



東岳集團有限公司

DONGYUE GROUP LIMITED

(於開曼群島註冊成立之有限公司)
(Incorporated in the Cayman Islands with limited liability)

股份代號 Stock Code: 0189

2016 Interim Report 中期報告



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Corporate Information

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Silicone Material Industry Park
Zibo City
Shandong Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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WEBSITE ADDRESS

www.dongyuechem.com

DIRECTORS

Executive Directors

Mr. ZHANG Jianhong (*Chairman and Chief Executive Officer*)
Mr. FU Kwan
Mr. LIU Chuanqi
Mr. CUI Tongzheng (*Vice President and Chief Financial Officer*)
(*resigned on 2 May 2017*)
Mr. FENG Jianjun (*resigned on 2 May 2017*)
Mr. ZHANG Jian
Mr. ZHANG Bishu (*appointed on 2 May 2017*)
Mr. ZHANG Zhefeng (*Vice President and Chief Financial Officer*)
(*appointed on 2 May 2017*)

Independent Non-Executive Directors

Mr. TING Leung Huel, Stephen
Mr. YANG Xiaoyong
Mr. YUE Rundong

COMPANY SECRETARY

Ms. CHUNG Tak Lai

AUTHORIZED REPRESENTATIVES

Mr. FU Kwan
Ms. CHUNG Tak Lai

AUDIT COMMITTEE

Mr. TING Leung Huel, Stephen (*Chairman*)
Mr. YANG Xiaoyong
Mr. YUE Rundong

REMUNERATION COMMITTEE

Mr. YANG Xiaoyong (*Chairman*)
Mr. TING Leung Huel, Stephen
Mr. ZHANG Jianhong

NOMINATION COMMITTEE

Mr. ZHANG Jianhong (*Chairman*)
Mr. TING Leung Huel, Stephen
Mr. YANG Xiaoyong

CORPORATE GOVERNANCE COMMITTEE

Mr. ZHANG Jianhong (*Chairman*)
Mr. LIU Chuanqi
Mr. FENG Jianjun (*resigned on 2 May 2017*)
Mr. ZHANG Bishu (*appointed on 2 May 2017*)

RISK MANAGEMENT COMMITTEE

Mr. TING Leung Huel, Stephen (*Chairman*)
Mr. YANG Xiaoyong
Mr. YUE Rundong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

China Construction Bank Corporation
Huantai Branch
134 Jianshe Road
Zibo City Huantai
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Industrial and Commercial Bank of China Limited
Huantai Branch
7 Zhangbei Road
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Shandong Province PRC

Bank of China Limited
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Shandong Province PRC

Agricultural Bank of China Limited
Huantai Branch
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107 Liu Quan Road
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Industrial Bank Co., Ltd.
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INVESTOR RELATIONS CONSULTANT

Investor Connect Advisory
12th Floor, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan, Hong Kong

AUDITOR

Elite Partners CPA Limited
Certified Public Accountants

EXTERNAL LEGAL ADVISOR

Norton Rose Fulbright Hong Kong

STOCK CODE

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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:

Reportable and Operating Segments	For the six months ended 30 June 2016			For the six months ended 30 June 2015		
	Revenue RMB'000	Results RMB'000	Segment Results Margin	Revenue RMB'000	Results RMB'000	Segment Results Margin
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 turnaround 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 results 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).



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.

Share Options

Share Option Scheme

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 16 November 2007 (the “Scheme”), the Company may grant to, among others, the Directors of the Company and employees of the Group, for the recognition of their contribution of the Group, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for Shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the date on which dealings in the Shares first commence on the HKSE unless further shareholders’ approval had been obtained pursuant to the conditions set out in the Scheme. The total number of Shares in issue and to be issued upon exercise of all option under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

The offer for the grant of options (the "Offer") must be taken up within 28 days from the date of Offer, with a payment of HK\$1.00 as consideration. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the HKSE's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate, exceed 208,000,000 which represents 10% of the total issued share capital as at the listing date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

All outstanding share options as at 30 June 2016, particulars of the options granted to certain Directors and employees of the Group under the Scheme are set out below:

Name or Category of participant	Balance as at 1 January 2016	Lapsed during the period	Exercised during the period	Number of options		Exercise Price HK\$	Date of Grant	Exercisable from	Exercisable until (note 1)
				Outstanding as at 30 June 2016					
Executive Directors:									
Mr. Zhang Jianhong									
Tranche 1	3,325,000	(3,325,000)	-	-	-	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	3,325,000	(3,325,000)	-	-	-	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	3,325,000	(3,325,000)	-	-	-	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	3,325,000	(3,325,000)	-	-	-	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Liu Chuangqi									
Tranche 1	3,375,000	(3,375,000)	-	-	-	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	3,375,000	(3,375,000)	-	-	-	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	3,375,000	(3,375,000)	-	-	-	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	3,375,000	(3,375,000)	-	-	-	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Cui Tongzheng									
Tranche 1	1,250,000	(1,250,000)	-	-	-	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	1,250,000	(1,250,000)	-	-	-	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	1,250,000	(1,250,000)	-	-	-	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	1,250,000	(1,250,000)	-	-	-	8.13	1 June 2011	1 June 2015	1 June 2016
Mr. Zhang Jian									
Tranche 1	50,000	(50,000)	-	-	-	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	50,000	(50,000)	-	-	-	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	50,000	(50,000)	-	-	-	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	50,000	(50,000)	-	-	-	8.13	1 June 2011	1 June 2015	1 June 2016
Employees:									
In aggregate									
Tranche 1	25,975,000	(25,975,000)	-	-	-	8.13	1 June 2011	1 June 2012	1 June 2016
Tranche 2	25,975,000	(25,975,000)	-	-	-	8.13	1 June 2011	1 June 2013	1 June 2016
Tranche 3	25,975,000	(25,975,000)	-	-	-	8.13	1 June 2011	1 June 2014	1 June 2016
Tranche 4	25,975,000	(25,975,000)	-	-	-	8.13	1 June 2011	1 June 2015	1 June 2016
	135,900,000	(135,900,000)	-	-	-				

note 1: All options are expired on 2 June 2016 thus there was no outstanding share options as at 30 June 2016.

Other Information

The fair value of the share options granted under the Scheme were determined and measured using the Black-Scholes Option Pricing Model on 1 June 2011. The significant inputs into the model were the exercise price shown above, volatility of 64.65%, dividend yield of 3.68%, an expected option life of 3.5 to 5 years and on annual risk-free interest rates of 1.00%, 1.18%, 1.34% and 1.49%. As any changes in subjective input assumptions can materially affect the fair value estimates, in the opinion of professional appraiser, the valuation model for the share options granted does not necessarily provide a reliable single measure of the fair value of the share options.

The related accounting policy for the fair value of the share options are set out in the 2015 Annual Report of the Company.

DIRECTORS

The Directors during the six months ended 30 June 2016 and up to date of this report were:

Executive Directors

Mr. Zhang Jianhong (*Chairman and Chief Executive Officer*)

Mr. Fu Kwan

Mr. Liu Chuanqi

Mr. Cui Tongzheng (resigned on 2 May 2017)

Mr. Feng Jianjun (resigned on 2 May 2017)

Mr. Zhang Bishu (appointed on 2 May 2017)

Mr. Zhang Zhefeng (*Vice President and Chief Financial Officer*) (appointed on 2 May 2017)

Mr. Zhang Jian

Independent Non-Executive Directors

Mr. Ting Leung Huel, Stephen

Mr. Yang Xiaoyong

Mr. Yue Rundong

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Other than as disclosed in the section headed "Share Options" in this report, at no time during the six months ended 30 June 2016 was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executives' interests and short positions in the Shares, underlying Shares and debentures

As at 30 June 2016, the interests or short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Mr. Zhang Jianhong	Corporate interest ¹	178,277,273 (L)	8.44 (L)
	Beneficial interest	7,147,636 (L)	0.34 (L)
Mr. Fu Kwan	Corporate interest ²	616,646,818 (L)	29.20 (L)
Mr. Cui Tongzheng	Corporate interest ³	156,852,363 (L)	7.43 (L)
	Beneficial interest	5,162,180 (L)	0.24 (L)
Mr. Liu Chuanqi	Corporate interest ⁴	75,634,000 (L)	3.58 (L)
	Beneficial interest	6,353,454 (L)	0.30 (L)
Mr. Zhang Jian	Beneficial interest	397,091 (L)	0.02 (L)

Notes:

- Pursuant to the SFO, as Mr. Zhang Jianhong holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 178,277,273 Shares (L) held by Dongyue Team Limited.
- These Shares are directly held by Macro-Link International Investment Co. Ltd. ("Macrolink International") which in turn is wholly owned by Macro-Link Industrial Investment Limited ("Macrolink Industrial"). Macro-Link Holding Limited ("Macrolink Holding"), a company owned by Cheung Shek Investment Limited (the former name is "Xi Zang Cheung Shek Investment Limited") ("Cheung Shek") as to 75% and by Mr. Fu Kwan as to 10.63%, respectively, wholly owns Macrolink Industrial. In addition, Mr. Fu Kwan and Ms. Xiao Wenhui directly own Cheung Shek as to 53.35% and 33.33%, respectively.
- Pursuant to the SFO, as Mr. Cui Tongzheng holds 100% interest in Dongyue Initiator Limited, Mr. Cui is deemed to be interested in the 156,852,363 Shares (L) held by Dongyue Initiator Limited.
- These Shares are held by Dongyue Wealth Limited which is wholly owned by Mr. Liu Chuanqi. Mr. Liu is deemed to be interested in the 75,634,000 Shares (L) held by Dongyue Wealth Limited under the SFO.
- L: Long Position

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code.

(b) Substantial shareholders' and other person's interests and short positions in the Shares, underlying Shares and debentures

As at 30 June 2016, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Macrolink International	Beneficial interest ¹	616,646,818 (L)	29.20 (L)
Macrolink Industrial	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Macrolink Holding	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Cheung Shek	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Ms. Xiao Wenhui	Corporate interest ¹	616,646,818 (L)	29.20 (L)
Dongyue Team Limited	Beneficial interest ²	178,277,273 (L)	8.44 (L)
Dongyue Initiator Limited	Beneficial interest ³	156,852,363 (L)	7.43 (L)

Notes:

1. These Shares are directly held by Macrolink International which in turn is wholly owned by Macrolink Industrial. Macrolink Holding, a company owned by Cheung Shek as to 75% and by Mr. Fu Kwan as to 10.63%, respectively, wholly owns Macrolink Industrial. In addition, Mr. Fu Kwan and Ms. Xiao Wenhui directly own Cheung Shek as to 53.35% and 33.33%, respectively.
2. Pursuant to the SFO, as Mr. Zhang Jianhong holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 178,277,273 Shares (L) held by Dongyue Team Limited.
3. Pursuant to the SFO, as Mr. Cui Tongzheng holds 100% interest in Dongyue Initiator Limited, Mr. Cui is deemed to be interested in the 156,852,363 Shares (L) held by Dongyue Initiator Limited.
4. L: Long Position

(c) Interests in other members of the Group as at 30 June 2016

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of interest	% of issued share capital/registered capital of such subsidiary
Shandong Dongyue Fluo-Silicon Materials Co., Ltd.	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	49
Chifeng HuaSheng Mining Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	20
Dongying Dongyue Salt Co., Ltd. ("Dongying Dongyue Salt")	Macro-Link Asset Investment Co., Ltd	Corporate	40
Dongying Dongyue Precision Chemicals Co., Ltd.	Macro-Link Asset Investment Co., Ltd. ¹		
	Dongying Hai Run Investment LLP	Corporate	15.79
Shandong Dongyue Wenhe Fluorine Chemicals Co., Ltd.	Shandong Lai Wu Wen He Chemicals Co., Ltd.	Corporate	49

Note:

1. Macro-Link Asset Investment Co., Ltd. is a 40% equity holder in Dongying Dongyue Salt which, in turn, owns 59.21% of Dongying Dongyue Precision Chemicals Co., Ltd., with the remaining 25% and 15.79% owned by the Company and Dongying Hai Run Investment LLP respectively. Consequently, Macro-Link Asset Investment Co., Ltd. indirectly owns more than 10% of Dongying Dongyue Precision Chemicals Co., Ltd..

Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at 30 June 2016, no other person (other than the Directors or the chief executive of the Company) had any interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (unaudited)	2015 RMB'000 (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	9	3,984,079	4,181,257
Prepayments for purchase of property, plant and equipment		6,269	281
Prepaid lease payments	10	462,702	469,366
Intangible assets	11	112,437	117,993
Interests in associates	12	21,142	995
Available-for-sale investments	13	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	10	13,237	13,241
Trade and other receivables	14	1,434,856	1,392,153
Entrusted loans	15	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

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	Notes	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Current liabilities			
Trade and other payables	16	1,971,194	2,194,297
Deposits from pre-sale of properties		300,090	422,670
Borrowings	17	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	18	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	17	1,414,800	1,587,612
		1,725,460	1,901,810
		7,115,264	6,974,185

Zhang Jianhong

Director

Zhang Zhefeng

Director

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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note a)	(Note b)	(Note c)				
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 shareholders existing 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 RMB'000 (unaudited)	2015 RMB'000 (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;

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

3. Segment information (Continued)

- 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	Dichloromethane		Property development RMB'000	Reportable segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
			Organic Silicone RMB'000	PVC and liquid alkali 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

3. Segment information (Continued)

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. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

4. Other income

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (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

Notes:

- (a) 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 RMB'000 (unaudited)	2015 RMB'000 (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 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

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 RMB'000 (unaudited)	2015 RMB'000 (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. Movement in property, plant and equipment

During the period, the additions of property, plant and equipment is approximately RMB163,628,000 (six months ended 30 June 2015: RMB137,637,000) for the expansion of its operations relating to refrigerants, polymers and organic silicone.

10. Prepaid lease payments

The Group's prepaid lease payments are analysed for reporting purpose as follows:

	30 June 2016	31 December 2015
	RMB'000	RMB'000
	(unaudited)	(audited)
Analysed for reporting purpose as:		
– Current portion	13,237	13,241
– Non-current portion	462,702	469,366
	475,939	482,607

The amounts represent the medium-term land use rights situated in the PRC for a period of 20 to 50 years.

The Group has prepaid lease payments with the aggregate carrying amount of approximately RMB59,411,000 (31 December 2015: RMB104,940,000) to secure bank and other loans of the Group.

11. Exploration rights

During 2012, the Group acquired exploration rights of two mines from third parties in Inner Mongolia Autonomous Region in the PRC for a total consideration of RMB80 million. The directors of the Company expected that the mines are abundant with fluorspar resources, which is a major raw material for the refrigerant business of the Group. The acquisition of the mines will enable the Group to secure a reliable supply of high quality fluorspar resources at a reasonable cost.

The exploration rights will be expired in October 2015. According to the regulations on exploration and mining rights in the PRC, the Group can extend the exploration rights as long as the survey is in process and the application fee is submitted. In October 2015, the Group extended the exploration rights for a period of two years till October 2017.

12. Interests in associates

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Cost of investments in associates unlisted in the PRC	981	980
Gain on acquisition of an associate	22,723	–
Share of post-acquisition profits, net of dividends received	(1,567)	15
Impairment	(995)	–
	21,142	995

13. Available-for-sale investments

The Group's available-for-sale investments are unlisted equity investments in private entities and are stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

14. 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

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For the six months ended 30 June 2016

15. Entrusted loans

As at 30 June 2016, the balances of entrusted loans were approximately RMB30 million (31 December 2015: RMB336.3 million). In the opinion of the Group, the remaining balance of RMB30 million can be fully recovered.

16. 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:

16. Trade and other payables (Continued)

	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

17. Borrowings

During the period, the Group obtained new loans amounting to approximately RMB850,956,000 (six months ended 30 June 2015: RMB945,500,000) and repaid loans amounting to approximately RMB1,012,869,000 (six months ended 30 June 2015: RMB818,073,000). The loans carry interest at variable market rates promulgated by the People's Bank of China Benchmark Interest Rate.

As at 30 June 2016, secured bank borrowings of RMB20,000,000 (31 December 2015: RMB49,700,000) were secured by the Group's buildings and plant and equipment with the aggregate carrying amount of approximately RMB9,256,000 (31 December 2015: RMB22,066,000) and prepaid lease payments with the aggregate carrying amount of approximately RMB nil (31 December 2015: RMB44,525,000). The secured bank borrowings carry interest at 4.85% (31 December 2015: 4.85% to 6.25%) per annum.

As at 30 June 2016, secured other loan made by a financial institution represents borrowing of US\$2,812,000, equivalent to RMB18,650,000 (31 December 2015: US\$5,625,000, equivalent to RMB36,526,500), which was secured by the Group's buildings with the aggregate carrying amount of RMB27,557,000 (31 December 2015: RMB28,672,000), plant and equipment with the aggregate carrying amount of approximately RMB138,348,000 (31 December 2015: RMB163,913,000) and prepaid lease payments with carrying amount of approximately RMB59,411,000 (31 December 2015: RMB60,415,000). The loan carries interest at London Interbank Offer Rate ("LIBOR") plus 3% (31 December 2015: LIBOR plus 3%) per annum.

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For the six months ended 30 June 2016

18. Share capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2015, 30 June 2015		
1 January 2016 and 30 June 2016	4,000,000	382,200
Issued and fully paid:		
At 1 January 2015	2,118,167	200,922
Share repurchased and cancelled	(4,776)	(382)
At 31 December 2015 and 1 January 2016	2,113,391	200,540
Share repurchased and cancelled (Note)	(1,702)	(143)
At 30 June 2016	2,111,689	200,397

Note: During the six months ended 30 June 2016, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited. The aggregate price paid for the repurchases amounted to HK\$2,609,244, equivalent to RMB2,192,000. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both periods.

19. Share-based payments

The Company's Pre-IPO Share Option Scheme and Share Option Scheme (the "Schemes") were adopted pursuant to a resolution passed on 16 November 2007 for the primary purpose of providing incentives to directors and eligible employees. Under the Schemes, the board of directors of the Company may grant options to eligible employees, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

19. Share-based payments (Continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
Pre-IPO Share Option Scheme:					
Share Option Scheme:					
Options to directors					
Option A	1/6/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK\$8.13	HK\$3.067
Option B	1/6/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK\$8.13	HK\$3.201
Option C	1/6/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK\$8.13	HK\$3.314
Option D	1/6/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK\$8.13	HK\$3.411
Options to employees					
Option E	1/6/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK\$8.13	HK\$3.067
Option F	1/6/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK\$8.13	HK\$3.201
Option G	1/6/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK\$8.13	HK\$3.314
Option H	1/6/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK\$8.13	HK\$3.411

The following table discloses the movement of the share options during the six months ended 30 June 2016:

Option type	Outstanding at 1 January 2016 '000	Forfeited '000	Outstanding at 30 June 2016 '000
Option A	8,000	(8,000)	–
Option B	8,000	(8,000)	–
Option C	8,000	(8,000)	–
Option D	8,000	(8,000)	–
Option E	25,975	(25,975)	–
Option F	25,975	(25,975)	–
Option G	25,975	(25,975)	–
Option H	25,975	(25,975)	–
	135,900	(135,900)	–

19. Share-based payments (Continued)

The following table discloses the movement of the share options during the six months ended 30 June 2015:

Option type	Outstanding at	Forfeited	Outstanding at
	1 January 2015		30 June 2015
	'000	'000	'000
Option A	8,500	–	8,500
Option B	8,500	–	8,500
Option C	8,500	–	8,500
Option D	8,500	–	8,500
Option E	26,825	(1,000)	25,825
Option F	26,825	(1,000)	25,825
Option G	26,825	(1,000)	25,825
Option H	26,825	(1,000)	25,825
	141,300	(4,000)	137,300

The Group recognised the expenses of approximately RMB nil for the six months ended 30 June 2016 (2015: RMB9,236,000) in relation to share options granted by the Company.

20. Commitments

At the end of the reporting date, the Group had outstanding commitments as follows:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Capital Commitments		
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	–	30,035
Other Commitments		
Construction commitment contracted in respect of properties under development for sale contracted for but not provided in the consolidated financial statements	–	92,298
	–	122,333

21. Lease commitments

At the end of the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Within one year	6,256	5,971
In the second and fifth inclusive	25,024	23,834
Over five years	51,655	52,114
	82,935	81,919

Operating lease payments mainly represent rentals payable by the Group for certain lands. Leases are negotiated for an average term of 20 years.

22. Related party transactions

Other than set out elsewhere in the condensed consolidated financial statements, the Group entered into the following related party transactions during the period:

(a) Purchase of raw materials

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Non-controlling interest	1,756	1,708

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Short-term employee benefits	8,857	11,028
Post-employment benefits	12	14
Share options granted to directors, chief executive and key management personnel	-	9,236
	8,869	20,278



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