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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 2015

FINANCIAL HIGHLIGHTS

(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2015	2014
Revenue	3,676	3,512
Gross Profit	599	513
Gross Profit Margin	16.30%	14.62%
Profit before Tax	350	269
Profit and Total Comprehensive Income for the Period	245	195
Profit and Total Comprehensive Income for the Period attributable to owners of the Company	238	192
Basic Earnings per Share (RMB)	0.11	0.09
	As at	
	30 June	31 December
	2015	2014
Total Equity	6,000	5,898
Net Assets per Share (RMB)	2.83	2.78

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2015

		Six months ended	
	<i>NOTES</i>	30.6.2015	30.6.2014
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	3,676,325	3,511,830
Cost of sales		<u>(3,077,221)</u>	<u>(2,998,358)</u>
Gross profit		599,104	513,472
Other income	4	130,418	118,872
Other gains and losses		5,596	2,260
Distribution and selling expenses		(120,463)	(120,906)
Administrative expenses		(126,203)	(131,629)
Research and development expenses		(30,333)	(29,674)
Finance costs		(108,033)	(83,372)
Gain on disposal of an associate		<u>–</u>	<u>36</u>
Profit before tax		350,086	269,059
Income tax expense	5	<u>(105,085)</u>	<u>(74,431)</u>
Profit and total comprehensive income for the period	6	<u>245,001</u>	<u>194,628</u>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		238,045	191,607
Non-controlling interests		<u>6,956</u>	<u>3,021</u>
		<u>245,001</u>	<u>194,628</u>
Earnings per share	8		
Basic and diluted (<i>RMB</i>)		<u>0.11</u>	<u>0.09</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2015

	<i>NOTES</i>	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		4,247,904	4,456,865
Prepayment for purchase of property, plant and equipment		20,327	28,333
Prepaid lease payments		476,116	482,254
Intangible assets		83,551	89,110
Exploration rights		80,000	80,000
Interests in associates		1,822	1,822
Available-for-sale investments		1,195,283	1,195,283
Deferred tax assets		139,997	159,473
Goodwill		85,894	85,894
		<u>6,330,894</u>	<u>6,579,034</u>
Current assets			
Inventories		649,668	799,861
Properties for sale		655,664	804,389
Prepaid lease payments		13,160	13,441
Trade and other receivables	<i>9</i>	2,580,717	1,906,478
Entrusted loans		710,000	370,000
Pledged bank deposits		206,105	185,145
Bank balances and cash		955,287	1,345,212
		<u>5,770,601</u>	<u>5,424,526</u>
Current liabilities			
Trade and other payables	<i>10</i>	1,970,000	1,972,619
Deposits from pre-sale of properties		393,849	539,550
Borrowings		1,780,669	1,390,437
Tax liabilities		40,829	14,716
Deferred income		4,569	10,623
		<u>4,189,916</u>	<u>3,927,945</u>
Net current assets		<u>1,580,685</u>	<u>1,496,581</u>
Total assets less current liabilities		<u>7,911,579</u>	<u>8,075,615</u>

	<i>NOTES</i>	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Capital and reserves			
Share capital		200,922	200,922
Reserves		<u>5,535,420</u>	<u>5,439,885</u>
Equity attributable to the owners of the Company		5,736,342	5,640,807
Non-controlling interests		<u>263,953</u>	<u>256,997</u>
Total equity		<u>6,000,295</u>	<u>5,897,804</u>
Non-current liabilities			
Deferred income		243,455	234,422
Deferred tax liabilities		44,547	57,302
Borrowings		<u>1,623,282</u>	<u>1,886,087</u>
		<u>1,911,284</u>	<u>2,177,811</u>
		<u>7,911,579</u>	<u>8,075,615</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	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 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 (note 7)	-	-	-	-	-	-	(143,315)	(143,315)	-	(143,315)
Recognition of equity-settled shared-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
Balance at 1 January 2015 (audited)	200,922	1,233,594	382,319	(32,210)	101,098	716,317	3,038,767	5,640,807	256,997	5,897,804
Profit and total comprehensive income for the period	-	-	-	-	-	-	238,045	238,045	6,956	245,001
Transfer	-	-	-	-	-	50,319	(50,319)	-	-	-
Dividends paid (note 7)	-	-	-	-	-	-	(151,746)	(151,746)	-	(151,746)
Recognition of equity-settled shared-based payments	-	-	9,236	-	-	-	-	9,236	-	9,236
Balance at 30 June 2015 (unaudited)	200,922	1,233,594	391,555	(32,210)	101,098	766,636	3,074,747	5,736,342	263,953	6,000,295

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended	
	30.6.2015	30.6.2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	162,759	1,099,751
Net cash used in investing activities:		
Entrusted loans to third parties	(430,000)	(748,000)
Placement of pledged bank deposits	(205,105)	(245,850)
Purchase of property, plant and equipment	(175,367)	(354,377)
Payment of prepaid land lease	(239)	(777)
Purchase of available-for-sale investments	–	(1,000,000)
Purchase of intangible assets	–	(1,250)
Proceeds from release of pledged bank deposits	184,145	137,820
Interest received	98,885	103,088
Repayment of entrusted loans from third parties	90,000	230,000
Dividends received from available-for-sale investments	16,891	2,535
Proceeds from disposals of property, plant and equipment	642	3,186
Proceeds from disposal of an associate	–	15,089
Repayment from a non-controlling shareholder of a subsidiary	–	10,000
Dividends income from associates	–	446
	(420,148)	(1,848,090)
Net cash (used in) from financing activities:		
Repayments of borrowings	(818,073)	(603,256)
Dividends paid	(151,746)	(143,315)
Interest paid	(108,217)	(72,143)
Shares repurchased and cancelled	–	(2,535)
Dividends paid to non-controlling interests	–	(1,502)
Proceeds from borrowings	945,500	1,466,775
	(132,536)	644,024
Net decrease in cash and cash equivalents	(389,925)	(104,315)
Cash and cash equivalents at 1 January	1,345,212	1,243,296
Cash and cash equivalents at 30 June, represented by:		
Bank balances and cash	955,287	1,138,981

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”):

Amendments to IFRSs	<i>Annual Improvements to IFRSs 2010 – 2012 Cycle</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2011 – 2013 Cycle</i>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i>

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

3. SEGMENT INFORMATION

The Group’s operations are organised and reported based on the different types of products sold and property development. Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of products sold and property development.

The Group’s reportable segments are as follows:

- (i) Refrigerants – manufacturing and sales of refrigerants
- (ii) Polymers – manufacturing and sales of polymers
- (iii) Organic silicone – manufacturing and sales of organic silicone
- (iv) Dichloromethane, PVC and liquid alkali – manufacturing and sales of dichloromethane, PVC and liquid alkali
- (v) Property development – development of residential properties at Shandong Province, the PRC

In addition to the reportable segments described above, the Group has other operations which include manufacturing and sales of semi-products and side-products of refrigerants segment, polymers segment, organic silicone segment and dichloromethane, PVC and liquid alkali segment. None of these segments meet any of the quantitative thresholds for determining reportable segments. These segments are grouped as “other operations”.

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

Six months ended 30 June 2015

	Refrigerants	Polymers	Organic silicone	Dichloromethane polyvinyl chloride and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
External sales	1,054,163	958,481	715,444	519,297	346,491	3,593,876	82,449	-	3,676,325
Inter-segment sales	896,461	-	160	45,241	-	941,862	254,205	(1,196,067)	-
Total revenue-segment revenue	<u>1,950,624</u>	<u>958,481</u>	<u>715,604</u>	<u>564,538</u>	<u>346,491</u>	<u>4,535,738</u>	<u>336,654</u>	<u>(1,196,067)</u>	<u>3,676,325</u>
SEGMENT RESULTS	<u>214,631</u>	<u>110,568</u>	<u>(22,453)</u>	<u>34,173</u>	<u>103,701</u>	<u>440,620</u>	<u>16,666</u>	<u>-</u>	<u>457,286</u>
Unallocated corporate expenses									(16,058)
Unallocated other income									16,891
Finance costs									(108,033)
Profit before tax									<u>350,086</u>

Six months ended 30 June 2014

	Refrigerants	Polymers	Organic silicone	Dichloromethane polyvinyl chloride and liquid alkali	Property development	Reportable segments' total	Other operations	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
External sales	946,669	1,138,797	737,716	591,373	-	3,414,555	97,275	-	3,511,830
Inter-segment sales	617,305	-	668	42,225	-	660,198	229,088	(889,286)	-
Total revenue-segment revenue	<u>1,563,974</u>	<u>1,138,797</u>	<u>738,384</u>	<u>633,598</u>	<u>-</u>	<u>4,074,753</u>	<u>326,363</u>	<u>(889,286)</u>	<u>3,511,830</u>
SEGMENT RESULTS	<u>191,816</u>	<u>207,302</u>	<u>(27,323)</u>	<u>13,234</u>	<u>(9,345)</u>	<u>375,684</u>	<u>12,426</u>	<u>-</u>	<u>388,110</u>
Unallocated corporate expenses									(38,250)
Unallocated other income									2,535
Finance costs									(83,372)
Gain on disposal of an associate									36
Profit before tax									<u>269,059</u>

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment results represent the result of each segment without allocation of unallocated other income, central administration costs, directors' salaries 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 regularly 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	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Government grants	10,009	10,041
Bank deposits interest income	9,098	9,668
Interest income on entrusted loans	89,787	93,420
Dividend income from available-for-sale investments	16,891	2,535
Others	4,633	3,208
	<u>130,418</u>	<u>118,872</u>

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Current PRC Enterprise Income Tax	73,025	74,866
Land Appreciation Tax ("LAT" (<i>note (a)</i>))	8,338	–
Deferred tax:		
– withholding tax for distributable profits of PRC subsidiaries (<i>note (b)</i>)	7,577	5,926
– others	16,145	(6,361)
	<u>23,722</u>	<u>(435)</u>
Total income tax expense	<u>105,085</u>	<u>74,431</u>

Note:

- (a) LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.
- (b) According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No. 1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to 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 RMB7,577,000 (six months ended 30 June 2014: RMB5,926,000) 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 months ended	
	30.6.2015 RMB'000 (unaudited)	30.6.2014 RMB'000 (unaudited)
Amortisation of intangible assets (included in cost of sales)	5,559	5,261
Depreciation of property, plant and equipment	340,863	331,772
Less: Amount capitalised in inventories	(305,109)	(295,317)
Total depreciation and amortisation	<u>41,313</u>	<u>41,716</u>
Cost of inventories recognised as expenses, including reversal of write-down of inventories of RMB4,560,000 (six months ended 30 June 2014: write-down of Inventories of RMB6,988,000)	3,077,221	2,998,358
Release of prepaid lease payments	<u>6,658</u>	<u>8,568</u>

7. DIVIDENDS

During the current interim period, a final dividend of HK\$0.09 per share in respect of the year ended 31 December 2014 (six months ended 30 June 2014: HK\$0.085 per share in respect of the year ended 31 December 2013) 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\$190,635,000, equivalent to RMB151,746,000 (six months ended 30 June 2014: HK\$180,044,000, equivalent to RMB143,315,000).

The directors determined not to declare interim dividend for the six months ended 30 June 2015 and 2014.

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	
	30.6.2015 RMB'000 (unaudited)	30.6.2014 RMB'000 (unaudited)
Earnings for the purposes of basic and diluted earnings per share	<u>238,045</u>	<u>191,607</u>

	Number of shares	
	30.6.2015 '000 (unaudited)	30.6.2014 '000 (unaudited)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>2,118,167</u>	<u>2,118,324</u>

The computation of diluted earnings per share for the six months ended 30 June 2014 and 30 June 2015 does not assume the exercise of the Company's outstanding share options 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 2014 and 30 June 2015 respectively.

9. TRADE AND OTHER RECEIVABLES

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Trade receivables	2,425,536	1,786,551
Less: allowance for doubtful debts	(3,848)	(3,818)
	2,421,688	1,782,733
Prepayments for raw materials	62,542	36,176
Value added tax receivables	513	13,696
Prepaid taxes arising from pre-sale of properties	28,731	39,588
Deposits and other receivables	67,243	34,285
	2,580,717	1,906,478

Included in trade receivables are bills receivable amounting to RMB1,847,880,000 (31 December 2014: RMB1,539,006,000).

Customers are generally granted with credit period of 30 to 90 days for trade receivables. Bills receivable are generally due in 90 days or 180 days. The following is an aging 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. Bills receivables are presented based on the date of receipt of the bills.

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Within 90 days	2,260,975	1,524,267
91 – 180 days	150,202	250,277
181 – 365 days	10,511	8,189
	2,421,688	1,782,733

10. TRADE AND OTHER PAYABLES

	30.6.2015 RMB'000 (unaudited)	31.12.2014 RMB'000 (audited)
Trade payables	1,386,134	1,255,355
Receipt in advance from customers	56,879	74,741
Payroll payable	178,999	185,426
Payable for property, plant and equipment	63,062	108,798
Other tax payables	28,050	32,323
Other deposits in relation to properties under development for sale	58,000	58,000
Construction cost payables for properties for sale	126,634	191,121
Other payables and accruals	72,242	66,855
	1,970,000	1,972,619

Included in trade payables are bills payables amounting to RMB733,270,000 (31 December 2014: RMB698,855,000). Bills payables are secured by the Group's pledged bank deposits.

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

	30.6.2015 RMB'000 (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Within 30 days	832,158	321,912
31 – 90 days	162,626	481,385
91 – 180 days	187,645	399,077
181 – 365 days	184,710	38,301
1 – 2 years	10,317	9,337
More than 2 years	8,678	5,343
	<hr/> 1,386,134 <hr/>	<hr/> 1,255,355 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, China's economy entered into a "New Normal Stage", showing a slower but more steady growth compared to the past years. Global economy is also facing a relatively complicated situation, especially with economic fluctuations, as affected by the Greek debt crisis. The prices of certain products in the fluorosilica industry witnessed some signs of recovery. While the previously accumulated capacity in the industry have been released gradually, the issue of overcapacity still exists. As such, overall market prices remained at low level. Amidst this macro environment, Dongyue Group Limited (the "Company") and its subsidiaries (collectively known as the "Group") still operated at a robust pace in the first half of the year, thanks to its advanced management, excellent brand and outstanding teamwork, achieving such outstanding results as follows:

1. In the first half of 2015, the Group strengthened its marketing campaign by organizing the activities "Pursuing Annual Operating Results that Exceed Expectation and the Corresponding Period of Last Year" and "Providing Zero-Distance Service for Customers for 100 Days", setting the goal of "Not Losing A Single Customer and Order". These efforts enabled the Group to secure a stable market share, a solid market position and the pleasing performance of higher income and net profit.
2. We continued to strengthen product research and development in order to win the market with innovative technology and products, with a sharp focus on the development of downstream high-end products. In the first half of this year, the Group completed the research and development of 11 new products, including DF-104 (PTFE suspension medium grain) and DF-203X (PTFE dispersion resin) of the Polymers segment and high-quality silica products DY-1000 and DY-2000 of the Organic Silicone segment. In addition, we obtained 18 authorised patents in the first half of 2015.
3. We value technical transformation, energy conservation and emission reduction. We finished 15 technical transformation projects in the first half of this year. Through continuous technical transformation and innovation, the Group optimized its production processes and lowered the consumption rate of raw material and overall energy consumption to a certain extent, thus reducing production cost and increasing the gross margin.
4. We accelerated the implementation of "Learning from Formosa Plastics" by building a corresponding institutional system. In the first half of 2015, central control towers were built in some segments of the Group, pushing forward the centralized operation via a central control system step by step. We built the corresponding databases and monitoring platforms for the operation of some large equipment. Meanwhile, we proceeded with the introduction and operation of information modules, with the commissioning of inspection systems and data collection and uploading systems in some segments. On the talent front, the Group organized professional training on electronic instrumentation, central control system, safety, document management, finance, warehousing and procurement, which improved the professional competency and quality of our professional staff and laid a foundation for our mission of "Learning from Formosa Plastics".

5. The Conference on the 13th Five-year Development Plan for the Chinese Fluoro-chemical Industry was hosted by the Group and attended by the members of enterprises from the fluorosilica industry association, Shandong Petrochemical Federation, and China Association of Fluorosilica Industry (CAFSI). The development plan for the Chinese fluoro-chemical industry during the 13th five-year period was discussed, which would be significant in guiding the development of the Chinese fluoro-chemical industry.

Prospects

This year thus far, the recovery of global economy was relatively slow and the PRC, with the economic restructuring, experienced a slower and steady economic development which is expected to continue in the second half of 2015. The intense competition has not yet been solved, hence the fluorosilica industry is still under market pressures. In such circumstances, the Group will continue to uphold “reform, innovation, adjustment and development” to seek development amidst adverse conditions. Hence, the Group will implement the following development strategies in the future:

1. The Group will develop high-end products. Based on the raw material provided by the current fluorosilica products, the Group will conduct vertical extension to develop high-end fluorosilica products, such as PVDF for water treatment membrane, phenyl, special vinyl organosilicon monomer and special organosilicon polymer. Therefore, in the second half of 2015, the Group will accelerate the research and development of high-end products, such as methyl vinyl silicone resin used as the packaging material for solar panels in the new energy industry and binary low-mooney fluorine rubber of high molecular weight which is used in the seal elements of vehicles.
2. The Group will build a diversified industrial park. Also, the Group will focus on the development projects such as fluorosilica copolymer, petroleum base of organosilicone modification, and non-conventional rubber of petroleum base. Meanwhile, the Group will collaborate with other corporates from the downstream market, the upstream suppliers of raw materials, or the fluorosilicone fine chemicals enterprises.
3. The Group will develop a globalized market, rivaling global competitors and adopting the standards of global businesses. According to the demands of domestic and foreign markets, the Group is researching and developing products comparing with other international enterprises. For instance, DF-18A used in electronic parts is the overseas standard.
4. The Group will take steps to standardize its management, including the full implementation of the project of “Learning from Formosa Plastics”. Specifically, the Group will spend two to three years in gradual transformation to informatization and automation in order to ultimately realize one-key driving, remote control, fully automatic data generation, storage and processing, automated constant flow and temperature system, as well as other automation items. Such transformation aims to reduce the steps of manual operation and guarantee production safety and quality. In addition, the Group will optimize personnel arrangement for streamlining and reducing the production personnel by approximately 5% by the end of 2015.

5. The Group is now organizing meeting(s) between our senior management and experts to study and formulate the 13th Five-year Development Plan. During the 13th five-year period, the Group will strive to achieve the development of high-end product offerings, market globalization, technology modernization and management standardization, and improve the industrial chains and optimize our human resources through innovative research and development. By implementing such strategy, the Group will achieve development breakthroughs and attain even better results during the 13th five-year period.

In all, fluorosilica materials have their unique excellent functions and extensive application across a wide range of booming industries, such as vehicles, electronic communications, medicine, aerospace, military and new energy, with ample room for function development and technical research. Therefore, the Group will put its emphasis on research and development, especially of the high-end products that are needed by fast-growing industries. In respect of marketing, it is important to improve the system of industrial chains, seize the direction of market demands, follow the standard of international businesses and achieve globalized development. In respect of management, steps should be taken to standardize management and improve efficiency with better management. Hence, the management of the Company, confident of the Group's future development, will seek breakthroughs amidst industrial challenges, create value for and bring considerable and long-term returns to the shareholders.

Financial review

Results Highlights

For the six months ended 30 June 2015, the Group recorded revenue of approximately RMB3,676,325,000, representing an increase of 4.68% over RMB3,511,830,000 of the corresponding period last year. The gross profit margin increased to 16.30% (corresponding period of 2014: 14.62%) and the consolidated segment results margin* was 12.44% (corresponding period of 2014: 11.05%). The operating results margin** was 12.71% (corresponding period of 2014: 10.74%). During the period, the Group recorded profit before tax of approximately RMB350,086,000 (corresponding period of 2014: RMB269,059,000), and net profit of approximately RMB245,001,000 (corresponding period of 2014: RMB194,628,000), while consolidated profit attributable to the Company's owners was approximately RMB238,045,000 (corresponding period of 2014: RMB191,607,000). Basic earnings per share were RMB0.11 (corresponding period of 2014: RMB0.09). The unaudited consolidated results of the Group have been reviewed by the Audit Committee and the external auditor of the Company.

* Consolidated Segment Results Margin = Consolidated Segment Results \div Revenue \times 100%

** Operating Results Margin = (Profit before Tax + Finance Costs + Share Options Expense) \div Revenue \times 100%

Segment Revenue and Operating Results

Set out below is the comparison, by reportable and operating segments, of the Group's revenue and results for the six months ended 30 June 2015 and the six months ended 30 June 2014:

Reportable and Operating Segments	For the six months ended 30 June 2015			For the six months ended 30 June 2014		
	Revenue RMB'000	Results RMB'000	Segment Results Margin	Revenue RMB'000	Results RMB'000	Segment Results Margin
Refrigerants	1,950,624	214,631	11.00%	1,563,974	191,816	12.26%
Fluoropolymer	958,481	110,568	11.54%	1,138,797	207,302	18.20%
Organic silicone	715,604	(22,453)	-3.14%	738,384	(27,323)	-3.70%
Dichloromethane, PVC and Liquid Alkali	564,538	34,173	6.05%	633,598	13,234	2.09%
Property development	346,491	103,701	29.93%	–	(9,345)	–
Others	82,449	16,666	4.95%	97,275	12,426	3.81%
	<u>4,618,187</u>	<u>457,286</u>	<u>9.39%</u>	<u>4,172,028</u>	<u>388,110</u>	<u>8.82%</u>
Less: Inter-segment sales	(941,862)	–	–	(660,198)	–	–
Consolidated	<u><u>3,676,325</u></u>	<u><u>457,286</u></u>	<u><u>12.44%</u></u>	<u><u>3,511,830</u></u>	<u><u>388,110</u></u>	<u><u>11.05%</u></u>

Analysis of Revenue and Operating Results

During the period, the domestic and international economic situation caused the fluctuations of the global markets, which are mainly manifested in reduced demand, intensified competition and an challenging business environment for the Group. Accordingly, the Group conducted certain measures according to the market conditions, including no new addition to capacity, and focusing on product research and development and improvement of customer service. The fluorosilica industry, with its excellent properties and extensive applicability, still has enormous potential. Moreover, with the well-established industrial chain, persistent research and development, excellent reputation and market shares, the Group is in an advantageous position in terms of cost, technology and market position. As such, the Group is in a leading position in the fluorosilica industry and can effectively cope with the sluggish industrial market.

During the period, the Group recorded an increase of 25.88% in overall profit as compared with the same period of last year. The increasing industry pressure resulted in a decrease in both revenue and profit in the polymers segment and a loss in the organic silicone segment. However, the overall profit of the Group in the period still increased as compared to the same period of last year, mainly due to: (i) the rise of price and demand in the refrigerant market, which led to a significant increase in the revenue and profit of the refrigerant segment; (ii) real estate project recorded considerable profit; and (iii) the dichloromethane, PVC and liquid alkali segment recorded a significantly decrease in cost while achieved a significantly increase in profit.

Refrigerants

During the period, the revenue of the refrigerant segment surged by 24.72% to RMB1,950,624,000 from RMB1,563,974,000 of the corresponding period of last year, accounting for approximately 28.67% of the Group's revenue (excluding inter-segment sales) (corresponding period of 2014: 26.96%). The profit of the refrigerant segment contributed 46.94% of the Group's total segment profit (corresponding period of 2014: 49.42%), with a segment results margin of 11.0% (corresponding period of 2014: 12.26%). During the period, the refrigerant segment delivered a satisfactory performance mainly because: (i) a quota limit on R22 starting from 2013 created favorable market conditions for R22, making contributions to the increase of the segment revenue during the period under review; and (ii) the quota limit on R22 supply diverted customer demand to refrigerants other than R22. As a result, other refrigerant markets were recovering, with a rise in the price and demand of some products.

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

Fluoropolymer

Due to market competition, the revenue from the fluoropolymer segment decreased by 15.83% to RMB958,481,000 from RMB1,138,797,000 in the same period of last year, accounting for 26.07% of the Group's total revenue during the period under review. The overall income of this segment decreased compared to the same period of last year as a result of generally lower product prices due to more intense competition in the industry.

The segment's profit accounted for 24.18% of the Group's total segment profit (corresponding period of 2014: 53.41%), while the segment results margin dropped to 11.54% from 18.20% in the same period of last year. The decline was caused by the lower selling prices of the Group's fluoropolymer products.

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

In light of the higher added value of downstream fluoropolymer products, the segment has been focusing on technology development and product R&D, with a variety of new products rolled out in the market so far. The segment launched nine new products within the period, including DF-104 (PTFE suspension medium grain) and DF-203X (PTFE dispersion resin), with 14 patents obtained. Despite the industrial pressure of the fluoropolymer segment, the Group is confident that technical innovation will enable this segment to maintain its market shares and stable development.

Organic Silicone

The revenue in the organic silicone segment decreased by 3.09% from RMB738,384,000 to RMB715,604,000, accounting for 19.46% of the Group's total revenue during the period under review (excluding inter-segment sales). The decrease in revenue in organic silicone segment was mainly due to the lower product price resulted from the intensified market competition.

During the period, the average selling prices of DMC, silicone rubber and gaseous silica were still at low levels, thus the segment recorded a loss of RMB22,453,000. The figure represents a slight improvement from the loss of RMB27,323,000 recorded in the same period of last year. The segment results margin was -3.14% (corresponding period of 2014: -3.70%).

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

Similar to the polymers segment, the organic silicone segment has high value-added downstream products which is facing relatively less intense market competition. During the period, the organic silicone segment did not make any major investment on capacity expansion. It mainly focused on technological research and product development. During the period, the segment successfully developed two new products and obtained one patent.

Dichloromethane, PVC and Liquid Alkali

During the period, the segment revenue decreased by 10.90% to RMB564,538,000 from RMB633,598,000 of the corresponding period of last year, accounting for approximately 14.13% of the Group's total revenue (excluding inter-segment sales). During the period under review, the production costs, such as raw materials cost, have declined substantially, with the segment recorded a profit of RMB34,173,000 (corresponding period of 2014: a profit of RMB13,234,000).

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

Property Development – Dongyue International Project (the “Project”)

The Project comprises the residential portion of two parcels of land which are adjacent to each other. They are located to the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, the PRC with a total site area of 189,381 square meters. The residential portion is 157,187 square meters, comprising a total of five phases, which are planned to build 23 residential blocks with a total planned gross floor areas of approximately 296,000 square meters.

By the end of June 2015, the Group has commenced the pre-sale of Phases I, II, III and IV, with the first two phases commencing delivery from November 2014 and June 2015 respectively. A total of 126,367 square meters have been sold in the four phases. During the period under review, the sale of 369 residential units with a total of approximately 45,497 square meters, have been completed and approximately RMB346,491,000 and RMB103,701,000 have been recognized as the segment revenue and the segment profit respectively. The segment revenue constituted about 9.42% of the Group's total revenue, while the segment profit accounted for 22.68% of the Group's total segment profit. In the corresponding period of last year, no revenue from the pre-sales has been recognized in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2014, as relevant sales transactions were yet to be completed.

Others

This segment encompasses the revenue from the production and sale of other by-products from the Group's operating segments, such as Ammonium Bifluoride, Hydrofluoric Acid and Bromine. During the period, the segment's income decreased by 15% to RMB82,449,000 from RMB97,275,000 recorded in the corresponding period of last year. The segment revenue constituted approximately 2.24% of the Group's total revenue (excluding inter-segment sales). The segment's profit increased to RMB16,666,000 from RMB12,426,000 of the corresponding period of last year.

Distribution and Selling Expenses

During the period, the distribution and selling expenses merely decreased by 0.37% to RMB120,463,000 from RMB120,906,000 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 4.12% to RMB126,203,000 from RMB131,629,000 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 29.58% to RMB108,033,000 from RMB83,372,000 of the corresponding period last year, which was mainly attributable to the substantial increase in the amount of the borrowings of the Group compared to the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2015, the Group's aggregate capital expenditure was approximately RMB137,637,000 (six months ended 30 June 2014: RMB319,760,000). The Group's capital expenditure mainly for the acquisition of fixed assets for the Group's power plant expansion project.

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 2015, the Group's total equity amounted to RMB6,000,295,000 representing an increase of 1.74% compared with 31 December 2014. As at 30 June 2015, the Group's bank balances and cash totaled RMB955,287,000 (31 December 2014: RMB1,345,212,000). During the period under review, the Group generated a total of RMB162,759,000 (six months ended 30 June 2014: RMB1,099,751,000) cash inflow from its operating activities. The current ratio⁽¹⁾ of the Group as at 30 June 2015 was 1.37 (31 December 2014: 1.38).

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 has not repurchased and cancelled any ordinary shares of the Company and the number of issued shares of the Company is 2,118,167,455 as at 30 June 2015.

As at 30 June 2015, the borrowings of the Group totaled RMB3,403,951,000 (31 December 2014: RMB3,276,524,000). The gearing ratio⁽²⁾ of the Group was 28.98% (31 December 2014: 24.67%).

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 2015, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB248,387,000 (31 December 2014: RMB249,503,000), and bank deposits of RMB206,105,000 (31 December 2014: RMB185,145,000), 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 6,540 employees in total as at 30 June 2015 (31 December 2014: 6,824). 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 2015 (six months ended 30 June 2014: Nil).

OTHER INFORMATION

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

During the current period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2015.

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 2015 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

Audit Committee

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

The Audit Committee met with the management and external auditors on 13 August 2015, 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 2015, which have been reviewed by the Group’s external auditors, before proposing them to the Board for approval.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference to consider for the remuneration for Directors and senior management of the Company and other related matters. The Remuneration Committee comprises Mr. Yang Xiaoyong (Chairman) and Mr. Ting Leung Huel, Stephen, who are independent non-executive Directors, and Mr. Zhang Jianhong who is an executive Director.

Nomination Committee

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

Corporate Governance Committee

The Corporate Governance Committee was established by the Board with written terms of reference with effect from 21 March 2013 to be responsible for the corporate governance of the Company and other related matters. Mr. Zhang Jianhong was appointed as the chairman of the Corporate Governance Committee and Mr. Liu Chuanqi and Mr. Feng Jianjun 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 2015, 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 2015.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 13 August 2015

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