period. With its scalable vertically integrated self-sufficient value chain, the Group continued to capitalize on its leading market position, strong R&D capabilities and extensive sales network, to upgrade its technology level, to optimize its product mix and to develop and promote new products. As a result, during the period under review, the Group still progressed by increasing its overall production and sales volumes year-on-year for all of its operating segments of the Group except the CER business. Nevertheless, the domestic fluorochemical and organic silicone markets had faced up with intense competition and structural overcapacity issues with numerous low-end products emerging in the market, which led to a decrease in the selling prices of majority of its fluorochemical and organic silicone products year-on-year. Although (1) the Group experienced improvements in its Refrigerants segment and its Dichloromethane, PVC and Liquid Alkali segment, which were mainly attributable to the substantial increase in the price of R22 (a principal product within its Refrigerant segment), improvement in the business condition in the domestic chloride methane markets (mainly dichloromethane and trichloromethane (a main raw material for its Refrigerants products)), and (2) the Group consolidated the financial results of Shandong Huaxia Shenzhou New Materials Co. Ltd. ("Huaxia Shenzhou") for the whole of 2014 interim period, there had been a significant drop in the selling prices of the products in the Polymers segment and the Organic Silicone segment turned into operating losses during the period, which led to a drop in both of the gross profit and the consolidated segment results margins of the Group year-on-year. Such situation was further aggravated with that there had been no production and sales of CER units during the period.

***Polymers***

Thanks to the full-period consolidation of Huaxia Shenzhou's financial results by the Group and its year-on-year aggregate sales volume growth, the revenue from the Polymers segment increased by 15.71% to RMB1,138,797,000 from RMB984,190,000 of the corresponding period last year. Despite the year-on-year decrease in the selling prices of the Group's polymers products resulting from the emerging of excessive new production capacities in the market, the Polymers segment remained to be the largest revenue contributor to the Group's revenue, accounting for approximately 32.43% (corresponding period of 2013: 30.80%). Polymers segment, together with the Organic Silicone segment, fall within the "New Material Industry of the PRC" with huge potential, business prospects and government support. During the period, the Group continued with its strategy in developing and promoting new products, giving rise to potential new profit drivers for the Group.

The Group relies on the internal supply of R22 for the production of TFE (a fluorocarbon), which is used by the Group for the production of such polymers products as 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 (an important organic fluorochemical monomer, which can be used to produce various fine chemicals). Furthermore, the Refrigerants segment of the Group supplied R22 and R142b as the raw materials for the production of a variety of downstream fluoropolymer fine chemicals including FEP (Fluorinated Ethylene Propylene, modified materials of PTFE, produced with HFP added in TFE, mainly used in the lining for wire insulation layer, thin-walled tube, heat shrinkable tubes, pumps, valves and pipes), FKM (Fluorine Rubber, a specialized fluorinated material produced with VDF, HFP and TFE, which is mainly used in the fields of aerospace, automotives, machinery and petro-chemistry because of its superior mechanical property, and excellent oil, chemical and heat resistance), PVDF (fluorocarbon made with R142b to produce VDF, mainly used as a fluorine coating resin, fluorinated powder coating resin and lithium battery electrode binding material) and VDF, in which Huaxia Shenzhou has been engaging. Other fluorinated fine chemicals, including PPVE, PSVE, HFPO, formed another major production category of Huaxia Shenzhou.

Coupled with the increase of 10,000 tonnes per annum of TFE and 12,000 tonnes per annum of PTFE during 2013, the expansion of new production capacities of VDF and PVDF in April 2014, and the launching of new PTFE and other downstream polymers products, during the period under review, the Group was able to capitalize on the steady growth in the domestic and foreign polymers market and record substantial growth in the sales volumes of PTFE, HFP, FEP, FKM and PVDF year-on-year. These can mitigate the negative impacts arising from the fall in the selling prices, leading to the rise in the sales revenue of this segment.

This segment contributed 53.41% (corresponding period of 2013: 82.31%) to the total segment results of the Group, while its segment results margin decreased to 18.20% from 30.06% of the corresponding period last year. Such decrease resulted from the significant rise in the raw materials cost (R22), in respect of which the Group maintained nearly 100% self-sufficiency ratio, and the decrease in the selling prices of the Group's polymers products.

***Organic Silicone***

Accounting for 21.01% (excluding inter-segment sales) of the consolidated revenue of the Group for the period under review, the revenue coming from the Organic Silicone business segment increased by 11.51% to RMB738,384,000 from RMB662,152,000. This segment mainly includes the production and sales of DMC (upstream organic silicone intermediates that are used as raw materials to produce deep proceeded mid-stream and downstream silicone products, such as silicone oils, silicone rubber and silicone resins), 107 Silicone Rubber, Raw Vulcanizate and Gross Rubber (collectively referred to as "Silicone Rubbers", deep proceeded silicone rubber products, where Raw Vulcanizate is a key raw material for producing Gross Rubber), and other by-products and other high-end downstream products, such as Gaseous Silica and Silicone Oils. 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 are a key ingredient in industrial processes. The Group initially produces silicone monomers with silicone powder and internally-generated chloromethane and further processes them to become silicone intermediates (mainly DMC), with certain portion of which the Group produces Silicone Rubbers and other organic silicone products). The Group can also be able to produce and generate other by-products and high-end downstream products, such as Gaseous Silica and Silicone Oils through its production processes.

Same for the Polymers segment, the Group's strategy in the Organic Silicone segment is to devise and develop new downstream products with higher profit margins. The expansion in the production capacities of Silicone Rubbers and Gaseous Silica in 2013 had led to the significant year-on-year increase in the sales volume of these two categories, which had been partly mitigated by the decrease in the sales volume of DMC as a result of increase in the internal consumption. Despite the year-on-year decrease in the selling prices of the Group's organic silicone products resulting from the re-emerging of excessive new production capacities, the Group was still be able to record moderate increase in its sales revenue of this business segment year-on-year.

During the period, as a result of the decrease in the average selling prices of DMC, Silicone Rubbers and Gaseous Silica year-on-year, coupled with the increase in raw material costs of silicone powder and chloromethane, the Organic Silicone segment recorded segment loss of RMB27,323,000, compared to segment profit of RMB23,250,000 for the corresponding period last year, which translated to segment results margin of -3.70% (corresponding period of 2013: 3.51%).

***Refrigerants***

During the period, the Refrigerants segment accounted for approximately 26.96% (excluding inter-segment sales) (corresponding period of 2013: 31.42%) of the Group's revenue. Due to the increase in the selling price of R22 and increase in the aggregate sales volume of the refrigerants products, the revenue of the Refrigerants segment increased by 6.17% to RMB1,563,974,000 from RMB1,473,060,000 of the corresponding period last year, notwithstanding the decrease in the average selling prices of other refrigerants products. This segment includes the revenue from the manufacturing and sales of traditional refrigerants products (mainly R22), new green and environmental-friendly refrigerants products (mainly R32, R125, R134a and R410a and so forth) and other types of refrigerants products (mainly R142b and R152a and so forth). The Group produces and sells refrigerants products externally to both domestic and international customers and internally (mainly R22 and R142b) for its Polymers business segment.

As the backbone refrigerants product of the Group with the largest production capacity in the world, R22 is the most widely used refrigerant in the PRC 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 (i.e. PTFE, HFP and other downstream fluorinated chemicals) and R125. R125 and R32 are the key refrigerant mixture for other types of green refrigerants (such as R410a) to replace R22. Currently, R410a has been the principal replacing refrigerant which has been widely applied in inverter air conditioners and other green home appliances. R134a is broadly used in the refrigeration and air-conditioning systems in automobile air conditioners, while R152a is another key refrigerant product of the Group which can also be used as blowing agents, aerosols and cleaning agents. Apart from the fact that R142b can be used as refrigerant, temperature controller medium, or intermediates of aviation propellant, it can also be one of the main raw materials for the production of VDF.

Pursuant to the Montreal Protocol, R22 would be progressively phased out as a refrigerant by the end of 2030 and would be replaced by other green refrigerants. The Chinese government has stopped granting approval to the building up of new R22 capacity. Starting from 2013, the Chinese government has been enforcing a quota system for the sales of R22 as a refrigerant or ozone depleting substances for all of the domestic R22 producers and for the years of 2013 and 2014, the Group has been granted the same quota quantity. As a result, the year-on-year growth of the sales volume of R22 was limited and the external sales volume recorded during the period under review remained flat compared to the same period last year. However, as the Group's internal demand for R22 for the production of downstream fluoropolymers remained strong (this is out of the quota control), the Group was able to record growth in the overall sales volume of R22. In addition, the substantial rebound in the selling price of Trichloromethane has led to increase in the selling price of the Group's R22 product year-on-year, resulting in the substantial increase in the sales revenue of R22 achieved during the period.

With the gradual recovery in the PRC's property market, the green home appliance products end-market and other relevant industries have all boosted the domestic demand for R410a. As a result, the Group experienced considerable increase in the sales volume of R410a. However, as a result of the increasing supply of R410a in the market, the selling price of R410a experienced decline and the Group merely recorded a moderate increase in the sales revenue of this category. Notwithstanding this, the successive growth in the sales volumes of such green refrigerants as R410a over the last few years indicates that green refrigerants would gradually substitute R22 as the most widespread refrigerant in the PRC.

The irrational massive expansion in the capacity of R134a and the anti-dumping measures imposed by United States on imports of R134a from the PRC continued to adversely affect the domestic market and the general weakness in the domestic and foreign automobile markets had intensified the price competition, which made the Group see the substantial drop in both the sales volume and price of R134a. Such depressing supply situation applied to R32 and R125 markets as well, with the result that the Group recorded decrease in the selling prices of R32 and R125 and in the sales volume for R125.

The Group's acquisition of Huaxia Shenzhou enabled the Group to secure a stable and reliable source of demand for the Group's R142b product, and the strong downstream fluoropolymer fine chemicals markets and the expansion in production capacities of VDF and PVDF by Huaxia Shenzhou also led to the significant year-on-year increase in the sales volume and sales revenue of R142b achieved during the period.

The results of the Refrigerants segment contributed 49.42% (corresponding period of 2013: 6.98%) of the total segment results of the Group, while its segment results margin was 12.26%, compared with 1.70% of the corresponding period last year.

***Dichloromethane, PVC and Liquid Alkali***

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

During the period, accounting for approximately 16.84% (excluding inter-segment sale) of the Group's consolidated revenue, the revenue for this segment increased by 39.19% to RMB633,598,000 from RMB455,219,000 of the corresponding period last year.

Liquid alkali is a basic chemical product from the production of the methane chloride (essential chemical for the production of refrigerants and organic silicone products), and used in the textile, power and materials industries. Methane chloride includes dichloromethane, which is mainly used to produce antibiotics and as a foaming mode for polyurethane. The Group engaged in the production of PVC (a widely used thermoplastic polymer applied in the construction industry to replace traditional building materials). The production of refrigerants products generates a chemical, hydrogen chloride, which is one of the basic raw materials 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 period under review, the sales volumes of PVC, liquid alkali and dichloromethane products considerably increased as compared to the same period last year. While the selling prices of PVC and liquid alkali products recorded year-on-year decline, the year-on-year selling prices of dichloromethane experienced a remarkable rebound as a result of the recovery in the domestic methane chloride market, which principally led to a significant rise in the sales revenue of this segment. Coupled with the stable per unit production cost of dichloromethane products, this segment was able to record segment profit of RMB13,234,000, compared with segment loss of RMB36,221,000 in respect of the six months period ended 30 June 2013.

***Property Development – Dongyue International Project (the "Project")***

The Project comprises, among others, residential portion of two parcels of land which are adjacent to each other. They are located at the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, the PRC with a total site area of 189,381 square metres. The residential portion is 157,187 square metres, upon which the Group planned to construct 23 residential blocks with a total planned gross floor areas of approximately 296,000 square metres. The Project comprises five phases which are planned to be completed by the end of 2017. Up to the end of June 2014, the Group, owning 100% interest in the Project, had been constructing the first there phases with planned gross floor area of approximately 181,000 square metres.

The Group commenced pre-sale of the phase 1 starting from the financial year 2013, phase 2 from January 2014 and phase 3 from June 2014. The Project received overwhelming response and a total of approximately 127,900 square metres have been sold out at an average selling price of approximately RMB6,410 per square metre. However, as the three phases are in the course of construction and the sales transactions were not completed up to the date of this interim report, no revenue from the pre-sales has been recognized in the consolidated statement of profit or loss and other comprehensive income.

***Others***

This segment included the revenue from the production and sale of the Group's other side and by-products of the various operating segments, such as Ammonium Bifluoride, Hydrofluoric Acid and Bromine, and the CER business.

During the period, in the wake of continuing weakness of the CER market, the market price of CER units fell to an unreasonably low level and consequently, the Group has temporarily ceased the production and sales of CER units and utilized the prevailing facilities for its Refrigerants segment and thus, no CER revenue (six months ended 30 June 2013: RMB48,554,000) and no CER profits (six months ended 30 June 2013: RMB49,047,000) was recorded by the Group during the period.

During the period, accounting for approximately 2.77% (excluding inter-segment sale) of the Group's consolidated revenue, the revenue for this segment decreased by 0.03% to RMB326,363,000 from RMB326,463,000 of the corresponding period last year, and this segment's results decreased to RMB12,426,000 from RMB57,939,000 of the corresponding period last year.

The Group has been carrying out the necessary exploration works in respect of the nickel mine and the iron and fluorspar mine of the Group and would engage in the actual extraction and production once the relevant extraction licenses are obtained from the relevant government bureau, which enables the Group to secure source of raw materials for its operating segments and to align with the Group's strategy of vertical integration into the fluorochemical value chain.

During the period, the Group has subscribed for 1 billion shares in China Minsheng Investment Company Limited ("CMIC") for an aggregate amount of RMB1 billion (the "Subscription"), which had been accounted for as available-for-sale investments. The Group considered that the Subscription will provide the Group (indirectly through CMIC) with potential investment and acquisition opportunities in industries and enterprises with growth potentials, which, together with its other equity investments, allows the Group to capitalize on the financial leverage for the purpose of diversifying its business risks, while maintaining the focus of its business and strengths its core fluorochemcial business.

***Distribution and Selling Expenses***

During the period, the distribution and selling expenses merely increased by 2.14% to RMB120,906,000 from RMB118,368,000 of the corresponding period last year. As a result of stringent cost control measures imposed by the Group, the amount of distribution and selling expenses were steadily maintained, notwithstanding the increase in the overall sales volumes of the Group during the period.

***Administrative Expenses***

During the period, the administrative expenses decreased by 9.23% to RMB135,384,000 from RMB149,143,000 of the corresponding period last year, which was mainly attributable to the decrease in the expenses on the share options granted to the employees and the Directors.

***Finance Costs***

During the period, the finance costs significantly increased by 31.34% to RMB83,372,000 from RMB63,477,000 of the corresponding period last year, which was mainly attributable to the substantial increase in the amount of the borrowings of the Group during the period.

***Capital Expenditure***

For the six months ended 30 June 2014, the Group's aggregate capital expenditure was approximately RMB319,760,000 (six months ended 30 June 2013: RMB891,691,000). The Group's capital expenditure mainly for the acquisition of fixed assets including the equipment and facilities for the Group's expansion projects in (1) the 5,000 tonnes per annum of PVDF and, (2) the 5,000 tonnes per annum of VDF and for the Group's various technological revamp, energy saving and emission reduction projects.

### *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 2014, the Group's total equity amounted to RMB5,583,042,000, representing an increase of 1.31% compared with 31 December 2013. As at 30 June 2014, the Group's bank balances and cash totaled RMB1,138,981,000 (31 December 2013: RMB1,243,296,000). During the period under review, the Group generated a total of RMB1,099,751,000 (six months ended 30 June 2013: RMB550,059,000) cash inflow from its operating activities. The current ratio[1] of the Group as at 30 June 2014 was 1.11 (31 December 2013: 1.46).

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*

During the period, the Company repurchased and cancelled a total of 1,152,000 ordinary shares of the Company and the number of issued shares of the Company has decreased to 2,118,167,455 as at 30 June 2014.

As at 30 June 2014, the borrowings of the Group totaled RMB3,016,083,000 (31 December 2013: RMB2,152,564,000). The gearing ratio[2] of the Group was 25.16% (31 December 2013: 14.16%).

### *Group Structure*

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

*Notes:*

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

### *Charge on Assets*

As at 30 June 2014, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB449,804,000 (31 December 2013: RMB558,694,000), and bank deposits of RMB214,350,000 (31 December 2013: RMB106,320,000), which were pledged to secure the Group's borrowings and the bills payable of the Group.

### *Exposure to Fluctuations in Exchange Rates and Related Hedges*

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

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 7,278 employees in total as at 30 June 2014 (31 December 2013: 6,797). 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 declare the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

## OTHER INFORMATION

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

During the current period, the Company repurchased, on The Stock Exchange of Hong Kong Limited (the "HKSE"), a total of 1,152,000 ordinary shares of the Company (the "Buyback Shares") at a price range of HK$2.64 to HK$2.99 per share. The aggregate consideration for the Buyback Shares is approximately HK$3,177,000, which was funded from internal resources of the Company. The Buyback Shares were validly cancelled on 17 January and 14 February 2014.

Save as disclosed above, 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 2014.

### Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the HKSE. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2014 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. Liu Yi and Mr. Yue Rundong, all being independent non-executive Directors.

The Audit Committee met with the management and external auditors on 13 August 2014, 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 2014, 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. Ting Leung Huel, Stephen and Mr. Liu Yi were appointed as the members of the Nomination Committee.

**Corporate Governance Committee**

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

**Compliance with the Code on Corporate Governance Practices**

The HKSE has promulgated the Hong Kong Code on Corporate Governance Practices (the "Code") which came into effect for listed issuers' first financial year commencing on or after 1 January 2005. Afterwards, the HKSE has made revision to the Code ("the Revised Code") which becomes effective from 1 January and 1 April 2012 and 1 September 2013.

Throughout the six months ended 30 June 2014, 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.

**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 2014.

By Order of the Board
**Dongyue Group Limited**
**Zhang Jianhong**
*Chairman*

The PRC, 13 August 2014

*As at the date of this announcement, the Board comprised Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Dr. Wu Tao and Mr. Zhang Jian as executive Directors; and Mr. Ting Leung Huel, Stephen, Mr. Liu Yi and Mr. Yue Rundong as independent non-executive Directors.*