DONGYUE FEDERATION

DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 0189)

Announcement of Interim Results for 2010

FINANCIAL HIGHLIGHTS

— Revenue amounted to RMB2,590,832,000, representing an increase of 69.35% over the corresponding period last year

— Gross profit amounted to RMB659,180,000, representing an increase of 296.01% over the corresponding period last year

— Gross profit margin significantly increased to 25.44% from 10.88%

— Profit before tax was RMB399,839,000, compared with loss before tax of RMB10,257,000 of the corresponding period last year

— Profit and total comprehensive income attributable to the owners of the Company was RMB274,100,000, representing an increase of 333.31% over the corresponding period last year

— Basic and diluted earnings per share were RMB0.13, compared with RMB0.03 of the corresponding period last year

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
		Unaudited	Unaudited
Revenue	*3*	**2,590,832**	1,529,852
Cost of sales		**(1,931,652)**	(1,363,396)
Gross profit		**659,180**	166,456
Other income	*4*	**17,646**	12,438
Distribution and selling expenses		**(87,527)**	(67,062)
Administrative expenses		**(138,524)**	(57,792)
Finance costs		**(52,128)**	(64,349)
Share of result of an associate		**1,192**	52
Profit (loss) before tax		**399,839**	(10,257)
Income tax (expense) credit	*5*	**(109,506)**	65,214
Profit and total comprehensive income for the period	*6*	**290,333**	54,957
Profit and total comprehensive income attributable to:			
Owners of the Company		**274,100**	63,257
Non-controlling interests		**16,233**	(8,300)
		290,333	54,957
Earnings per share			
— basic and diluted *(RMB)*	*7*	**0.13**	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2010 RMB'000 Unaudited	As at 31 December 2009 RMB'000 Audited
Non-current assets			
Property, plant and equipment		**3,422,860**	3,243,681
Deposits for purchase of property, plant and equipment		**157,167**	130,366
Prepayment for land lease		**5,145**	9,716
Prepaid lease payments		**222,035**	207,786
Intangible assets		**4,935**	6,533
Interest in an associate		**—**	14,874
Available-for-sale investment		**21,593**	21,593
Deferred tax assets		**76,499**	75,293
		3,910,234	3,709,842
Current assets			
Inventories		**534,825**	430,015
Prepaid lease payments		**6,227**	6,182
Trade and other receivables	*9*	**1,120,455**	659,384
Tax recoverable		**—**	12,033
Pledged bank deposits		**109,214**	213,309
Bank balances and cash		**554,320**	853,509
		2,325,041	2,174,432
Current liabilities			
Trade and other payables	*10*	**1,244,955**	1,213,278
Borrowings		**771,044**	1,601,360
Tax liabilities		**68,133**	9,851
Deferred income		**7,442**	7,535
		2,091,574	2,832,024
Net current assets (liabilities)		**233,467**	(657,592)
Total assets less current liabilities		**4,143,701**	3,052,250

	Note	As at 30 June 2010 RMB'000 Unaudited	As at 31 December 2009 RMB'000 Audited
Capital and reserves			
Share capital		**197,854**	197,854
Reserves		**2,028,850**	1,816,792
Equity attributable to the owners of the Company		**2,226,704**	2,014,646
Non-controlling interests		**277,068**	230,627
Total equity		**2,503,772**	2,245,273
Non-current liabilities			
Deferred income		**172,919**	173,013
Deferred tax liabilities		**18,805**	7,744
Borrowings		**1,448,205**	626,220
		1,639,929	806,977
		4,143,701	3,052,250

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								Attributable to non-controlling interests	
	Share capital	Share premium	Share option reserve	Merger reserve	Capital reserve	Statutory surplus reserve	Retained earnings	Sub total	Share of net assets of subsidiaries	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 2009 (audited)	197,854	1,175,109	21,710	(32,210)	157,348	111,660	267,435	1,898,906	264,951	2,163,857
Profit and total comprehensive income for the period	—	—	—	—	—	—	63,257	63,257	(8,300)	54,957
Transactions with non-controlling interests arising from acquisition of additional interests in subsidiaries	—	—	—	—	(8,469)	—	—	(8,469)	(17,531)	(26,000)
Capital refunded to non-controlling interests	—	—	—	—	—	—	—	—	(2,400)	(2,400)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(6,703)	(6,703)
Dividends paid	—	—	—	—	—	—	(45,923)	(45,923)	—	(45,923)
Recognition of equity-settled shared-based payments	—	—	4,652	—	—	—	—	4,652	—	4,652
Balance at 30 June 2009 (unaudited)	197,854	1,175,109	26,362	(32,210)	148,879	111,660	284,769	1,912,423	230,017	2,142,440
Balance at 1 January 2010 (audited)	197,854	1,175,109	31,011	(32,210)	144,407	139,989	358,486	2,014,646	230,627	2,245,273
Profit and total comprehensive income for the period	—	—	—	—	—	—	274,100	274,100	16,233	290,333
Dividends payable to non-controlling interests	—	—	—	—	—	—	—	—	(1,923)	(1,923)
Non-controlling interests arising on the acquisition of subsidiaries	—	—	—	—	—	—	—	—	32,131	32,131
Dividends paid	—	—	—	—	—	—	(64,110)	(64,110)	—	(64,110)
Recognition of equity-settled shared-based payments	—	—	2,068	—	—	—	—	2,068	—	2,068
Balance at 30 June 2010 (unaudited)	197,854	1,175,109	33,079	(32,210)	144,407	139,989	568,476	2,226,704	277,068	2,503,772

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Net cash (used in) from operating activities	**(15,263)**	186,660
Net cash used in investing activities:		
Interest received	**5,948**	2,439
Purchase of property, plant and equipment	**(264,888)**	(92,675)
Government grants received	**8,249**	8,780
Interest bearing loan advances to third parties	**(543,745)**	—
Repayment of interest bearing loan advances to third parties	**544,245**	—
Net cash inflow from acquisition of subsidiaries	**4,611**	—
Other investing cash flows	**44,095**	5,036
	(201,485)	(76,420)
Net cash used in financing activities:		
Net bank loans raised	**1,316,499**	1,174,871
Repayment of borrowings	**(1,334,830)**	(1,211,421)
Acquisition of further interests in subsidiaries	**—**	(26,000)
Dividends paid	**(64,110)**	(45,923)
Dividends paid to non-controlling interests	**—**	(6,703)
Capital refunded to non-controlling interests	**—**	(2,400)
	(82,441)	(117,576)
Net decrease in cash and cash equivalents	**(299,189)**	(7,336)
Cash and cash equivalents at 1 January	**853,509**	567,200
Effect of foreign exchange rate changes	**—**	(1,282)
Cash and cash equivalents at 30 June, represented by Bank balances and cash	**554,320**	558,582

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The condensed consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries (together the "Group").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008
IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRS (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies IFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for the Group's changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

On 29 June 2010, Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue F&S"), a subsidiary of the Company, acquired additional 40% equity interest in its associate, Dongying Macro-Link Salt Co., Ltd. ("Dongying Macro-Link Salt"). After the acquisition, Dongying Macro-Link Salt has become a non-wholly owned subsidiary of the Group.

Under IFRS 3 (Revised), non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the date of business combination. The directors of the Company have determined that non-controlling interests in Dongying Macro-Link Salt are measured at the proportionate share of the identifiable net assets at the date of business combination.

In addition, under IFRS 3 (Revised), the Group's previously held interest in the acquiree is measured at fair value at the time when the Group obtains control over the acquiree, with the resulting gain or loss recognised in profit or loss.

The assets and liabilities of Dongying Macro-Link Salt and the Group's previously held interest in Dongying Macro-Link Salt at the date of business combination are measured on a provisional basis, awaiting for the professional valuation. Hence, the amounts of non-controlling interests, the Group's previously held interest, assets and liabilities of Dongying Macro-Link Salt and the resulting goodwill or bargain purchase are subject to changes upon the finalisation of the professional valuation.

The application of the other new and revised IFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended on 30 June 2010

	Refrigerants	**Polymers**	**Organic silicone**	**Other operations**	**Eliminations**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
External sales	**1,729,399**	**562,417**	**256,077**	**42,939**	**—**	**2,590,832**
Inter-segment sales	**910,065**	**—**	**39,228**	**3,988**	**(953,281)**	**—**
Total revenue — segment revenue	**2,639,464**	**562,417**	**295,305**	**46,927**	**(953,281)**	**2,590,832**
SEGMENT RESULTS	**378,013**	**66,582**	**3,010**	**5,606**	**—**	**453,211**

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

Unallocated corporate expenses (net)	**(2,436)**
Finance costs	**(52,128)**
Share of result of an associate	**1,192**
Profit before tax	**399,839**
Income tax expense	**(109,506)**
Profit and total comprehensive income for the period	**290,333**

Six months ended on 30 June 2009

	Refrigerants	Polymers	Organic silicone	Other operations	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
External sales	1,037,857	279,263	186,257	26,475	—	1,529,852
Inter-segment sales	513,827	—	6,109	—	(519,936)	—
Total revenue — segment revenue	1,551,684	279,263	192,366	26,475	(519,936)	1,529,852
SEGMENT RESULTS	45,501	19,398	(6,324)	1,932	—	60,507

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

Unallocated corporate expenses (net)	(6,467)
Finance costs	(64,349)
Share of result of an associate	52
Loss before tax	(10,257)
Income tax credit	65,214
Profit and total comprehensive income for the period	54,957

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the results of each segment without allocation of unallocated other income, central administration costs, directors' salaries, share of results of an associate and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

4. OTHER INCOME

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants	**8,436**	7,784
Interest income	**5,948**	2,439
Bargain purchase on acquisition of subsidiaries determined on a provisional basis	**1,920**	—
Others	**1,342**	2,215
	17,646	12,438

5. INCOME TAX (EXPENSE) CREDIT

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current People's Republic of China (the "PRC") Enterprise Income Tax ("EIT")	**(99,595)**	(3,338)
EIT exemption on profit from Clean Development Mechanism ("CDM") project	**—**	73,830 *(Note)*
Deferred tax:		
— Withholding tax for distributable profits of PRC subsidiaries	**(11,061)**	(813)
— Others	**1,150**	(4,465)
	(9,911)	(5,278)
Total income tax (expense) credit	**(109,506)**	65,214

Note:

The China Ministry of Finance and State Tax Bureau issued a notice on 23 March 2009 in relation to the EIT policy on CDM. According to the notice, the profit earned from CDM project is entitled to an exemption from EIT for the first three years and 50% reduction for the next three years ("EIT Exemption"), commencing from the time when the project starts to earn the CDM revenue. This EIT Exemption would be retrospectively effective from 1 January 2007. The amount in the prior period represented the EIT paid in respect of the profit earned from CDM project for the years ended 31 December 2007 and 2008 that was refunded to the Group in 2009.

6. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expenses	**1,922,416**	1,358,953
Depreciation of property, plant and equipment	**193,744**	191,929
Release of prepaid lease payments	**3,585**	2,856
Amortisation of intangible assets (included in cost of sales)	**1,598**	1,637
Gain on disposals of property, plant and equipment	**—**	(42)
Share of tax of an associate (included in share of an associate)	**502**	13
Net foreign exchange losses (gains)	**5,575**	(863)

7. 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	
	30.6.2010	30.6.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**274,100**	63,257
Number of shares		
Weighted average number of ordinary shares ('000)	**2,083,623**	2,083,623

The computation of diluted earnings per share for the six months ended 30 June 2010 and 2009 does not assume the exercise of the Company's outstanding share options because the exercise prices of the Company's share options were higher than the average market price for shares for the six months ended 30 June 2010 and 2009.

8. DIVIDENDS

During the period, a dividend of RMB64,110,000 (HK3.5 cents per share) was paid to shareholders as the final dividend for 2009 (six months ended 30 June 2009: RMB45,923,000 (HK2.5 cents per share for 2008)).

The directors determined not to make interim dividend for the period ended 30 June 2010 and 2009.

9. TRADE AND OTHER RECEIVABLES

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

	30.6.2010	31.12.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**926,452**	607,857
Less: allowance for doubtful debts	**(7,774)**	(4,744)
	918,678	603,113
Prepayment for raw materials	**100,180**	31,699
Value added tax receivable	**13,206**	5,980
Deposits and other receivables	**88,391**	18,592
	1,120,455	659,384

Included in the trade receivables are bills receivables amounting to RMB447,517,000 (31 December 2009: RMB329,827,000). Included in other receivables is an entrusted loan to a third party amounting to RMB60,000,000 (31 December 2009: nil) which bears interest at 5.39% per annum with maturity of two months and a deposit receivable from a non-controlling interest of a subsidiary amounting to RMB23,500,000 (31 December 2009: nil).

The following is an aging analysis of trade receivables, presented based on the invoice date, net of allowance for doubtful debts:

	30.6.2010	31.12.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**779,503**	508,422
91 – 180 days	**138,192**	91,031
181 – 365 days	**983**	3,660
	918,678	603,113

10. TRADE AND OTHER PAYABLES

	30.6.2010	31.12.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**725,842**	827,023
Receipt in advance	**52,289**	54,855
Payroll payable	**140,048**	96,776
Payable for CDM project *(Note)*	**70,921**	115,131
Payable for property, plant and equipment	**130,228**	65,619
Payable for acquisition of subsidiaries	**35,200**	—
Other payables and accruals	**90,427**	53,874
Total	**1,244,955**	1,213,278

Note: According to the relevant PRC regulation, 65% of the proceeds from CDM project belong to PRC government and the Group has collected this portion on behalf of the PRC government.

Included in the trade payables are bills payables amounting to RMB331,422,000 (31 December 2009: RMB451,600,000). Bill payables were secured by the Group's pledged bank deposits.

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

	30.6.2010	31.12.2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**219,764**	240,163
31 – 90 days	**403,149**	101,785
91 – 180 days	**73,847**	415,791
181 – 365 days	**12,305**	15,279
More than 1 years	**16,777**	54,005
	725,842	827,023

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2010, under multiple influences initiated by stimulus packages and comparable rebound of the global economy, the macro economy of the PRC continued with the turnaround in 2009. The GDP growth rate in the first half of the year exceeded 11%, and the overall domestic product price level was also enhanced.

In the first half of 2010, the Group captured the opportunity of the favorable economic condition and market trend, and fully capitalized on technological innovation, production scale and integrated production chain, so as to ensure product quantity and cater to market demand, and to encourage the implementation of technological advancement and process innovation, which increased the overall operating efficiency. In the first half of 2010, the product price of the Group's major products like refrigerants and polymers increased substantially, while earnings increased significantly. For the six months ended 30 June 2010, the Group's revenue was approximately RMB2,590,832,000, representing an increase of approximately 69.35% compared with the corresponding period last year. Profit attributable to the Company's shareholders was approximately RMB274,100,000, representing a substantial increase of approximately 333.31% compared with the corresponding period last year. Basic earnings per share was RMB0.13.

Following the successful test of the Group's production of chloralkali ionic membrane in September 2009, on 30 June 2010, through the efforts and contribution of the Group's R&D team and employees, China's first set of 10,000-tons chloralkali device for assembling domestic ionic membrane was successfully in operation at the Group's production bases in Shandong. The successful operation of the device has brought an end to the period when China's chloralkali device was under long-term restriction, and it was marked as a significant milestone event in China's chloralkali industry.

Progress of the expansion project: The Group's expansion project regarding a 60,000 tons of methane chloride has been executed and commenced production in May as planned, which offered reliable sources by supplying raw materials for the Group's refrigerant products. The Group's expansion project regarding a 7,300 tons of high-performance PTFE has partly commenced production in July, while part of the products will gradually commence production as planned in the near future. The expansion project regarding a 100,000 tons of organic silicon monomer has proceeded to the latter phase of equipment installation, and the project will complete production by the end of this year as planned.

Future Prospects

In the second half of 2010, under the influence of unanticipated issues, the China economic trend was unforeseeable. Nevertheless, it is certain that China economy will continue to grow during the year, and the Group will proactively capture market opportunities. In addition, the Group determined to conduct R&D by own efforts, so as to enhance the core competitiveness of the Group; built up the Dongyue brand; improve product quality and to enhance brand reputation; implemented strategies of talent recruitment and training, so as to fortified a solid foundation for future technological R&D and business development; reinforced construction of raw material bases, so as to provide raw materials for the Group's continuous stability and development; carried out safety and environmental protection work to further improve the introduction of environmental management facilities, which increases a sense of responsibility and commitment; maintained stringent supervision and management, and fulfilled hierarchical responsibility, so as to ensure "zero accident" regarding park safety and environmental protection. In addition, the Group will continue to capitalize on its competitive advantage and prominent position in the industry, in order to consolidate and enhance business of the Group, and maximize the return to shareholders.

Financial Review

Results Highlights

For the six months ended 30 June 2010, the Group recorded revenue of approximately RMB2,590,832,000, representing an increase of 69.35% over the corresponding period last year. The gross profit margin was 25.44% (corresponding period of 2009: 10.88%). During the period, the Group recorded profit before tax of approximately RMB399,839,000 (corresponding period of 2009: loss before tax RMB10,257,000), and net profit of approximately 290,333,000 (corresponding period of 2009: RMB54,957,000), while profit attributable to the Company's owners was approximately RMB274,100,000 (corresponding period of 2009: RMB63,257,000), representing an increase of 333.31% over the corresponding period last year. Basic earnings per share were RMB0.13 (corresponding period of 2009: RMB0.03).

Segment Operating Results

Set out below is the comparison, by segments, of the Group's revenue and results for the six months ended 30 June 2010 and the six months ended 30 June 2009:

Reportable Segments	**For the six months ended 30 June 2010** Revenue *(RMB'000)*	Results *(RMB'000)*	Operating Results Margin %	For the six months ended 30 June 2009 Revenue *(RMB'000)*	Results *(RMB'000)*	Operating Results Margin %
Refrigerants	**2,639,464**	**378,013**	**14.32**	1,551,684	45,501	2.93
Polymers	**562,417**	**66,582**	**11.84**	279,263	19,398	6.95
Organic silicone	**295,305**	**3,010**	**1.02**	192,366	(6,324)	(3.29)
Others	**46,927**	**5,606**	**11.95**	26,475	1,932	7.30
	3,544,113	**453,211**	**12.79**	2,049,788	60,507	2.95
Less: Inter-segment sales	**(953,281)**	**—**	**—**	(519,936)	—	—
Consolidated	**2,590,832**	**453,211**	**17.49**	1,529,852	60,507	3.96

Analysis of Revenue and Results

During the period under review, the refrigerants segment remained to be the largest contributor to the revenue of the Group, accounting for approximately 66.75% (excluding inter-segment sales). The revenue increased by 70.10% to RMB2,639,464,000 from RMB1,551,684,000 of the corresponding period last year, which was primarily caused by the remarkable increase in the sales of HCFC22 and HFC134a, the two major refrigerant products of the Group, as well as the increase in the sales of dichlormethane and liquid alkali, the Group's side products in this segment. During the period, due to the increased demand of the refrigerants, there showed a generally significant increase in both sales volume and selling price of the refrigerants as compared to the corresponding period of 2009.

During the period, the revenue of the polymers segment increased by 101.39% to RMB562,417,000 from RMB279,263,000 of the corresponding period last year. The increase was mainly attributable to the increase in the sales of PTFE, the Group's largest polymers product.

For the organic silicone segment, the revenue increased by 53.51% to RMB295,305,000 from RMB192,366,000 of the corresponding period last year, while its contribution to the Group's revenue was decreased to 9.88% from 12.17% of the corresponding period last year (excluding inter-segment sales).

With regard to the operating results, the consolidated segment operating results margin of the Group was 17.49% (corresponding period of 2009: 3.96%), representing an increase of 13.53% from the corresponding period last year.

The results of the refrigerants segment contributed 83.41% (corresponding period of 2009: 75.20%) of the total segment results of the Group, while its segment results margin was 14,32%, compared with 2.93% of the corresponding period last year. With our current market position, the Group is not only influential to, but also commands a large extent of authority in the industry. In the first half of 2010, as a result of the market recovery, there showed a remarkable rebound in the selling prices of the refrigerant products, while the Group was able to stabilize the operating costs through our leading market position and fully vertically-integrated production value chain. In addition, the Clean Development Mechanism project and PVC also contributed to the results of this segment. Moreover, there showed improved operating results margin for the Group's dichlormethane and liquid alkali products.

The polymers segment contributed approximately 14.69% (corresponding period of 2009: 32.06%) to the total segment results of the Group, while its segment results margin increased to 11.84% from 6.95% of the corresponding period last year. The operating results margin of PTFE and HFP, the two major products of this segment, continued to increase during the current period.

The contribution made by the organic silicone segment accounted for about 0.66% (corresponding period of 2009: -10.45%) of the total segment results of the Group. The operating results margin of the segment increased to 1.02% from -3.29% of the corresponding period last year, primarily due to the increased selling price of D4 and DMC, the Group's major organic silicone products.

Capital Expenditure

For the six months ended 30 June 2010, the Group's capital expenditure was approximately RMB302,696,000 (six months ended 30 June 2009: RMB72,828,000), which was mainly used in the acquisition of fixed assets including equipment and facilities for the Group's expansion projects in the segments of refrigerants, polymers and organic silicone.

Liquidity and Financial Resources

The Group's financial position is sound with healthy working capital management. As at 30 June 2010, the Group's total equity amounted to RMB2,503,772,000, representing an increase of 11.51% compared with 31 December 2009. As at 30 June 2010, the Group's bank balances and cash totaled RMB554,320,000 (31 December 2009: RMB853,509,000). The current ratio(1) of the Group as at 30 June 2010 was 1.11 (31 December 2009: 0.77).

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 working capital management, 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, there has been no change in the share capital of the Company.

As at 30 June 2010, the borrowings of the Group totaled RMB2,219,249,000 (31 December 2009: RMB2,227,580,000). The gearing ratio(2) of the Group was 39.94% (31 December 2009: 37.96%).

Group Structure

On 29 June 2010, (i) Dongyue F&S, a subsidiary of the Company, entered into an agreement to acquire 40% equity interest in Dongying Macro-Link Salt at the consideration of RMB32,200,000; (ii) the Company entered into an agreement to acquire 25% equity interest in Dongying Macro-Link Precision Chemical Co., Ltd. ("Macro-Link Precision Chemicals") at the consideration of RMB3,000,000; and (iii) Shandong Dongyue Chemicals Co. Ltd., a subsidiary of the Company, entered into an agreement to acquire the remaining 16% equity interest ("16% Acquisition") in Shandong Dongyue Organosilicon Material Co. Ltd. ("Dongyue Organic Silicone") at the consideration of RMB148,000,000.

Prior to the entering into the agreements, Dongyue F&S owned 20% equity interest in Dongying Macro-Link Salt, which owned 75% equity interest in Macro-Link Precision Chemicals, while the Company owned 84% equity interest in Dongyue Organic Silicone.

As at 30 June 2010, except 16% Acquisition, the aforesaid acquisitions were completed.

Save as disclosed above, during the current period under review, there has been no change in the structure of the Group.

(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 2010, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,052,408,000 (31 December 2009: RMB1,027,628,000), and bank deposits of RMB109,214,000 (31 December 2009: RMB213,309,000), which were pledged to secure the Group's borrowings and the bill payables of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

The Group does not have any hedging policy to manage the risk arising from foreign currency transactions. In order to reduce the risk of holding foreign currencies, the Group normally converts the foreign currencies into RMB upon receipt while taking into account its foreign currencies payment schedule in the near future.

Employees

The Group employed 4,317 employees in total as at 30 June 2010 (31 December 2009: 3,829). 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.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2010.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "HKSE"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2010 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

Audit Committee

The Audit Committee of the Company was established on 16 November 2007 in accordance with Appendix 14 to the Listing Rules. The existing Audit Committee comprises Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yue Run Dong and Mr. Liu Yi, all being independent non-executive Directors.

The Audit Committee met with the management and external auditors on 25 August 2010, 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 2010, which have been reviewed by the Group's external auditors, before proposing them to the Board of Directors (the "Board") for approval.

Remuneration Committee

The Company has established a Remuneration Committee to consider the remuneration for Directors and senior management of the Company. The Remuneration Committee comprises Mr. Liu Yi (Chairman) and Mr. Ting Leung Huel, Stephen, who are independent non-executive Directors, and Mr. Zhang Jianhong who is an executive Director.

Compliance with the Code on Corporate Governance Practices

Throughout the six months ended 30 June 2010, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

Code Provision A.2.1

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

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

Code Provision E.1.2

There was a deviation from provision E.1.2 of the Code:

E.1.2 of the Code stipulates that the chairman of the Board should attend the annual general meeting and arrange for the chairmen (or if one is not available, another member) of the Audit and Remuneration Committees to be available to answer questions at the annual general meeting. Due to his urgent offshore business engagement, Mr. Zhang Jianhong did not attend the annual general meeting of the Company held in Hong Kong on 26 May 2010. The Board will finalize and inform the date of the annual general meeting as earliest as possible to make sure that Mr. Zhang would attend the annual general meeting of the Company in future.

ANNOUNCEMENT OF INTERIM RESULTS AND PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the Company's website at www.dongyuechem.com and the website of the HKSE at www.hkexnews.hk. The Interim Report will also be available at the websites of the Company and the HKSE and will be dispatched to shareholders of the Company before the end of September 2010.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 25 August 2010

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