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DONGYUE FEDERATION

DONGYUE GROUP LIMITED
東岳集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 189)

(1) ANNOUNCEMENT OF INTERIM RESULTS FOR 2016 AND (2) CONTINUED SUSPENSION OF TRADING

FINANCIAL HIGHLIGHTS
(in RMB million, unless otherwise stated)

	Six months ended 30 June	
	2016	2015
Revenue	**3,828**	3,676
Gross Profit	**791**	599
Gross Profit Margin	**20.67%**	16.30%
Profit before Tax	**444**	350
Profit and Total Comprehensive Income for the Period	**319**	245
Profit and Total Comprehensive Income for the Period attributable to owners of the Company	**309**	238
Basic Earnings per Share (RMB)	**0.15**	0.11

	As at	
	30 June 2016	31 December 2015
Total Equity	**5,390**	5,072
Net Assets per Share (RMB)	**2.55**	2.40

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June	
		2016	2015
		RMB'000	*RMB'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	*3*	**3,828,078**	3,676,325
Cost of sales		**(3,036,862)**	(3,077,221)
Gross profit		**791,216**	599,104
Other income	*4*	**82,108**	142,419
Distribution and selling expenses		**(137,402)**	(120,463)
Administrative expenses		**(170,174)**	(132,608)
Research and development expenses		**(30,698)**	(30,333)
Finance costs		**(89,378)**	(108,033)
Share of results of associates		**(1,580)**	–
Profit before tax		**444,092**	350,086
Income tax expense	*5*	**(124,860)**	(105,085)
Profit and total comprehensive income for the period	*6*	**319,232**	245,001
Profit and total comprehensive income attributable to:			
– Owners of the Company		**308,512**	238,045
– Non-controlling interests		**10,720**	6,956
		319,232	245,001
Earnings per share	*8*		
– Basic (RMB)		**0.15**	0.11
– Diluted (RMB)		**0.15**	0.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	Notes	**30 June 2016** *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**3,984,079**	4,181,257
Prepayments for purchase of property, plant and equipment		**6,269**	281
Prepaid lease payments		**462,702**	469,366
Intangible assets		**112,437**	117,993
Interests in associates		**21,142**	995
Available-for-sale investments		**1,195,283**	1,195,283
Deferred tax assets		**460,053**	453,288
Goodwill		**85,894**	85,894
Deposit paid for acquisition of a subsidiary		**165,897**	165,897
Deposit paid for acquisition of an associate		**–**	7,250
		6,493,756	6,677,504
Current assets			
Inventories		**683,291**	713,461
Properties for sale		**607,953**	787,429
Prepaid lease payments		**13,237**	13,241
Trade and other receivables	*9*	**1,434,856**	1,392,153
Entrusted loans		**30,000**	336,300
Pledged bank deposits		**262,435**	113,214
Bank balances and cash		**1,802,743**	1,467,426
		4,834,515	4,823,224

	Notes	**30 June 2016** *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Current liabilities			
Trade and other payables	*10*	**1,971,194**	2,194,297
Deposits from pre-sale of properties		**300,090**	422,670
Borrowings		**1,842,653**	1,831,754
Tax liabilities		**70,411**	49,067
Deferred income		**28,659**	28,755
		4,213,007	4,526,543
Net current assets		**621,508**	296,881
Total assets less current liabilities		**7,115,264**	6,974,185
Capital and reserves			
Share capital		**200,397**	200,540
Reserves		**4,907,790**	4,600,999
Equity attributable to the owners of the Company		**5,108,187**	4,801,539
Non-controlling interests		**281,617**	270,836
Total equity		**5,389,804**	5,072,375
Non-current liabilities			
Deferred income		**258,065**	264,051
Deferred tax liabilities		**52,595**	50,147
Borrowings		**1,414,800**	1,587,612
		1,725,460	1,901,810
		7,115,264	6,974,185

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	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* (*Note a*)	*RMB'000* (*Note b*)	*RMB'000* (*Note c*)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	–	–	–	–	–	–	(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
Balance at 1 January 2016 (audited)	200,540	1,226,972	391,844	(32,210)	101,534	737,882	2,174,977	4,801,539	270,836	5,072,375
Profit and total comprehensive income for the period	–	–	–	–	–	–	308,512	308,512	10,720	319,232
Transfer	–	–	–	–	327	–	–	327	61	388
Shares repurchased and cancelled	(143)	(2,048)	–	–	–	–	–	(2,191)	–	(2,191)
Balance at 30 June 2016 (unaudited)	200,397	1,224,924	391,844	(32,210)	101,861	737,882	2,483,489	5,108,187	281,617	5,389,804

Notes:

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

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**588,075**	162,759
INVESTING ACTIVITIES		
Entrusted loans to third parties	**(284,500)**	(430,000)
Purchase of property, plant and equipment	**(169,616)**	(175,367)
Placement of pledged bank deposits	**(490,981)**	(205,105)
Payment for prepaid land lease	**–**	(239)
Repayment of entrusted loans from third parties	**590,800**	90,000
Interest received	**5,054**	98,885
Proceeds from release of pledged bank deposits	**341,760**	184,145
Proceeds from disposals of property, plant and equipment	**957**	642
Deposit received for acquisition of an associate	**7,250**	–
Dividend income from available-for-sale investments	**–**	16,891
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	**724**	(420,148)
FINANCING ACTIVITIES		
Proceeds from borrowings	**850,956**	945,500
Repayment of borrowings	**(1,012,869)**	(818,073)
Interest paid	**(89,378)**	(108,217)
Dividends paid	**–**	(151,746)
Shares repurchased and cancelled	**(2,191)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(253,482)**	(132,536)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**335,317**	(389,925)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	**1,467,426**	1,345,212
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	**1,802,743**	955,287

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

3. SEGMENT INFORMATION

The Group's operations are organised based on the different types of products and property development. Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of products and property development. This is the basis upon which the Group is organised.

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

- Refrigerants;
- Polymers;
- Organic silicone;

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

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

Six months ended 30 June 2016

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

Six months ended 30 June 2015

	Refrigerants *RMB'000*	Polymers *RMB'000*	Organic Silicone *RMB'000*	Dichloromethane PVC and liquid alkali *RMB'000*	Property development *RMB'000*	Reportable segments' total *RMB'000*	Other operations *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
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	1,950,624	958,481	715,604	564,538	346,491	4,535,738	336,654	(1,196,067)	3,676,325
SEGMENT RESULTS	214,631	110,568	(22,453)	34,173	103,701	440,620	16,666	–	457,286
Unallocated corporate expenses									(16,058)
Unallocated other income									16,891
Finance costs									(108,033)
Share of results of associates									–
Profit before tax									350,086

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies as described in note 3. Segment results represent the results of each segment without allocation of unallocated other income, central administration costs, directors' salaries, share of result of associates and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. No segment information on assets and liabilities is presented as such information is not reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

4. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(note)*	**22,588**	10,009
Bank deposits interest income	**5,054**	9,098
Interest income on wealth management contract	**–**	65,849
Interest income on entrusted loan	**20,804**	23,938
Dividend income from available-for-sale investments	**–**	16,891
Others	**33,662**	16,634
	82,108	142,419

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC enterprise income tax ("EIT")		
– Current year	**116,151**	73,025
– Over provision in prior years	**(7,343)**	–
Land appreciation tax ("LAT" *(note (a))*)	**20,369**	8,338
	129,177	81,363
Deferred tax (credit)/charge		
– Withholding tax for distributable profits of PRC subsidiaries *(note (b))*	**5,254**	7,577
– Others	**(9,571)**	16,145
	(4,317)	23,722
Total income tax expense	**124,860**	105,085

Notes:

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

(b) According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No.1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax asset/liability of RMB5,254,000 (six months ended 30 June 2015: RMB7,577,000) on the undistributed earnings of subsidiaries has been charged to profit or loss for the period.

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Amortisation of intangible assets	**5,556**	5,559
Depreciation of property, plant and equipment	**358,626**	340,863
Less: Amount capitalised in inventories	**–**	(305,109)
	364,182	41,313
Cost of inventories recognised as an expense	**3,036,862**	3,077,221
Amortisation of prepaid lease payments	**6,668**	6,658

7. DIVIDENDS

During the interim period ended 30 June 2016, no dividend was declared and paid to the owners of the Company (six months ended 30 June 2015: a final dividend of HK$0.09 per share in respect of the year ended 31 December 2014 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the six months ended 30 June 2015 amounted to HK$190,635,000, equivalent to RMB151,746,000.)

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	'000	*'000*
	(unaudited)	(unaudited)
Earning for the period attributable to owners of the Company for The purposes of basic and diluted earnings per share *(RMB)*	**308,512**	238,045
Weighted average number of ordinary shares for The purposes of basic and diluted earnings per share	**2,111,901**	2,118,167

The computation of diluted earnings per share for the six months ended 2016 and 2015 does not assume the exercise of all of the Company's outstanding share options as the exercise prices of those options are higher than the average market price of the shares.

9. TRADE AND OTHER RECEIVABLES

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Trade receivables	**1,144,777**	1,296,531
Less: allowance for doubtful debts	**(17,086)**	(2,918)
	1,127,691	1,293,613
Prepayments for raw materials	**74,518**	23,313
Value added tax receivables	**4,860**	7,757
Prepaid taxes arising from pre-sale of properties	**10,998**	19,445
Amount due from associates	**166,323**	2,107
Deposits and other receivables	**50,466**	45,918
	1,434,856	1,392,153

Included in the trade receivables are bills receivable amounting to RMB695,625,000 at 30 June 2016 (31 December 2015: RMB1,072,350,000).

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

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Within 90 days	**904,446**	490,307
91-180 days	**175,595**	784,301
181-365 days	**46,992**	19,005
1 year-2 year	**658**	–
	1,127,691	1,293,613

10. TRADE AND OTHER PAYABLES

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Trade payables	**1,321,601**	1,358,497
Receipt in advance from customers	**73,394**	69,920
Payroll payable	**157,859**	143,950
Payable for property, plant and equipment	**24,985**	87,281
Other tax payables	**44,733**	30,173
Other deposits in relation to property development project	**58,000**	58,000
Construction cost payables for properties under development for sale	**161,910**	156,957
Other payables and accruals	**128,712**	289,519
Total	**1,971,194**	2,194,297

Included in the trade payables are bills payable amounting to RMB582,000,000 (31 December 2015: RMB508,319,000). Bills payable are secured by the Group's pledged bank deposits.

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

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

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Within 30 days	**505,785**	472,159
31-90 days	**311,048**	306,426
91-180 days	**340,670**	309,855
181-365 days	**128,755**	250,316
1-2 years	**26,143**	9,162
More than 2 years	**9,200**	10,579
	1,321,601	1,358,497

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2016, China's economic conditions showed signs of recovery, establishing the groundwork for the post-transformation economic development. Its GDP grew by 6.7%, implying that the economic growth fell into place gradually. Given complicated international economic conditions, however, the international market demand declined due to various international political factors. Despite the generally adverse economic conditions, Dongyue Group Limited (the "Company") and its subsidiaries (collectively known as the "Group") maintained their leading position in the industry and made further achievements thanks to their sustained competitiveness in the market.

1. In the first half of 2016, to overcome the business challenges in terms of marketing, the Group expanded its market share leveraging on products' value and brand by fully implementing eight commitments, five key solutions and "three zero" service pledges through centralized integration primarily of the marketing, supply, production and R&D functions of the Group. During the period under review, the Group recorded revenue of RMB3,828,078,000, representing an increase of 4.13% as compared with the corresponding period last year; profit before tax of RMB444,092,000, representing an increase of 26.85% as compared with the corresponding period last year. The excellent results have laid a solid foundation for the development of the Company under the New Normal.

2. In the first half of the year, the Group proceeded with implementation of "Learning from Formosa Plastics" by conducting competition for implementation of "Learning from Formosa Plastics". With the joint efforts of all branches and departments of the Group, the policy of "Learning from Formosa Plastics" was fully implemented, and the management systems and incentive measures were innovated, with the focus on technological innovation, improvement of informatization and automation, stable production, high output and safety and environmental protection, and improvement of job skills. On the supply-side, the Group developed a new model, improved supplier management and achieved centralized allocation of supplies to cut our production cost and increase our products' comprehensive competitiveness in the market.

3. As China's economy is still in a steady development process, the Group did not substantially increase its production capacity during the period under review given the current market situation. However, the Group greatly improved its product quality, reduced energy consumption by leveraging on R&D, seeing the completion of 11 quality-improvement, energy-saving and consumption-reduction projects during the period under review. For patent registration, the Group submitted 8 patent applications and obtained 22 patent rights during the period.

4. In the first half of the year, the Group strengthened the human resource management and increased employee's benefits to stimulate their working enthusiasm. The average salary of the Group's employees grew by 7.66% during the period under review.

Prospects

The Group's revenue, profit and profit margin saw an increase in the first half of 2016. The excellent results are credited to Dongyue's correct development strategy and outstanding management capability against the backdrop of the current economic conditions. Facing challenges in the second half of 2016, the Group will aggressively implement the following development strategies on top of its excellent results in the first half of the year:

1. In the second half of 2016, the Group will adopt an aggressive marketing campaign to respond to market changes. The Group will launch an activity called "Open to Customers for 100 Days", whereby customers are invited to visit, further understand and know about Dongyue so as to build up confidence in-cooperation, thus achieving sustainable annual growth.

2. The Group will maintain its competitiveness as a leader in the industry by increasing cost awareness and all-round competitive edge. The Group has made great success in cost control in the first half of the year. The Group will continue to take strong and controllable measures and incentive system to further bring down its purchasing cost by utilizing its management advantage of centralized procurement of scale. In this regard, the Group will continue to improve its purchasing process and system and close up various loopholes; standardize internal business procedures through informationalizing supplier management, and use informationalization and automation tools to manage supply. Moreover, the Group will work to reduce unit energy consumption, improve quality and strengthen equipment maintenance to achieve across-the-board reduction of production cost.

3. The Group will accelerate project construction and new product development so as to launch them onto the market as fast as we can to obtain first-mover opportunities. In the second half of the year, the Group will conduct assessment and analysis of the projects completed in the first half of the year and come up with programs to push ahead with technological improvement, energy-saving and emission-reduction projects, R&D of new products and pilot projects. The R&D team will conduct research about the market development; specify the direction of future products, and exploring new growth drivers and new functions.

4. The Group will take safety and environmental protection and occupational health seriously. Dongyue has always regarded safety and environmental protection and occupational health as its primary value. In the second half of the year, the Group will introduce DuPont's safety management project, promote DuPont's process safety management concept, and apply DuPont's advanced safety management technology to achieve the goal of "zero" accident and no environmental leakage accident in the second half of the year.

5. The Group will proceed with informationalization, automation and the development of central control. The practice in the first half of the year proved that improving informationalization and automation, establishing a big data control center, development and use of a DCS system, and establishing a maintenance center has effectively reduced cost and increase productivity. Therefore, the Group will proceed with informationalization, automation and development of central control.

6. The Group will standardize financial management. Currently, the management of the Group has adopted a policy of Establishing Standards and Improving Effectiveness and Efficiency through Financial Management by Exercising Stricter Control over Expenses, Treasury Function and Asset Management. In the second half of the year, the Group will further rationalize its financial system, formulate a reasonable and well-established system for entering into, executing and approving contracts, and strictly implement and monitor it to reduce risks.

The Group faced huge challenges in the first half of 2016. The management of the Group took a stable operating approach to confront such challenges and delivered satisfactory results to shareholders. To pay back our shareholders' trust, the management of the Group will continue to work harder, draw lessons from the past, and make improvements in terms of sales, production, supply, internal control, risk control and management, while insisting on stable operation and self-innovation, to improve the Group in all aspects and deliver satisfactory returns to shareholders with stable earnings.

Financial review

Results Highlights

For the six months ended 30 June 2016, the Group recorded revenue of approximately RMB3,828,078,000, representing an increase of 4.13% over RMB3,676,325,000 of the corresponding period last year. The gross profit margin increased to 20.67% (corresponding period of 2015: 16.30%) and the consolidated segment results margin* was 14.19% (corresponding period of 2015: 12.44%). The operating results margin** was 13.98% (corresponding period of 2015: 12.46%). During the period, the Group recorded profit before tax of approximately RMB444,092,000 (corresponding period of 2015: RMB350,086,000), and net profit of approximately RMB319,232,000 (corresponding period of 2015: RMB245,001,000), while consolidated profit attributable to the Company's owners was approximately RMB308,512,000 (corresponding period of 2015: RMB238,045,000). Basic earnings per share were RMB0.15 (corresponding period of 2015: RMB0.11). The unaudited consolidated results of the Group have been reviewed by the Audit Committee and the external auditor of the Company.

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

** Operating Results Margin = (Profit before Tax + Finance Costs + Share of results of associates) ÷ Revenue × 100%

Segment Revenue and Operating Results

Set out below is the comparison, by reportable and operating segments, of the Group's revenue and results for the six months ended 30 June 2016 and the six months ended 30 June 2015:

	For the six months ended 30 June 2016			For the six months ended 30 June 2015		
Reportable and Operating Segments	**Revenue**	**Results**	**Segment Results Margin**	Revenue	Results	Segment Results Margin
	RMB'000	***RMB'000***		*RMB'000*	*RMB'000*	
Refrigerants	**831,283**	**123,350**	**14.84%**	1,054,163	214,631	20.36%
Fluoropolymer	**1,095,402**	**152,053**	**13.88%**	958,481	110,568	11.54%
Organic silicone	**832,540**	**30,856**	**3.71%**	715,444	(22,453)	-3.14%
Dichloromethane, PVC and Liquid Alkali	**526,988**	**23,325**	**4.43%**	519,297	34,173	6.58%
Property development	**453,163**	**187,439**	**41.36%**	346,491	103,701	29.93%
Others	**88,702**	**26,132**	**29.46%**	82,449	16,666	20.21%
Total	**3,828,078**	**543,155**	**14.19%**	3,676,325	457,286	12.44%

Analysis of Revenue and Operating Results

During the period under review, China's economic situation stabilized with progress achieved. The industrial sector's profit improved as compared with the past, and the real estate sector also turned around. The economic situation remained volatile due to the impact of significant world events. In such circumstances, the Group leveraged on its advantages in technology, quality, cost, service and brand to grasp market opportunities and expand market share to help the Company to record a substantial rise in revenue and profit during the period under review.

During the period under review, although the Group saw a sharp rise in its overall profit as compared with the corresponding period of last year, the performance varied from segment to segment. Among all segments, the Fluoropolymer, Organic Silicone and Property Development segments delivered a substantial increase in their results, while Refrigerants and Dichloromethane, PVC and Liquid Alkali segments saw a sharp decline in their results as compared with the corresponding period of last year.

Refrigerants

During the period under review, the revenue of the refrigerant segment decreased by 21.14% to RMB831,283,000 from RMB1,054,163,000 of the corresponding period of last year, accounting for approximately 21.72% of the Group's total revenue. The results of the segment declined by 42.53% to a profit of RMB123,350,000 from a profit of RMB214,631,000 in the corresponding period of last year primarily due to: effect of the inactive downstream air conditioner market on market demand, and drop in the prices of main refrigerants like R22 since the second half of 2015 to the period under review. However, the Group leveraged on its advantages in brand, quality, customer service and cost control to maintain its position as a leading refrigerant company, and believed that the refrigerant market will pick up in the second half of 2016.

The refrigerant segment's products mainly include traditional refrigerants (mainly R22), new green and environment-friendly refrigerant products (mainly R32, R125, R134a and R410a). The products are sold to both domestic and international customers, with some products being supplied to the fluoropolymer segment as raw material. Being the core product of this segment, R22 is the most widely used refrigerant in China and is generally used in household appliances. R22 also serves as the key raw material for several of our main products (such as PTFE and HFP) produced by the fluoropolymer segment. R125 and R32 are the key refrigerant mixtures for some mixed green refrigerants (such as R410a) to replace R22. R134a is mainly used 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.

Due to the Montreal Protocol on Substances that Deplete the Ozone Layer, main refrigerants like R22 are subject to quotas, so the Group did not increase capacity of refrigerants during the period under review. The Group now attached greater importance to products such as R410a and has prepared technically for other refrigerants to cope with a reduction of capacity in main refrigerants like R22.

Fluoropolymer

The Fluoropolymer segment survived intense competition in the buyers' market last year. As economic development stabilizes , the downstream demand increased, and the issue of excessive capacity has been alleviated following the industry's voluntary adjustment, thus driving up product prices and gross profit as well. Therefore, the segment delivered a sharp rise in operating results during the period under review as compared with last year. The revenue of the fluoropolymer segment increased by 14.29% to RMB1,095,402,000 (the first half of 2015: RMB958,481,000), accounting for 28.61% (the first half of 2015: 26.07%) of the Group's total revenue. The segment's results increased by 37.52% to a profit of RMB152,053,000 (the first half of 2015: RMB110,568,000).

The raw materials of the fluoropolymer segment are R22 and R142b produced by the Group. R22 is used to produce TFE (a fluorocarbon) which is, in turn, used to produce PTFE (a synthetic fluoropolymer with strong resistance to temperature changes, electrical insulation, and ageing and chemical resistance that is used as a coating material and can also be further processed into high-end fine chemicals and be widely applied in chemicals, construction, electrical and electronics and automotive industries) and HFP (an important organic fluorochemical monomer, which can be used to produce various fine chemicals). Furthermore, the refrigerants segment of the Group supplied R22 and R142b as the raw materials for producing a variety of downstream fluoropolymer fine chemicals, including FEP (fluorinated ethylenepropylene, 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 super mechanical property and excellent resistance to oil, chemicals and heat), PVDF (the fluorocarbon polymerized from VDF which is produced from R142b, mainly used in a fluorine coating resin, fluorinated powder coating resin and lithium battery electrode binding material) and VDF, of which Huaxia Shenzhou has been engaged in the production. Other fluorinated fine chemicals, including PPVE, PSVE and HFPO, are another major manufacturing segments of Huaxia Shenzhou.

Due to the sluggish fluoropolymer market last year, the Group did not immediately expand relevant capacity, despite a turnaround seen in the first half of 2016. The segment of the Group still works to develop premium products, so the Group places emphasis on the segment's R&D. Many technical improvement projects were undertaken by the segment during the period under review.

Organic Silicone

During the period under review, the revenue of the organic silicone segment increased by 16.37% from RMB715,444,000 to RMB832,540,000, accounting for 21.75% (the first half of 2015: 19.46%) of the Group's total revenue. The segment's results amounted to a profit of RMB30,856,000, as compared with a loss of RMB22,453,000 in the corresponding period of last year. The organic silicone segment made a turnarournd from loss, which can be attributed to the Group's continuous market expansion, technical improvement and quality guarantee, as well as market's rebound. The growth of the segment's results plays a key role in boosting the Group's overall results.

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.

Dichloromethane, PVC and Liquid Alkali

During the period under review, the segment's revenue increased by 1.48% to RMB526,988,000 from RMB519,297,000 of the corresponding period of last year, accounting for 13.77% (the first half of 2015: 14.13%) of the Group's total revenue. The segment's results decreased by 31.74% as compared with the corresponding period of last year to a profit of RMB23,325,000. The segment mainly engages in upstream raw material business for the industrial chain. As raw material prices did not rebound, the segment's results saw a decline as compared with last year.

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

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

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

As at June 30, 2016, the segment has commenced construction and pre-sale of all projects. During the period under review, 275 residential units with a total GFA of approximately 59,810 square meters have been sold out and the segment's revenue increased by 30.79% to RMB453,163,000 from RMB346,491,000 in the corresponding period of last year, accounting for 11.84% of the Groups' total revenue (the first half of 2015: 9.42%). The segment's rerulsts increased by 80.75% to a profit of RMB187,439,000 from RMB103,701,000 in the corresponding period of last year. During the period under review, Dongyue International Project delivered excellent results of operation in the first half of 2016 due to stabilization of the real estate sector in which the Project is located and the good brand reputation of the project as a middle and high-end property project, making it the top choice for local house purchasers.

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 under review, the segment's income increased by 7.58% to RMB88,702,000 from RMB82,449,000 of last year. The segment's profit increased by 56.80% to RMB26,132,000 from RMB16,666,000 of last year.

Distribution and Selling Expenses

During the period, the distribution and selling expenses merely increased by 14.06% to RMB137,402,000 from RMB120,463,000 of the corresponding period last year, which was mainly attributable to an increase in transportation expenses incurred from an increase in sales during the period.

Administrative Expenses

During the period, the administrative expenses increased by 28.33% to RMB170,174,000 from RMB132,608,000 of the corresponding period last year, which was mainly attributable to (i) an increase in employees' salary for maintaining competitiveness; and (ii) an increase in allowance for doubtful debts compared to the corresponding period last year.

Finance Costs

During the period, the finance costs decreased by 17.27% to RMB89,378,000 from RMB108,033,000 of the corresponding period last year, which was mainly attributable to the substantial decrease in the amount of the borrowings of the Group compared to the corresponding period last year.

Capital Expenditure

For the six months ended 30 June 2016, the Group's aggregate capital expenditure was approximately RMB163,628,000 (six months ended 30 June 2015: RMB137,637,000). The Group's capital expenditure mainly for the acquisition of fixed assets for the Group's expansion of operations.

Liquidity and Financial Resources

The Group's financial position is sound with healthy working capital management and strong operating cash flow. As at 30 June 2016, the Group's total equity amounted to RMB5,389,804,000 representing an increase of 6.26% compared with 31 December 2015. As at 30 June 2016, the Group's bank balances and cash totaled RMB1,802,743,000 (31 December 2015: RMB1,467,426,000). During the period under review, the Group generated a total of RMB588,075,000 (six months ended 30 June 2015: RMB162,759,000) cash inflow from its operating activities. The current ratio(1) of the Group as at 30 June 2016 was 1.15 (31 December 2015: 1.07).

Considering the effect of the incident of misappropriation of funds and the relevant asset write-off recorded in year ended 31 December 2015 (please refer to the 2015 annual report of the Company for more details), it did not materially undermine the working capital soundness of the Group for the six months ended 30 June 2016. The Group still maintained sufficient cashflow on the production, supply and sale activities of the Group. 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, on the Stock Exchange of Hong Kong Limited (the "HKSE"), a total of 1,702,000 ordinary shares of the Company (the "Buyback Shares") at the price range of HK$1.46 to HK$1.55 per share. The aggregate consideration for the Buyback Shares is approximately HK$2,591,620, which was funded from internal sources of the Company. The Buyback Shares were validly cancelled on 5 February 2016. The number of issued shares of the Company is 2,111,689,455 as at 30 June 2016.

As at 30 June 2016, the borrowings of the Group totaled RMB3,257,453,000 (31 December 2015: RMB3,419,366,000). The gearing ratio[(2)] of the Group was 21.25% (31 December 2015: 27.79%).

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 2016, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB234,572,000 (31 December 2015: RMB319,591,000), and bank deposits of RMB262,435,000 (31 December 2015: RMB113,214,000), 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 5,732 employees in total as at 30 June 2016 (31 December 2015: 6,540). 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 2016 (six months ended 30 June 2015: Nil).

OTHER INFORMATION

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

During the current period, the Company repurchased, on the HKSE, the Buyback Shares at a price range of HK$1.46 to HK$1.55 per share. The aggregate consideration for the Buyback Shares is approximately HK$2,591,610, which was funded from internal resources of the Company. The Buyback Shares were validly cancelled on 5 February 2016.

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 2016.

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 2016 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 18 May 2017, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the six months ended 30 June 2016, 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.

Risk Management Committee

The Risk Management Committee was established by the Board with written term of reference with effect from 13 August 2015 to be responsible for the risk management of the Company and other related matters. Mr. Ting Leung Huel, Stephen was appointed as the chairman of the Risk Management Committee, Mr. Yang Xiaoyong and Mr. Yue Rundong were appointed as the members of the Risk Management Committee.

Compliance with the Code on Corporate Governance Practices

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

Throughout the six months ended 30 June 2016, save as disclosed below, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Code"), except for Code Provision A.2.1.

Code Provision A.2.1

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

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

ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT

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

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended at the request of the Company since 9:00 a.m. on 1 April 2016 and will remain suspended until the publication of 2016 annual results.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 18 May 2017

As at the date of this announcement, the Board comprised Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Zhang Zhefeng, Mr. Zhang Bishu 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.