東岳集團有限公司
DONGYUE GROUP LIMITED
Incorporated in the Cayman Islands with limited liability
(於開曼群島註冊成立之有限公司)
(Stock Code 股份代號： 0189)

Annual Report 年報 2007

CONTENTS

CHAIRMAN'S STATEMENT

I am pleased to present the first annual report of Dongyue Group Limited (the "Company" or "Dongyue") since the Company was listed on the Hong Kong Stock Exchange. For the year ended 31 December 2007, the turnover of the Company was approximately RMB2,685 million (2006: RMB2,006 million), a 34% increase over the same period in 2006. Profit attributable to shareholders was RMB208 million (2006: RMB83 million), a 151% increase over the same period in 2006. The figure was higher than the forecasted consolidated profit set out in the prospectus of the Company and was the highest earnings since our establishment. Basic earnings per share were RMB0.14.

The board of directors (the "Board") of the Company proposes a final dividend for the year of HK$0.04 per share to shareholders for their support.

Business Review

The Company completed the global offering and listing of its shares

From 19 November 2007 to 29 November 2007, the Company offered 520,000,000 shares at a price of HK$2.16 per share through placing and public offering, raising HK$1,123,200,000. On 10 December 2007, shares of the Company were listed and commenced trading on the Hong Kong Stock Exchange. Pursuant to an international purchase agreement, the Company granted the sole global coordinator the right to exercise over-allotment option (the "Over-allotment Option") over 78,000,000 shares and the Company issued 3,623,000 over-allotment shares as of 3 January 2008 for an additional approximately HK$7,825,700. Together with the proceeds raised as mentioned above, the Company raised a total of approximately HK$1,131,000,000 (before relevant listing costs).

The core manufacturing business basically remained robust; the Company maintained its position as the largest supplier among its peers

According to the China Association of Organic Fluorine and Silicone Material Industry, the Company was the largest fluorochemical producer in terms of sales volume and the largest refrigerants producer in the PRC. The Company had a market share of 26% of the PRC's refrigerants market, and of 28% of China's fluoropolymers market respectively in 2007, both in terms of sales volume.

The Company completed its expansion and new product projects as planned in 2007. The 160,000-ton liquid alkali expansion project was completed ahead of the scheduled date of June 2008 and put into production on 12 March 2008 with annual production capacity of 280,000 tons. The 80,000-ton methane chloride expansion project was completed and put into production with annual production of 160,000 tons of methane chloride. Thanks to the joint efforts of all staff and engineering and technical personnel, the new 60,000-ton organic silicone project, the key project of the Group in 2007, was completed and put into production in December 2007, more than two months ahead of the original schedule.

The Group maintains strict control over costs and keeps improving the efficiency in production

The Group has been improving operational efficiency and reducing costs through vertical integration. The Company will continue to make efforts to obtain a stable and cost efficient supply of raw materials in the future. In addition to the AHF project in Inner Mongolia, the Company will also focus on the project on coordination of raw materials in Guangdong Province this year.

The Group is committed to maintain a high standard of corporate governance

Our key governance practices, set out in the Corporate Governance Report, comply with the provisions of the Code of Corporate Governance Practices which became effective at the time of the Company's listing. The Company holds board meetings according to the relevant regulations. In order to improve transparency, the Group discloses its business affairs and information on its website. Moreover, the Group established an internal audit function during the year, and its Audit Committee holds meetings to strengthen the internal control and monitoring system to reduce corporate risk.

Dongyue embraces the future, capturing opportunities in the industry

To capture opportunities arising from the rapid development of the economy of the PRC as well as the fluorochemical industry, Dongyue will make good use of the proceeds from the listing, to complete this year's scheduled projects with our best effort by fully employing the advantage of being the leading company in the refrigerants and fluorochemical industry. Dongyue will keep a close eye on changes in the movement of prices of raw materials and boost operational efficiency and strictly control costs through further vertical integration of businesses. We will also strive to expand market coverage, adjust sales strategies in accordance with the changing product demand, launch products with higher added value and new products such as organic silicone, increase sources revenue of the Company and maximize our earnings. As the domestic supply for organic silicone in the PRC is far from meeting the local demand and import prices for organic silicone are higher, the Company is confident of the prospects of our organic silicone products launched in 2008, which is believed to boost business growth.

Dongyue Group Limited managed to record historically robust performance in 2007 with the continued efforts of the management and employees of the Group in face of various challenges during the year. On behalf of the Group and the Board, I would like to thank them for their support over the year and I would also like to extend my sincere thanks to the Company's shareholders and customers for their support and confidence in the Company. Looking ahead into the new year, all the staff of the Group will continue to work together and to give our very best in order to reward shareholders with strong results.

Business Overview

As the largest and leading fluorochemical producer in the PRC, the core business of the Group is the production and sale of organic fluorine, green refrigerant and fluorochemical polymer products. Green refrigerants mainly include R134a, R152a, Tsinghua Series Green Refrigerants while fluorochemical polymers mainly include PTFE and HFP. As the 60,000-ton organic silicone monomer project of the Company was completed at the end of 2007, the production and sale of organic silicone monomers and intermediates became the new businesses of the Company.

Taking advantage of its full knowledge about the market demand and the product prices, and its advantages arising from its fully vertically-integrated production value chain, the Company increased the overall gross profit margin by adjusting its mix of revenue, realigning its resources and flexibly changing the production volume and the sale of its products whilst increasing the production of the products in great demand and controlling their selling price. The profit attributable to the shareholders amounted to a record high of RMB208 million.

For environmental protection, the CDM project of the Company was put into operation in March 2007. The Company has benefited from its contribution to the world environmental protection, which contributed to the growth in earnings of the Company for 2007, and facilitated improvement in overall management of environmental protection.

In 2007, refrigerant and fluorochemical polymer products, key products of the Company, still dominated the domestic market. The Group increased the annual capacity of key refrigerant products in 2007, with HCFC-22 increasing to 150,000-ton from 120,000-ton in 2006, R134a increasing to 10,000-ton from 3,000-ton in 2006 and R152a increasing to 10,000-ton from 5,000-ton in 2006. The Group also increased the annual capacity of PTFE and HFP in 2007, with PTFE increasing to 20,000-ton from 15,000-ton in 2006 and HFP increasing to 5,000-ton from 3,000-ton in 2006. The Company increased its capacity to ensure that market demand is met. The growth in market demand was enhanced by the continued and stable economic growth of the PRC and the improvement in people's standard of living in the country.

Business Review

Refrigerants

1. **HCFC-22**

   HCFC-22, at present the most widely used refrigerants in the PRC and in the world, is one of the leading refrigerant products of the Company. In 2007, the Company sold approximately 91,400-ton of HCFC-22, representing over 35% of the total supply to the top ten producers of air conditioners in the PRC and approximately 35% of China's total exports in accordance with the domestic industry's statistics. Despite price reductions from its competitors and the ever-increasing bargaining power of the downstream customers, Dongyue still secured around 70% of market share as a supplier for top producers of air conditioners by taking advantage of its scale, quality, brand and services. Sales increased approximately 20% compared with that of 2006 (76,400-ton), which showed that the market share of the Group was gradually increasing.

2. **HFC134a**

   Under the influence of international environmental policies and the increase in people's awareness for environmental protection, the demand for environmental-friendly refrigerants was rapidly increasing and approximately 6,890-ton were sold by the Company in 2007. The total sales increased by approximately 114% compared with last year (3,225-ton).

Fluoropolymers

1. **PTFE**

   In 2007, we sold approximately 14,059-ton PTFE, among which exports accounted for approximately 55% of the total exports in China, at the average price higher than that offered by our domestic competitors by US$100 to US$150 as a result of our better product quality.

   Affected by higher prices in raw materials and the appreciation in RMB, the sales of PTFE will come under pressure. The Company is taking active measures for cost reductions to cope with the competition and to keeps up with developing new PTFE products to take the brand to another level, so that new customers and markets can be gained and prices can be maintained.

2. **HFP**

   In 2007, the Group's annual capacity for HFP reached 5,000-ton and we sold approximately 1,996-ton HFP, representing an increase of approximately 68% over 2006, primarily due to the increased demands of the existing customers and gaining new customers. As our products are of high purity and quality, the sales compared with 2006 had greater increased with the higher price of raw materials across the world and deeper cooperation between the Company and our foreign peers.

Other products

1. **Dichloromethane**

   In 2007, the domestic demand for dichloromethane products was great; exports were affected by policies on tax refunds for exports, resulting in higher costs and lower gross profit from exports. The Company made adjustments accordingly and increased the supply of the products for domestic market and reduced our exports.

2. **Liquid alkali**

   The price of liquid alkali globally in 2007 has been rising. Since 1 July 2007, the tax refund for export of liquid alkali dropped to nil from 13%, which had significant effect on the gross profit of exports. While the domestic demands were strong, the Company made adjustments accordingly, satisfying domestic need first so as to maximize its gross profit.

Future Prospect

The business of our Company is under pressure from suppliers, cost of upstream raw materials and more intense competition for upstream raw materials. This phenomenon will continue to exist in the future. To strengthen the competitiveness of our Company and secure its leading position in the industry, our Company formulates/fosters the following development strategies:

Our Company plans to set up plants overseas, especially in the mining area, to integrate or control some sources of mining resources in order to expand the production scale of existing products, increase product output and increase the its market share. In 2007, the Company established a company that engages in the production of AHF in Inner Mongolia where fluorite is abundant. The scale of processing will be increased in line with the Company's development. Our Company plans to achieve a production scale with annual production of 30,000-ton AHF in May 2008. In the south, the Company also undertook serious market research. In the meantime, the production of AHF and R22 is planned to be carried out in the mining areas of fluorite to fulfill the demands of the market in the south and reduce the cost of logistics by gaining access to the raw materials.

Through its listing and its access to the capital markets, the Company strives to seek opportunities and eliminate competitors through acquisition and merger of certain local or overseas corporations in the industry and increase its market share.

Leveraging on the advantages of a comprehensive vertically-integrated production value chain in the development of new products, 2008 represents the first year in which Dongyue commences commercial production of its organic silicone and PVC products. As at the end of 2007, the 60,000-ton silicone project came in to production after successful trial production. Consistent with its performance of the first quarter in 2008, the price of organic silicone continued to rise due to market demand in excess of supply. The Company is proactively carrying out a project with expected annual production of 100,000-ton organic silicone to gain a market share at the earliest time possible. In the meantime, the Company proactively progresses silicone deep-processing project and plans to complete and commence commercial production within 2008. The organic silicone deep-processing products will significantly increase the added value of the products. The phase two of 60,000-ton PVC project will also come into production as scheduled in 2008. The new products will bring more profits for the Company.

The Company will also increase its cooperative efforts with the research institutes, boost its investment in the research and development of new products and explore new fluorine and organic silicone products as a means to foster the competitive edge of its products. This could optimize the mix of products, and enhance the technical specifications of the products, add value and is expected to increase the Company's gross profit.

In order to capture opportunities for business development in the face of challenges in 2008, the Dongyue Group will consolidate its leading position in the fluorochemical industry and maximize its profits by fully employing and strengthening its own advantages, including:

Dongyue Group leverages on its leading position in the industry and the advantage of its scale to control product prices

Currently, Dongyue dominates the industry in terms of the production scale of both fluorine refrigerants and PTFE and is highly influential in the industry. In recent years, by virtue of effective communication and coordination among companies within the industry, the prices of fluorine and PTFE gradually tend to be rational, and hostile reduction in prices is no longer the primary means of competition. While ensuring its own healthy development, Dongyue helps the whole industry develop healthily.

Dongyue uses its established sales network to further expand its business

Currently, Dongyue has 23 sales offices in the PRC (with approximately 70 salesmen). Its established sales network offers 24-hour services to the customers and is able to provide timely technical services and support. All these together with its excellent after-sale services win Dongyue stable long-term strategic business relationships with customers, facilitating further expansion of business to gain market share.

The Company reinforces vertical integration of businesses to raise overall competitiveness

Through optimizing its expansion to include more upstream and downstream products in our industrial chain, fully employing sideline products of the Company, and increasing operational efficiency, as well as cost saving, product costs of the Company are lower than its competitors. Also, through extension of the industrial chain, products of the Company will have higher added value.

The Company brings the advantages of its brand into full play

The Company has established long-term business relationship with major local and overseas producers of air conditioners and refrigerators, with recognized brand in the industry. Its major clients include Haier, Midea, Gree and Mitsubishi. We have good relationships with these major customers and received "Outstanding Supplier" certificates. The Company has also been awarded with "China well-known brand" for our HCFC-22 products and the registered trademark of "Dongyue Lianbang" was named as a "Chinese Well-known Mark" on 5 March 2008.

Looking ahead into 2008, the business of the Company will continue to benefit from the continued and stable development of the economy of the PRC. New businesses of the Company such as its new products including organic silicone and PVC will be the main drivers of growth in 2008. The 160,000-ton expansion project for ion-membrane caustic soda products will remarkably reduce raw materials costs and enhance competitiveness of our products. In conclusion, Dongyue's group of companies operating in China will draw together closely and endeavor to overcome the difficulties by conversion of thoughts and transformation of styles so as to maintain the splendor performance and record outstanding results. We are all confidence in the business development in 2008.

Financial Review

Results Highlights

For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB2,684,721,000, representing an increase of 34% over the previous year. The gross profit margin was approximately 24% (2006: 21%). During the year, the Group reported an operating profit of approximately RMB368,091,000 (2006: RMB219,240,000), and the profit attributable to shareholders was approximately RMB208,306,000 (2006: RMB82,702,000), representing an increase of approximately 151% over the last year. This was due to the increase in gross profit margin of HCFC-22. The basic earnings per share were RMB0.14.

Segment Information

Set out below is the comparison by business segment of the Group's turnover, gross profit and gross profit margin for the years ended 31 December 2007 and 2006:

	Year ended 31 December 2007			Year ended 31 December 2006		
	Turnover (RMB'000)	**Gross profit (RMB'000)**	**Gross profit margin**	Turnover (RMB'000)	Gross profit (RMB'000)	Gross profit margin
Refrigerants	**1,424,142**	**300,584**	**21%**	1,083,103	153,922	14%
Fluoropolymer materials	**646,140**	**129,862**	**20%**	490,987	120,525	25%
Other products[1]	**614,439**	**204,231**	**33%**	431,842	154,002	36%
	2,684,721	**634,677**	**24%**	2,005,932	428,449	21%

(1) Other products mainly include dichloromethane and liquid alkali

Analysis of Sales and Gross Profit

During the year under review, the refrigerants business was still the largest contributor of the turnover of the Group, contributing approximately RMB1,424,142,000 and accounting for approximately 53% of the turnover of the Group. The turnover increased by 31% compared to the last year.

In the year, the turnover of the fluoropolymers business increased by 32% to approximately RMB646,140,000 from last year's approximately RMB490,987,000. The increase was mainly driven by PTFE, a large contributor to the fluoropolymers business. Compared with the same period last year, the turnover of PTFE increased by 27%. The growth of the business was due to (1) the increase in product output; and (2) better performance in business expansion compared with last year.

For other products, the related turnover increased by 42% to approximately RMB614,439,000 from last year's RMB431,842,000 approximately and accounted for 23% of the total turnover of the Group.

With regard to the gross profit, the total gross profit of the Group was 24% (2006: 21%), increasing by 3 % over the last year. The increase was mainly attributable to the refrigerants business of higher gross profit margin, in which, (i) the gross profit margin of HCFC-22 increased to 17% from 12% of the last year; (ii) the sale of CER from CDM project commencing in 2007 which generated a higher profit margin.

The contribution to the total gross profit attributable to the other products accounted for 32%. The gross profit margin was 33%.

The contribution made by fluoropolymers business and refrigerants business accounted for about 20% and 47% of the total gross profit of the Group respectively. The gross profit margin of fluoropolymers business decreased to 20% from the last year's 25%, which was mainly due to (i) changes in export tax rebates, which increased the sales cost for export products by 3% (ii) decreasing price in the PTFE, which led to a substantial decrease in profit margin to sales. Gains of the Company from cost saving and exploring potential and decreasing unit consumption were not able to offset the increase in sales cost caused by (i) and (ii), which was the main reason for the decrease in profit margin in 2007.

The gross profit margin of the refrigerants business rose to 21%, compared with 14% of the last year. The rise was attributable to HCFC-22 (refrigerants business) of higher gross profit margin and contribution proportion in the gross profit margin. The main reason for the increase in the profit margin of HFCF-22 was the increase in our production capacity for CFM in the PRC, we gained control of our prices in 2007 and we imported part of the CFM to increase our control over the domestic purchase price for CFM for lower production cost. Besides, the sale of CER from CDM project commencing in 2007 which generate a higher profit margin.

Capital expenditure

For the year ended 31 December 2007, the capital expenditure was approximately RMB1,902,588,000, which was mainly used to purchase fixed assets and land use rights.

Liquidity and Financial Resources

As at 31 December 2007, the total assets of the Group amounted to approximately RMB6,536,552,000 (2006: RMB2,815,568,000), comprising shareholders' funds of approximately RMB1,845,560,000 (2006: RMB311,416,000), minority interests of approximately RMB235,437,000 (2006: RMB213,647,000), and long-term and current liabilities of approximately RMB4,455,555,000 (2006: RMB2,290,505,000). The current ratio[2] of the Group was 0.9 (2006: 0.6).

The financial position of the Group was sound. The cash and cash equivalents of the Group amounted to approximately RMB1,455,583,000 (2006: RMB315,159,000) as at 31 December 2007.

As at 31 December 2007, the bank loans of the Group were approximately RMB2,139,597,000 (2006: RMB1,455,352,000). The gearing ratio[1] was 25% (2006: 68%). The Group had no financial leasing assets during the year.

The Group had no particular seasonality behavior for borrowings. The borrowings comprised of non-current portion (more than 1 year) and current portion (within 1 year). Non-current portion of borrowings amounted to approximately RMB893 million and are wholly repayable within 5 years. Current portion of borrowings RMB1,247 million (which mainly comprised of banking facilities obtained in late 2007) are repayable within 1 year.

The Group's borrowing are in fixed interest rate and floating rate with weighted average effective rates of 7.3% per annum.

Note: 1. *Gearing Ratio = Net Debt/Total Capital*

Net Debt = Total Borrowings – Cash and Cash Equivalent

Total Capital = Net Debt + Total Equity

2. *Current ratio = current asset/current liability*

Contingent liabilities

The Group was advised that Dongyue F&S and Dongyue Organic Silicone (collectively, "Subsidiaries"), subsidiaries of the Company, have been named as defendants in legal proceedings. It was alleged that the Subsidiaries' silicone business had infringed the intellectual property rights of China Bluestar (Group) Limited and Bluestar Chemical New Materials Limited (collectively, "China Bluestar Group"), and that, as a result, the Subsidiaries should pay to the China Bluestar Group damages which they estimated would be RMB 100 million or more (the "Alleged Claims").

The legal proceedings are at an initial stage. Based on the legal advice of the Subsidiaries' legal counsel, management have reviewed the facts and circumstances and are of the view that the Alleged Claims are unfounded. It is considered that the likelihood of the Subsidiaries' suffering material loss is low and, consequently, no provision for any loss arising from this pending litigation has been provided in the Group's consolidated financial statements as at 31 December 2007.

The Group had no material contingent liabilities as at 31 December 2007.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's foreign exchange exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures mainly arises from exchange gains and losses on trade receipts from overseas customers.

In order to mitigate the potential impact of currency movements, the Group closely monitors its foreign exchange exposures and uses suitable hedging arrangements against significant foreign currency exposures where necessary. No forward exchange contract was entered into by the Group during the year under review.

Employees

The Group employed 3,861 employees in total as at 31 December 2007. The Group implemented its remuneration policy, bonus and share option schemes based on the achievements and performance of employees. In addition, the Group provided benefits such as medical insurance and pensions to ensure competitiveness.

Proposed Dividend

The Board declared a final dividend for 2007 of HK$0.04 per share to the shareholders whose names appear on the Register of Members on 26 May 2008 (Monday). Such final dividend will be paid on 27 June 2008 (Friday).

The Register of Members of the Company will be closed from 26 May 2008 to 30 May 2008, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4 p.m. on 23 May 2008.

Issue and Listing of Shares

On 12 April 2007, 75,000,000 preference shares of nominal value of US$0.1 per share, totalling approximately RMB57,954,000, were issued to Baring Private Equity Asia III Holding (9A) Limited ("Baring") and International Finance Corporation ("IFC") for cash at a premium of approximately RMB306,767,000. The preference shares were convertible by the holders at a rate of one preference share to one ordinary share. On 31 July 2007, the preference shares were all being converted into ordinary shares of the Company.

The reasons for issuing such preference share to Baring and IFC was to (i) raise funds and (ii) finance the organic-silicone project of the Group.

On 16 November 2007, the Company repurchased all of the 275,000,000 issued ordinary shares of US$0.1 each at HK$27,500,000 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 of approximately RMB189,996,000 was credited directly to the capital reserve.

On 10 December 2007, the Company issued and allotted 1,285,000,000 ordinary shares of HK$0.1 each at par to the shareholders whose names appear on the register of members of the Company on 15 November 2007 by the capitalisation of the share premium accounts.

Taking into account of the capitalization issue mentioned above, each of Baring and IFC were issued 283,636,364 ordinary shares and 141,818,182 ordinary shares respectively, representing approximately 18.18% and 9.09% of the shareholding interest of the Company.

The Shares were listed on the Stock Exchange on 10 December 2007 by way of public offer and placing.

Use of Net Proceeds from the IPO

As of 10 December 2007, the Company offered shares at a price of HK$2.16 per share in the way as set out in the prospectus (the "Prospectus") of the Company dated 20 November 2007. As of 3 January 2008, the Company had in issue 2,083,623,000 shares (including 3,623,000 over-allotment Shares). Net proceeds after relevant costs were approximately HK1,051,549,270 (including the approximate amount of HK$7,826,000 from the Over-Allotment Shares).

The Group will utilize the proceeds above as follows:

- 40% of the net proceeds from the initial offering and 73% of the proceeds from the shares issued under the Over-Allotment Option, being approximately HK$423.1 million (equivalent to approximately RMB401.8 million), will be used to finance our expansion plans, including the expansion of production capacities of our existing products and diversification into new product lines, of which:
  - 40% or approximately HK$169.2 million (equivalent to approximately RMB160.7 million) will be used for our refrigerants business;
  - 15% or approximately HK$63.5 million (equivalent to approximately RMB60.3 million) will be used for our fluoropolymers business; and
  - 45% or approximately HK$190.4 million (equivalent to approximately RMB180.8 million) will be used for our liquid alkali business;
- 40% of the net proceeds or approximately HK$417.6 million (equivalent to approximately RMB396.7 million) will be used to finance the construction plans for our organic silicone products, which include construction of new manufacturing facilities for the production of organic silicone monomers and intermediates in our Industrial Park;
- 15% of the net proceeds and 27% of the proceeds from Over-Allotment Option, approximately HK$158.6 million (equivalent to approximately RMB150.7 million) will be used for equipment upgrades and purchases of advanced production equipment and facilities (including enhancement of our research and development capabilities) in our Industrial Park; and
- the remaining 5% or HK$52.2 million (equivalent to approximately RMB49.6 million) will be used to provide funding for our working capital and other general corporate purposes.

As of 31 December 2007, for any of our net proceeds that were not applied immediately to the above purposes, we deposited the net proceeds into short-term demand deposits with licensed banks in Hong Kong and/or the PRC and/or financial institutes in Hong Kong.

Directors

Executive Directors

Mr. ZHANG Jianhong, aged 48, was appointed as our chairman, chief executive officer and executive director on 24 July 2006. He has been with our Group and its predecessors since October 1986 and has over 20 years of experience in the chemical industry. He is also the chairman of Dongyue Chemicals, Dongyue Polymers, Dongyue Fluorine Silicone and Dongyue Organic Silicone. Mr. Zhang is an engineer and a senior officer of political affairs with a postgraduate degree in economics. He had served the People's Liberation Army Navy from 1978 to 1982. He had previously worked as the head of Jinan Chemical Plant, Huantai Branch and was the chairman and general manager of Zibo Dongyue Fluorine. In recent years, he has obtained the honorary titles of National Youth Spark Leader and Model, Powerful Figure of China Petroleum and Chemical Industry (First Session), Top 10 Outstanding Figures of Chinese Brands in the International Market, the Shandong Labour Model and Top 10 News Figures of Shandong Province in 2006. Mr. Zhang has also been the vice chairman of CAOFSMI's executive board since September 2006 and will continue to serve as vice chairman until September 2010. Mr. Zhang did not have any other directorships in listed companies during the past 3 years.

Pursuant to the SFO, Mr. Zhang is deemed interested in the 166,551,273 ordinary shares(L) and 16,645,955 ordinary shares (S) which are directly held by Dongyue Team Limited as Mr. Zhang owned the entire issued share capital of Dongyue Team Limited. Mr. Zhang personally held 10,210,909 share option in the Company.

Mr. FU Kwan, aged 51, was appointed as our executive director on 24 July 2006. He has been with our Group since December 1996 and is a director of Dongyue Chemicals, Dongyue Polymers, Dongyue Fluorine Silicone and Dongyue Organic Silicone. Mr. Fu is the chairman of the board of directors and the president of Macro-Link Group Limited. Through his various investments in a variety of businesses, Mr. Fu Kwan has over 25 years of experience in corporate management and business strategy planning Mr. Fu was the deputy director of the Economic Committee of Liling City, Hunan Province, head of the Foreign Trade Bureau of Liling City, deputy general manager of Hunan Arts & Crafts Import & Export Corporation, and is a committee member of the CPPCC, the vice chairman of the China Federation of Industry & Commerce, a standing director of China Association of Enterprises with Foreign Investment and a vice chairman of Hunan Federation of Industry & Commerce. Mr. Fu has also been awarded the "Top 10 Outstanding Entrepreneurs in China Certificate" in 2003 by the China Professional Managers Association and "Top 10 Excellent Leaders of Chinese Private Enterprises Certificate" in 2003 by 21st Century Economic News Association, and was defined as "Outstanding Builder for Socialism Task with Chinese Characteristics"（中國特色社會主義事業優秀建設者）by the nation. Mr. Fu is a director of Wang-Zheng Sdn. Bhd., a company listed on the Kuala Lumpur Stock Exchange. He has also, in the past three years, been a chairman of the Board and executive director of Macro-Link International Holdings Limited (now renamed JLF Investment Company Limited) and a director of Hunan Changfeng Motors Co., Ltd, which are listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange respectively. Save for the aforesaid, Mr. Fu Kwan does not have any other directorships in listed companies during the past 3 years.

Pursuant to the SFO, Mr. Fu is deemed interested in the 731,781,818 ordinary shares (L) and 73,137,865 ordinary shares (S) which are directly held by Macro-Link International Investment Co., Ltd., a wholly owned subsidiary of Macro-Link Sdn. Bhd., as Mr Fu owns a 40% interest in Macro-Link Sdn.

Mr. LIU Chuanqi, aged 58, was appointed as our executive director on 24 July 2006. He has been with our Group and its predecessors since October 1986. Mr. Liu has over 20 years of experience in the chemical industry and is a director of Dongyue Polymers, Dongyue Fluorine Silicone, Dongyue Organic Silicone and Dongyue Peak. Mr. Liu is a director and general manager of Dongyue Chemicals. He is also the president of our Group. Mr. Liu has been a director of No. 3 Huantai Chemical Plant, an operating plant deputy manager of Huantai Plant of Jinan Chemical, general manager of Zibo Dongyue Fluorine Chemical Co., Ltd., and director of Zibo Dongyue Chlorine.

(L: Long Position, S: Short Position.)

He is a senior officer of political affairs, and was awarded "Medal for Enhancing the Labour Force of Zibo City" in 2002 by the Zibo City Labour Union. Mr. Liu Chuanqi does not have any other directorships in listed companies during the past 3 years.

Pursuant to the SFO, Mr. Liu is deemed interested in the 87,360,000 ordinary shares (L) and 8,731,190 ordinary shares (S) which are held by Dongyue Wealth Limited as its entire issued share capital is owned by Mr. Liu. Mr. Liu personally held 9,076,364 share options in the Company.

Mr. CUI Tongzheng, aged 46, was appointed as our executive director, Vice President and Chief Financial Officer on 24 July 2006. He has been with our Group and its predecessors since November 1988. Mr. Cui has over 19 years of experience in the chemical industry and is a director of Dongyue Chemicals, Dongyue Polymers, and Dongyue Fluorine Silicone. Mr. Cui is also the vice president of our Group, the chief accountant and deputy general manager of Zibo Dongyue Fluorine Chemical Co., Ltd. and deputy general managers of Dongyue Chemicals. Mr. Cui holds a bachelor degree from China Statistics Cadre College. Mr. Cui Tongzheng does not have any other directorships in listed companies during the past 3 years.

Pursuant to the SFO, Mr. Cui is deemed interested in the 148,852,364 ordinary shares (L) and 14,887,034 ordinary shares (S) which are held directly by Dongyue Initiator Limited as its entire issued share capital is owned by Mr. Cui. Mr. Cui personally held 7,374,544 share options in the Company.

Mr. YANG Erning, aged 47, was appointed as an executive director and vice president of our Company on 24 July 2006. He has been with our Group since October 2003, and has over 4 years of experience in the chemical production industry and is a director of Dongyue Chemicals, Dongyue Polymers, Dongyue Fluorine Silicone, Dongyue Organic Silicone, Dongyue Peak and Dongying Macrolink Salt. He is also the general manager of Dongyue Fluoro-Silicone and the deputy president of our Group. He has been a departmental head and vice president of Changsha Aerospace Industry School, a manager and a member of the reform committee of Hunan Aerospace Authority, president of Hunan Aerospace Electromagnetics (Group) Co., Ltd. and a standing member of No. 68 China Aerospace Technological and Industrial Group. Mr. Yang is a senior economist and holds a General Management Program Certificate from the National University of Singapore. Mr. Yang Erning does not have any other directorships in listed companies during the past 3 years.

Mr. Yang personally held 1,701,818 share options in the Company.

Mr. ZHANG Jian, aged 35, was appointed as an executive director of our Company on 24 July 2006 and has been with our Group since February 2006. Mr. Zhang has approximately 10 years of experience in the investment banking and corporate finance. Mr. Zhang holds a bachelor degree in Accounting and Economics from Jiangxi University of Finance and Economics and a Master degree in Business Administration from The Chinese University of Hong Kong. He is an executive director of Macro-Link International Holdings Limited (now renamed JLF Investment Company Limited), a company listed on the Hong Kong Stock Exchange. Save for the aforesaid, Mr. Zhang Jian does not have any other directorships in listed companies during the past 3 years.

Mr. Zhang personally held 567,273 share options in the Company.

Non-executive Directors

SHAW Sun Kan, Gordon, aged 43, was appointed as a non-executive director of our Company on 4 April 2007 and has been with our Group since then. Mr. Shaw has years of experiences in private equity and the finance industry in Asia. Prior to joining Baring Private Equity Asia Limited, he was with Citibank in Hong Kong, as a director at AIG Investment Corp (Asia) Ltd. and Assistant Vice President of the Direct Investment Department at Nan Shan Life Insurance in Taiwan. He was also a Senior Design Engineer at Schlumbereger Technologies in San Jose, California. Mr. Shaw is a director of DVN (Holdings) Limited (0500) and Minth Group Limited (0425), both

(L: Long Position, S: Short Position.)

being companies listed on the Hong Kong Stock Exchange. He is also a corporate representative of a corporate shareholder of Depo Auto Parts Industrial Co., Ltd., a company listed on the Taiwan Stock Exchange. Mr. Shaw holds a Bachelor of Science degree in Electrical Engineering from Massachusetts Institute of Technology and a Master of Business Administration from the Columbia University. Save for the aforesaid, Mr. Shaw Sun Kan, Gordon does not have any other directorships in listed companies during the past 3 years.

Independent non-executive Directors

YUE Run Dong, aged 68, a professor-grade senior engineer previously entitled to a special allowance from the PRC government. Mr. Yue was appointed as an independent non-executive director of our Company on 16 November 2007 and has been with our Group since then. Mr. Yue has more than 40 years of experience in the chemical industry. He worked in Shen Yang Chemical Research Institute as a project leader and technician in the early 60's. He worked for Chen Guang Chemical Research Institute since 1969 and took up the post of the dean of Chengdu Chen Guang Chemical Research Institute. And he was appointed as the manager of the technology department of China National Bluestar Group, dean of Bluestar Institute of Chemical Technology and also the vice president and president of China Association of Organic Fluorine and Silicone Material Industry. Mr. Yue is currently the honorary president of China Association of Organic Fluorine and Silicone Material Industry. Mr. Yue does not have any other directorship in listed companies during the past 3 years.

LIU Yi, aged 62, was appointed as an independent non-executive director of our Company on 16 November 2007 and has been with our Group since then. Mr. Liu had previously worked in the Chinese Research Academy of Environmental Sciences as a department head and in the State Environment Protection Administration as a standing member where he retired in January 2006. He has many years of experience in handling environmental protection issues. Mr. Liu does not have any other directorships in listed companies during the past 3 years.

TING Leung Huel, Stephen MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD, aged 54, was appointed as an independent non-executive director of our Company on 16 November 2007. Mr. Ting is a certified public accountant and has been the Managing Partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants (Practising) since 1987. Mr. Ting is a member of the 9th and 10th Chinese People Political & Consultative Conference, Fujian province. He is currently a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of six companies listed on the Hong Kong Stock Exchange, namely Tong Ren Tang Technologies Company Limited, Tongda Group Holdings Limited, Minmetals Resources Limited, Macro-Link International Holdings Limited (now renamed JLF Investment Company Limited) , Computer and Technologies Holdings Limited and Texhong Textile Group Limited. He was the Non-Executive Director of Premium Land Limited (resigned on May 2006) and Independent Non-Executive Director of eForce Holdings Limited(resigned on July 2007).

Save for the aforesaid, Mr. Ting Leung Huel, Stephen does not have any other directorships in listed companies during the past 3 years.

Senior Management

Mr. ZHOU Guangsheng, aged 52, is the deputy president of the Group. He has been serving the Group since March 1988 and is responsible for production, safety and environmental protection. He served as a deputy head of production plant and deputy production general manager from April 1989 to March 2004. He served as the deputy general manager of Dongyue Chemicals from March 2004 to March 2006. He has been serving as the vice president of the Group since March 2006 until now. Mr. Zhou personally held 1,701,878 share options in the Company.

Mr. ZHANG Heng, aged 40, is an engineer and had obtained an undergraduate degree in economics from the China Petroleum University. He has been serving the Group since November 1988 is the general manager and one of the directors of Dongyue Polymers. Mr. Zhang has been the deputy general manager of Dongyue Chemicals since December 1996. He has pioneered several research projects which had twice been awarded the Shandong Science and Technology Spark Award, and had several times been awarded the Zibo City Science and Technology Improvement Award and the Zibo City Spark Award. Mr. Zhang personally held 2,836,364 share options in the Company.

Mr. WANG Weidong, aged 44, has been working in the Group with responsibilities for technical matters and projects since September 1996 until now. He is currently the general manager and director of Dongyue Organic Silicone. In 2005, he was awarded the title of "Outstanding Scientific Researcher of National Chemical Industry" and in 2006, he obtained the award for "Outstanding Worker of National Chlor-alkali Industry". Mr. Wang possesses an undergraduate degree in Chinese Literature. Mr. Wang personally held 2,836,364 share options in the Company.

Mr. YU Xiuyuan, aged 42, is the chief engineer and the head of the technology department of the Group. He had been working with the Group since February 1987. He was the deputy engineer and the head of the production development and research division of Zibo Dongyue Fluorine Chemicals Co, Ltd. He is also a committee member of the China Association of Organic Fluorine and Silicone Material Industry and a committee member of the organic chemical technology committee of China National Standardization Technology Committee. He is an engineer and obtained professional qualifications in chemistry. In 1994, he was awarded the Provincial Science and Technology Advance Prize (Third Prize) and in 1999, he was awarded the Provincial Spark Science and Technology Prize (Second Prize). Mr. Yu personally held 1,134,545 share options in the Company.

Qualified Accountant and Company Secretary

WONG Kwok Kuen, aged 35, is a full time qualified accountant, company secretary and financial controller of our Company. He joined our Group on 18 June 2007. Mr. Wong is primarily responsible for the overall financial management and company secretarial matters of our Company and is a member of our Company's senior management. Mr. Wong has over 10 years of experience in the fields of finance, auditing and accounting. Prior to joining our Group as the qualified accountant, he was the qualified accountant of Jolimark Holdings Limited, a company listed on the Main Board. Mr. Wong has a bachelor degree in Accountancy from the Hong Kong Polytechnic University. Mr. Wong is an associate member of the Association of Chartered Certified Accountants and a certified public accountant of The Hong Kong Institute of Certified Public Accountants. Mr. Wong oversees our Group's financial reporting procedures, internal controls and compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting related issues.

The Board presents their report together with the audited financial statements for the year ended 31 December 2007.

Corporate Reorganisation

The Company was incorporated in the Cayman Islands on 24 July 2006 as an exempted company with limited liability. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. As at the date of this report, the Company had direct or indirect interests in the subsidiaries as set out in note 36 of the financial statements. The Group is principally engaged in the manufacturing and sale of organic fluoride, green refrigerant, organic silicone and polytetrafluoroethylene products.

Details of the reorganisation are set out in note 1 of the financial statements.

Issue and Listing of Shares

On 12 April 2007, 75,000,000 preference shares of nominal value of US$0.1 per share, totalling approximately RMB57,954,000, were issued to Baring Private Equity Asia III Holding (9A) Limited ("Baring") and International Finance Corporation ("IFC") for cash at a premium of approximately RMB306,767,000. The preference shares were convertible by the holders at a rate of one preference share to one ordinary share. On 31 July 2007, the preference shares were all being converted into ordinary shares of the Company.

The reasons for issuing such preference share to Baring and IFC was to (i) raise funds and (ii) finance the organic-silicone project of the Group.

On 16 November 2007, the Company repurchased all of the 275,000,000 issued ordinary shares of US$0.1 each at HK$27,500,000 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 of approximately RMB189,996,000 was credited directly to the capital reserve.

On 10 December 2007, the Company issued and allotted 1,285,000,000 ordinary shares of HK$0.1 each at par to the shareholders whose names appear on the register of members of the Company on 15 November 2007 by the capitalisation of the share premium accounts.

Taking into account of the capitalization issue mentioned above, each of Baring and IFC were issued 283,636,364 ordinary shares and 141,818,182 ordinary shares respectively, representing approximately 18.18% and 9.09% of the shareholding interest of the Company.

The Shares were listed on the Stock Exchange on 10 December 2007 by way of public offer and placing.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 36 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Management Discussion & Analysis.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 39.

The Director now recommend the payment of a final dividend of HK$0.04 (RMB0.037) per share (2006: RMB0.1625) in respect of the year ended 31 December 2007.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 18 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 17 to the financial statements.

Distributable Reserves

As at 31 December 2007, the Company's reserve available for cash distribution as computed in accordance with the Companies Law (2003 Revision) of the Cayman Islands, amounted to RMB1,337,660,000, of which approximately RMB78,044,000 has been proposed as final dividend for the year.

Pre-emptive Right

There is no provision for pre-emption right under the Company's article of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2007 and the Company has not redeemed any of its shares during the year ended 31 December 2007.

Share Options

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide the participants an opportunity to have a personal stake in our Company and help motivate the participants to optimize their performance and efficiency and attract and retain participants whose contributions are important to the long-term growth and profitability of our Group. The principal terms of the Pre-IPO Share Option Scheme, as approved and amended by written resolutions of all the Shareholders of our Company dated 16 November 2007 are similar to the terms of the Share Option Scheme:

(a) the subscription price per Share shall be the Offer Price per Share;

(b) grants of options are subject to the Listing Committee granting the approval of the listing of, and permission to deal in, the shares which fall to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;

(c) save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of Shares on the Hong Kong Stock Exchange.

All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

Period of exercise of the relevant percentage of the option	Maximum percentage of options exercisable
A period of twelve months commencing on the first anniversary date of the Listing Date	30% of the total number of Options granted
A period of twelve months commencing on the second anniversary date of the Listing Date	30% of the total number of Options granted
A period of twelve months commencing on the third anniversary date of the Listing Date	40% of the total number of Options granted

As at 31 December 2007, the following options have been granted at HK$2.16 per share to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme on 16 November 2007. None of the options are capable of exercise until after the first anniversary of the Listing Date (i.e. 10 December 2007) and further details are set out below:

Grantee	Outstanding at 31 December 2007
Zhang Jianhong	10,210,909
Liu Chuanqi	9,076,364
Cui Tongzheng	7,374,544
Yang Erning	1,701,818
Zhang Jian	567,273
Zhou Guangsheng	1,701,818
Zhang Heng	2,836,364
Wang Weidong	2,836,364
Li Yuwen	1,701,818
Yu Xiuyuan	1,134,545
Yan Jianhua	567,273
Zeng Hongzhi	567,273
Pang Feng	1,701,818
Yue Benzhong	567,273
Zhao Sufang	567,273
Wang Qiang	453,818
Wang Zhongtang	283,636
Zhang Xihe	453,818
Zhang Xigong	283,636
Zhang Wencheng	283,636
Zhang Jianjun	453,818
Cui Angang	453,818
Jing Changshui	453,818
Ren Jingsan	283,636
Li Bin	283,636
Yi Gang	283,636
Song Xuezhang	283,636
Hu Qingli	283,636
Hu Qingmin	283,636
Zhang Yintang	283,636
Liu Chuanwei	283,636
Xing Yujin	283,636
Zhang Yongxian	170,182
Zhang Wucheng	170,182
Zhang Rongxiu	170,182
Fu Shimin	170,182
Ma Kewu	170,182
He Zhicheng	113,455
Ren Dedu	113,455
Wang Heng	170,182
Zhang Ming	170,182
Zhang Xiulei	170,182
Hu Qingxi	170,182
Yu Changguo	170,182
Ju Jiasheng	170,182
Zhang Quan	170,182
Yu Yuan	283,636
Zhang Lianfeng	170,182
Zheng Jianqing	170,182
Yu Haitao	113,455
Kang Ming	510,545
Niu Xiaogang	170,182
Rong Qingjin	170,182
Zhang Zuotao	170,182
Rong Guokui	170,182
Zhang Guodong	170,182
Pang Xiuli	170,182
Shang Yongfeng	170,182
Shan Shichong	170,182
Zhang Yongming	1,134,545
Wang Yanli	170,182
Qin Sheng	170,182
Gao Zihong	170,182
Wang Xuejun	170,182
Wang Jing	170,182
Tang Junke	170,182
Wu Kean	170,182
Wang Xin	170,182
Total	56,160,000

The weighted average fair value of options granted during the period determined using the Black-Scholes Option Pricing Model was 0.70 HK dollar per option. The significant inputs into the model were the exercise price shown above, volatility of 35.2%, dividend yield of 2.9%, an expected option life of three years and on annual risk-free interest rate of 3.6%. See note 29 in Notes to the Consolidated Financial Statement for the total expense recognized in the income statement for share options granted to directors and employee.

Post-IPO Share Option Scheme

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 16 November 2007 ("Scheme"), the Company may grant to, among others, the directors and employees of the Company and its subsidiaries, for the recognition of their contribution of the Group, to subscribe for the Shares. According to the Scheme, pursuant to which 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 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 Listing Date 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 ("Offer") must be taken up within 28 days form the date of offer, with a payment of HK$1.00 as consideration for the agent. The exercise price of the share option will be determined at the higher of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding to the date on the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of 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 million which represents 10% of the total issued share capital as at the listing date unless further shareholder approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of Offer, 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.

During the year under review, no Post-IPO share options were granted under the Scheme.

The directors during the year were:

Executive Directors
Mr. Zhang Jianhong *(Chairman)*
Mr. Fu Kwan
Mr. Liu Chuanqi
Mr. Cui Tongzheng
Mr. Yang Erning
Mr. Zhang Jian

Independent Non-Executive Directors
Mr. Ting Leung Huel, Stephen
Mr. Yue Run Dong
Mr. Liu Yi

Non-Executive Director
Mr. Shaw Sun Kan, Gordon

Pursuant to Article 78(1) of the Articles of Association, at each of the annual general meeting, one third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every 3 years, five directors, namely, Mr. Cui Tong Zheng, Mr. Ting Leung Huel, Mr. Yue Run Dong, Mr. Liu Yi and Mr. Shaw Sun Kan, Gordon currently hold office only until the Annual General Meeting ("AGM") and, being eligible, will offer themselves for re-election at the AGM.

Mr. Cui Tong Zheng is executive director. He was appointed for a three-year term expiring on 31 December 2010.

Mr. Ting Leung Huel, Mr. Yue Run Dong and Mr. Liu Yi are independent non-executive directors while Mr. Shaw Sun Kan, Gordon is non-executive director. They were appointed for a two-year term expiring on 31 December 2009.

Directors' Service Contracts

Each of the Executive Directors and other Directors (including Non-Executive Director and Independent Non-Executive Director) has entered into a service agreement with the Company for an initial term of 3 and 2 years respectively commencing from the date of listing. Save as above, none of the Directors has entered into a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Director's Rights to Acquire Shares

Apart form the Scheme disclosed above, at no time during the year was the Company, its holding company or any 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 in any other body corporate.

Biographical Details of Directors and Senior Management

Brief biographical details of directors and senior management are set out on page 13.

Employees and Remuneration Policy

Retirement benefit plans

As stipulated by the rules and regulations in the PRC, the Group participates in the retirement benefit scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of its employees in the PRC in accordance in the PRC in accordance with the relevant PRC regulations.

In Hong Kong, the Group has set up a retirement scheme according with the mandatory provident fund requirement prescribed by the Mandatory Provident Scheme Ordinance, Chapter 485 of the Laws of Hong Kong. All the Hong Kong based employees and the Group is requiring contributing 5% of their respective monthly wages (up to a maximum contribution of HK$ 1,000 by each of the employee and the Group) on a monthly basis to the fund.

Disclosure of Interests

(a) **Interests and short positions of the Directors and chief executives of the Company**

As at 31 December 2007, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange 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 taken under such provisions) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows

Name of Director	Company in which interests are disclosed	Capacity	Number of Ordinary Shares	% of issued share capital (note 5)
Mr. Zhang Jianhong	The Company	*Long position*		
		Corporate *(note 1)*	166,551,273	8.01
		Personal	10,210,909	0.49
				8.50
		Short position		
		Corporate *(note 1)*	16,645,955	0.80
Mr. Fu Kwan	The Company	*Long position*		
		Corporate *(note 2)*	731,781,818	35.18
		Short position		
		Corporate *(note 2)*	73,137,865	3.52
Mr. LIU Chuanqi	The Company	*Long position*		
		Corporate *(note 3)*	87,360,000	4.20
		Personal	9,076,364	0.44
				4.64
		Short position		
		Corporate *(note 3)*	8,731,190	
Mr. CUI Tongzheng	The Company	*Long position*		
		Corporate *(note 4)*	148,852,364	7.16
		Personal	7,374,544	0.35
				7.51
		Short position		
		Corporate *(note 4)*	14,887,034	0.72
Mr. YANG Erning	The Company	*Long position*		
		Personal	1,701,818	0.08
Mr. ZHANG Jian		Long position		
		Personal	567,273	0.03

Notes:

(1) *These shares are directly held by Dongyue Team Limited whose entire issued share capital is owned by Mr. Zhang Jianhong.*

(2) *These shares are directly held by Macro-Link International Investment Co., Ltd., a wholly owned subsidiary of Macro-Link Sdn. Bhd. Mr Fu owns a 40% interest in Macro-Link Sdn. Bhd.*

(3) *These shares are directly held by Dongyue Wealth Limited whose entire issued share capital is owned by Mr. Li Chuanqi.*

(4) *These shares are held directly by Dongyue Initiator Limited whose entire issued share capital is owned by Mr. Cui Tongzheng.*

(5) *As required under the Securities and Futures Ordinance, the relevant percentages are calculated by the number of shares the Company had in issue on 31 December 2007, namely 2,080,000,000 shares.*

Save as disclosed above, as at 31 December 2007, none of the Directors or Chief Executive of the Company had any interests or short positions in the Shares, underlying shares and debentures or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange 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 which required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders and other person's interest in the Shares

As at 31 December 2007, as far as is known to the Directors and the Chief Executive of the Company, the following persons (not being a Director or Chief Executive of the Company) had an interest of 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	Capacity	Number of ordinary shares	% of issued share capital
Fu Kwan	Corporate interest(2)	731,781,818(L) 73,137,865(S)	35.18(L) 3.52(S)
MACRO-LINK International Investment Co, Ltd.	Beneficial interest(1)	731,781,818(L) 73,137,865(S)	35.18(L) 3.52(S)
Macro-Link Sdn Bhd	Corporate interest(1)	731,781,818(L) 73,137,865(S)	35.18(L) 3.52(S)
Baring Private Equity Asia GP III Limited	Corporate interest(3)	359,231,059(L)	17.27(L)
Baring Private Equity Asia GP III, L.P.	Corporate interest(3)	359,231,059(L)	17.27(L)
Baring Private Equity Asia III Holding (9A) Limited	Beneficial interest(3)	359,231,059(L)	17.27(L)
Salata Jean	Corporate interest(3)	359,231,059(L)	17.27(L)
The Baring Asia Private Equity Fung III, L.P. 1	Corporate interest(3)	263,364,019(L)	12.66(L)
International Finance Corporation	Beneficial interest	179,615,530(L)	8.64(L)
Dongyue Team Limited	Beneficial interest	166,551,273(L) 16,645,995(S)	8.01(L) 0.80(S)
Citigroup Inc.	Corporate interest	156,000,000(L) 78,000,000(S) 0(P)	7.5(L) 3.75(S) 0.00(P)
Dongyue Initiator Limited	Beneficial interest	148,852,364(L) 14,877,034(S)	7.16(L) 0.72(S)
Bank of China Group Investment Limited	Corporate interest(5)	108,000,000(L)	5.19(L)
Bank of China Limited	Corporate interest(5)	108,000,000(L)	5.19(L)
Central SAFE Investments Limited	Corporate interest(5)	108,000,000(L)	5.19(L)
Fulland Enterprises Corp.	Beneficial interest(5)	108,000,000(L)	5.19(L)

Notes:

(1) Pursuant to the SFO, as Macro-Link Sdn Bhd held 100% interest in MACRO-LINK International Investment Co., Ltd., Macro-Link Sdn Bhd is deemed to be interested in the 731,781,818 Shares(L) and 73,137,865Shares(S) held by MACRO-LINK International Investment Co., Ltd.;

(2) These Shares are directly held by MACRO-LINK International Investment Co., Ltd. which is turn is wholly owned by Macro-Link Sdn Bhd, a company in which Mr. Fu Kwan owns a 40% interest.

(3) Baring Private Equity Asia GP III Limited is the general partner of a limited partnership (Baring Private Equity Asia GP III, L.P.), which is the general partner of another limited partnership (The Baring Asia Private Equity Fund III, L.P.1), which is one of the limited partnerships comprising Baring Fund and which controls more than one-third of the issued shares in Baring Private Equity Asia III Holding (9A) Limited. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP III Limited. Each of Baring Private

Equity Asia GP III Limited and Jean Eric Salata is therefore deemed to be interested in the Shares held by Baring Private Equity Asia III Holding (9A) Limited. Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

(4) The 108,000,000 shares were held directly by Fulland Enterprises Corp, which in turn is a subsidiary of Bank of China Group Investment Limited, which in turn is a subsidiary of Bank of China Limited, and which in turn is a subsidiary of Central SAFE Investments Limited.

(5) L:Long Position, S:Short Position, P:Lending Pool

The following persons (not being a member of the Group) are directly and/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 our subsidiaries:

Name of the Company's subsidiary	Substantial shareholder of such subsidiary	Nature of Interest	Registered Capital/Paid Capital	Percentage of issued share capital/ registered capital
Shandong Dongyue Fluo — Silicon Materials Co., Ltd ("Dongyue Fluorine Silicone")	Shandong Hi Tech Investment	Corporate	RMB200,000,000	25%
Zibo Dongyue Chlorine Co., Ltd.	Shandong Hi Tech Investment *(note)*			
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd	Chifeng Peak Copper Xilin Tonghe	Corporate	RMB50,000,000	29% 20%
Shandong Dongyue Organosilicon Material Co., Ltd	Hong Da Mining Industry	Corporate	RMB200,000,000	40%
Guangdong Dongyue Fluorine Chemical Co., Ltd	Xiamen Hui Guong Yuan	Corporate	RMB100,000,000 RMB16,000,000	40%

Note: Shandong Hi Tech Investment is a 25% equity holder in Dongyue Fluorine Silicone which, in turn, owns 100% of Zibo Dongyue Chlorine. Consequently, Shandong Hi Tech Investment indirectly owns more than 10% of Zibo Dongyue Chlorine.

Saved as disclosed above, the Directors and the Chief Executive of the Company are not aware of any person (other than a Director or Chief Executive of the Company) who, as at 31 December 2007, had any interest or 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.

Management Contracts

Save as disclosed under the heading "Connected Transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Suppliers and Customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	11.81%
— five largest suppliers combined	31.79%
Sales	
— the largest customer	5.0%
— five largest customers combined	14.7%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Connected transactions

Details of the connected transactions entered into by the Group during the year are set out below:

Continuing connected transactions for the year 2007			Annual Cap (RMB million)	Actual (RMB million)
(I)	Framework agreement for the purchase of sulphuric acid, electricity and steam from Chifeng Peak Copper Co., Ltd ("CPC Agreement")	(i)	15	14.3
(II)	Framework agreement for the purchase of fluorspar from Xilin Haote Tonghe Mining Company Limited ("XT Agreement")	(ii)	28	23.5
(III)	Framework agreement for the purchase of industrial salt from Dongying Macrolink Salt Co., Ltd ("DMS Agreement")	(iii)	4.5	3.7

Notes:

(i) *The purpose of CPC Agreement is for the purpose of production of AHF. Chifeng Peak Copper ("CPC") is a Connected Person by virtue of it being a substantial shareholder in one of our subsidiaries, Dongyue Peak. CPC entered into the CPC Agreement dated 6 July 2007 with Dongyue Peak, effective from the Listing Date, pursuant to which CPC has agreed to supply sulphuric acid, electricity and steam to any member of our Group. The price and quantities of sulphuric acid, electricity and steam will be agreed between the parties from time to time under designated purchase orders from us. The CPC Agreement provides that the price of purchases by us will be negotiated on an arm's length basis and by reference to the then prevailing market price and no less favorable than that offered to independent third parties. The CPC Agreement will terminate on 31 December 2009. Annual Caps for 2008 and 2009 are RMB35 million and RMB40 million respectively.*

CPC is expected to supply electricity, steam and sulphuric acid to Dongyue Peak only. In the case of electricity, the unit price charged by CPC in the first six months of 2007 was RMB0.48 per unit compared to RMB0.53 per unit from independent third parties over the same period. Dongyue Peak needs to source its steam supply from suppliers that are located within close proximity to its production plant. CPC is located close to Dongyue Peak and supplies steam directly to Dongyue Peak through pipes connected to Dongyue Peak's production plant. For sulphuric acid, the CPC Agreement stipulates that CPC will primarily supply sulphuric acid to Dongyue Peak. Dongyue Peak can also request CPC to supply sulphuric acid to other Group members. This allows the Group to ensure continued supply of sulphuric acid to other Group members in case of shortages of supply which cannot be provided by third parties. Despite such arrangement, we believe that we do not place undue reliance on CPC as we are also able to source sulphuric acid from approximately 20 alternative suppliers.

(ii) *The purpose of XT Agreement is for the purpose of production of HCFC22. Xilin Tonghe ("XT") is a Connected Person by virtue of it being a substantial shareholder in one of our subsidiaries, Dongyue Peak. XT entered into the XT Agreement dated 30 June 2007 with Dongyue Peak effective from the Listing Date, pursuant to which XT has agreed to supply fluorspar to any member of our Group. The price and quantities of fluorspar will be agreed between the parties from time to time under designated purchase orders from us. The XT Agreement stipulates that the price of purchases by us will be negotiated on an arm's length basis and by reference to the then prevailing market price and no less favourable than that offered to independent third parties. The XT Agreement will terminate on 31 December 2009. Annual Caps for 2008 and 2009 are RMB52 million and RMB59 million respectively.*

The Group's business may be significantly affected by changes in the supply of fluorspar. The XT Agreement helps us to secure our demand for fluorspar. As XT is a substantial shareholder of Dongyue Peak, we believe that it would be in XT's commercial interests for Dongyue Peak to have a stable supply of fluorspar so as to minimize our cost of production. To protect our commercial interests, we are not obliged to purchase fluorspar from XT and would only make purchases if it is in our commercial interests to do so. Before we decide to purchase fluorspar from XT, we will take into account the then prevailing fluorspar market price and ensure that the terms offered by XT to us are no less favourable than that by independent third parties to us. We believe that we do not place undue reliance on XT in respect of our fluorspar purchases as we are source fluorspar from approximately 20 alternative suppliers.

(iii) *The purpose of DMS Agreement is for the purpose of production of Liquid Alkali. Dongying Macrolink Salt ("DMS") is a Connected Person by virtue of it being an associate of one of our executive directors, Mr. Fu Kwan and an associate of one of our Controlling Shareholders, Macrolink International. DMS entered into the DMS Agreement dated 3 July 2007 with Dongyue Fluorine Silicone effective from the Listing Date, pursuant to which DMS has agreed to supply industrial salt to any member of our Group. The price and quantities of the industrial salt to be purchased will be agreed between the parties from time to time under designated purchase orders from us. The DMS Agreement provides that the price of purchases by us will be negotiated on an arm's length basis and by reference to the then prevailing market price and no less favourable terms than that offered to independent third parties. The DMS Agreement will terminate on 31 December 2009. Annual Caps for 2008 and 2009 are RMB10 million and RMB13 million respectively.*

The DMS Agreement is a way of securing a source of supply of industrial salt to Dongyue Fluorine Silicone, the intended primary beneficiary under this agreement but, under the terms of the agreement DMS is also required, if the Group so decides, to supply other Group members. This is one way of ensuring continuity of supply to other Group members in case any other Group members require industrial salt and there is a disruption in supply from other suppliers. To protect the Group's commercial interests, it is not obliged to purchase from DMS and would only do so if it is in the commercial interests of the Group to do so, taking into account the then prevailing market price and that terms offered by DMS to the Group should be no less favourable than that offered to independent third parties. To demonstrate that the Group does not have undue reliance on DMS, the Group has already confirmed they have 8 alternative suppliers to DMS.

The aforesaid continuing connected transactions have been reviewed by Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) have not exceeded the caps allowed by the Stock Exchange in the previous waiver.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

Subsequent Events

On 3 January 2008, the Company issued and allotted 3,623,000 additional ordinary shares at the offer price of HK$2.16 each as a result of the exercise of the over-allotment option granted on 16 November 2007 as part of the public offering of the Company's shares.

Model Code for Securities Transactions by Directors

The Board has adopted a new code of conduct regarding Director's securities transactions on terms no less exactly than the required standard set out in the Model Code of Securities by Directors of Listed Issuers as set out in Model Code. In addition, the Company made specific enquiries to all Directors and each Director had confirmed that during the period from the date of the Company's listing until 31 December 2007, they have fully complied with the required standards.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Closure of Register of Members

The register of members of the Company will be closed from 26 May 2008 to 30 May 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office Computershare Hong Kong Investor Service Limited at shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 23 May 2008.

On behalf of the Board

Zhang Jianhong
Chairman

Hong Kong, 16 April 2008

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Board has adopted the code provisions of the "Code on Corporate Governance Practices" set out in Appendix 14 of the Listing Rules as the guidelines for corporate governance of the Group, and has taken steps to comply with it wherever appropriate. Save as disclosed in this report, the Company has, since date of listing and during the year ended 31 December 2007 complied with the Code of Corporate Governance Practices ("CG Code") set out in Appendix 14 of the Listing Rules.

The following summarizes the Company's corporate governance practices and explains deviations, if any, from the CG Code.

A1.1 As the Company was listed on 10 December 2007, only two board meetings were held for the period from 10 December 2007 to 31 December 2008 which deviated from the requirement of four times a year.

A2.1 Mr. Zhang Jianhong is the Chairman and chief executive officer of the Company.

C3.3(e)(i) As the Company was listed on 10 December 2007, no Audit Committee meeting was held as at 31 December 2007. The first Audit Committee meeting was convened in January 2008 . From 2008 onward, the Audit Committee will conduct meeting at least once a year.

Key Corporate Governance Principles and the Company's Practices

A.1 Board of Directors

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report. As the Company was listed on 10 December 2007 only two board meetings were held which deviate from the minimum of four times a year and details of the attendance were as follows:

Name of Director	Attendance
Executive Director	
Mr. Zhang Jianhong	2/2
Mr. Fu Kwan	1/2
Mr. Liu Chuanqi	2/2
Mr. Cui Tong Zheng	2/2
Mr. Yang Erning	1/2
Mr. Zhang Jian	1/2
Independent Non Executive Director	
Mr. Ting Leung Huel, Stephen	0/2
Mr. Yue Run Dong	0/2
Mr. Liu Yi	0/2
Non-Executive Director	
Mr. Shaw Sun Kan, Gordon	1/2

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Notice of at least 14 days was given for regular board meetings. For all other board meetings, reasonable notice were given.

All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 12 business days after the board meeting was held.

The Company has established the Policy on obtaining independent professional advice by directors to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold.

A.2 *Chairman and Chief Executive Officer*

Mr. Zhang Jianhong("Mr. Zhang") is 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 and meets regularly every month 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 to the posts of Chairman and chief executive officer is beneficial to the business prospects of the Company.

The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings. The Chairman is responsible for ensuring that Directors receive adequate information, which must be complete and reliable, in a timely manner.

A.3 *Board Composition*

The Board comprises six executive Directors, being Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Mr. Yang Erning and Mr. Zhang Jian;three independent non-executive Directors, being Mr. Ting Leung Huel, Stephen, Mr. Yue Run Dong and Mr. Liu Yi;one non-executive director, being Mr. Shaw Sun Kan, Gordon The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the directors are shown on pages 13 to 16 under the section "Directors and Senior Management's Profile".

All Directors are expressly identified by categories of executive directors, non-executive and independent non-executive directors, in all corporate communications that disclose the names of Directors of the Company.

A.4 *Appointments, Re-election and Removal*

At each annual general meeting one third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

According to the Articles of Association,Mr. Cui Tong Zheng, Mr. Ting Leung Huel, Stephen, Mr. Yue Rundong, Mr, Liu Yi and Mr. Shaw Sun Kan, Gordon will retire from office as Directors at the forthcoming annual general meeting and being eligible offer themselves for re-election.

Every Director, including those appointed for a specific term, was subject to retirement by rotation at least once very three years.

All of the above Directors (including non-executive director and independent non-executive directors) was appointed for an initial term of approximately 2 years ending 31 December 2009 with annual package as followings:

Independent Non-Executive Director	
Mr. Ting Leung Huel, Stephen	HK$ 240,000
Mr. Yue Run Dong	RMB 120,000
Mr. Liu Yi	RMB 120,000
Non-Executive Director	
Mr. Shaw Sun Kan	HK$ 120,000

The Company had not established a Nomination Committee and such functions were remained by the Board. The Directors from time to time identify individuals suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether if he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results a strong and diverse Board. In Dec 2007, the Board had nominated and appointed Mr. Ting Leung Huel, Stephen, Mr. Yue Run Dong and Mr. Liu Yi as independent non-executive Directors,while Mr, Shaw Sun Kan, Gordon as non-executive director. Before they were nominated for election, the Board had assessed their independence.

A.5 *Responsibilities of Directors*

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Company Ordinance as was necessary.

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Model Code. The Directors confirmed that having made specific enquiry of all directors, there was not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2007. The Board also confirmed that the Company has received from each of its independent non-executive directors an annual confirmation of his independent or pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

A.6 *Supply of and Access to Information*

In respect of regular board and committee meetings, agendas and accompanying board papers were sent in full to all directors at least 1 day before the intended date of meetings. The management and the Company Secretary assists the Chairman in establishing the meeting agenda and board papers, providing with adequate information in a timely manner to enable the board and committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda. The Board and each Director may separately and independently access to the issuer's senior management.

Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

B.1 Remuneration of Directors and Senior Management

The Board has established a Remuneration Committee ("RC"), chaired by Mr. Liu Yi and with committee members of Mr. Ting Leung Huel, Stephen and Mr. Zhang Jianhong. As the Company was listed on 10 December 2007, RC had not yet reviewed the remuneration policy and remuneration packages. However, it will conduct review for the year ending 31 December 2008.

The principal responsibility of Remuneration Committee has been the determination of the remuneration of the executive Director and members of the Senior Management.

The functions specified in Code Provision B1.3 (a) to (f) of the CG Code were included in the Terms of Reference of the Remuneration Committee and these will be implemented or conducted progressively or when occurred as the case might be.

C.1 Accountability and Audit

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2007, the Directors have:

1. selected suitable accounting policies and applied them consistently;

2. approved adoption of all IFRSs;

3. made judgments and estimates that are prudent and reasonable; and

4. have prepared the accounts on the going concern basis.

Acknowledgement from the Directors of their responsibility for preparing the accounts has been received.

A statement by the auditors about their reporting responsibilities is included in the page 37 of the 2007 Annual Report under the section Report of the Auditors.

The Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules.

C.2 Internal Controls and Internal Audit

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. Through internal control evaluations by Deloitte Touche Tohmatsu, the Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions. The internal audit department of the Company is implementing a procedure to review the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aim at cover all major operations of the Group on a rotational basis. The reports and findings prepared by the internal audit team of the Company will circulate to the CEO, the Financial Controller and the Audit Committee for review.

C.3 Audit Committee

The Board establishes a formal and transparent arrangement for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The audit committee established by the Company has clear terms of reference.

All the members of the Audit Committee are Independent Non-Executive Directors. The Audit Committee is chaired by Mr. Ting Leung Huel, Stephen who is a certificated public accountant and the committee members are Mr. Yue Run Dong and Mr. Liu Yi.

The functions specified in Code Provision C3.3(a) to (n) of the CG Code were included in the Terms of Reference of the Audit Committee. The Terms of Reference of the Audit Committee also explains the role and the authority delegated by the Board.

As the Company was listed on 10 December 2007, no meetings were convened by the Audit Committee . From 2008 onward, the Audit Committee will conduct meeting at least once a year.

Full minutes of audit committee meetings will be kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings will be sent to all members of the committee for their comment and records respectively, within 14 business days after the meeting.

The Audit Committee of the Company does not comprise of a former partner of the Company's existing audit firm.

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During the year ended 31 December 2007, total audit fee amounted HK$3,310,000 paid/payable to PricewaterhouseCoopers were all related to audit services. We have engaged Deloitte Touche Tohmatsu for reviewing of internal control during the year ended 31 December 2007 with non-audit service fee incurred approximately HK$670,000.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2008.

The Audit Committee has reviewed the 2007 annual results and system of internal control for the Company.

D.1 Delegation by the Board

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There should be a clear division of responsibilities amongst committees and each of them should have a specific term of reference The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to the executive management.

D.2 Board Committees

The Board has prescribed sufficiently clear terms of reference for the Audit Committee and the Remuneration Committee.

The terms of reference of the Audit Committee and the Remuneration Committee require the committees to report back to the board on their decisions or recommendations.

E.1 Effective Communication

In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of the meeting.

The chairman of the Board will attend the annual general meeting and arrange for the chairman of the Audit and Remuneration Committees or members to be available to answer questions at the annual general meeting.

E.2 Voting by Poll

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands. The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded. The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

(a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

(b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF DONGYUE GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 104 which comprise the consolidated and company balance sheets as of 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2007, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	5	2,684,721	2,005,932
Cost of sales	28	(2,050,044)	(1,577,483)
Gross profit		634,677	428,449
Selling and marketing expenses	28	(120,356)	(94,450)
Administrative expenses	28	(157,360)	(106,123)
Other income	26	25,038	8,568
Other losses — net	27	(13,908)	(17,204)
Operating profit		368,091	219,240
Finance income		18,210	7,356
Finance costs		(94,946)	(68,021)
Finance costs — net	30	(76,736)	(60,665)
Share of (loss)/profit of an associate	9	(214)	18
Profit before income tax		291,141	158,593
Income tax expense	31	(42,311)	(17,336)
Profit for the year	32	248,830	141,257
Attributable to:			
Equity holders of the Company		208,306	82,702
Minority interests		40,524	58,555
		248,830	141,257
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— basic	33	0.14	0.08
— diluted	33	0.14	0.08
Dividend	34	78,044	32,500

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**3,200,309**	1,598,198
Lease prepayments	*7*	**204,409**	108,488
Intangible assets	*8*	**10,693**	7,833
Interest in an associate	*9*	**9,633**	9,847
Available-for-sale financial assets	*11*	**6,000**	12,000
Deferred income tax assets	*25*	**54,513**	14,888
		3,485,557	1,751,254
Current assets			
Inventories	*12*	**455,601**	185,072
Trade and bill receivables	*13*	**305,597**	190,459
Prepayments, deposits and other receivables	*14*	**227,767**	78,439
Pledged bank deposits	*15*	**606,447**	295,185
Cash and cash equivalents	*16*	**1,455,583**	315,159
		3,050,995	1,064,314
Total assets		**6,536,552**	2,815,568
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	**197,515**	158,318
Other reserves	*18*	**1,415,133**	54,823
Retained earnings	*19*	**232,912**	98,275
		1,845,560	311,416
Minority interests in equity		**235,437**	213,647
Total equity		**2,080,997**	525,063

	Notes	2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*22*	**892,768**	489,698
Receipt in advance	*23*	**—**	26,773
Deferred income	*24*	**168,789**	38,086
		1,061,557	554,557
Current liabilities			
Trade and bill payables	*20*	**1,575,173**	585,600
Accruals and other payables	*21*	**523,297**	183,317
Borrowings	*22*	**1,246,829**	965,654
Current income tax liabilities		**48,699**	1,377
		3,393,998	1,735,948
Total liabilities		**4,455,555**	2,290,505
Total equity and liabilities		**6,536,552**	2,815,568
Net current liabilities		**(343,003)**	(671,634)
Total assets less current liabilities		**3,142,554**	1,079,620

Zhang Jianhong
Director

Cui Tongzheng
Director

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company					
	Share capital RMB'000	**Other reserves** (note 18) RMB'000	**Retained earnings** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2006	122,390	6,918	51,654	180,962	245,341	426,303
Profit for the year	—	—	82,702	82,702	58,555	141,257
Transfer	—	21,074	(21,074)	—	—	—
Acquisition of further interests in subsidiaries from minority shareholders	—	196	—	196	(144,886)	(144,690)
Proceeds from shares issued	35,928	26,635	—	62,563	—	62,563
Contributions from minority shareholders	—	—	—	—	80,000	80,000
Dividends relating to 2005	—	—	(15,007)	(15,007)	(25,363)	(40,370)
Balance at 31 December 2006	158,318	54,823	98,275	311,416	213,647	525,063
Profit for the year	—	—	208,306	208,306	40,524	248,830
Transfer	—	41,169	(41,169)	—	—	
Acquisition of further interests in subsidiaries from minority shareholders	—	(445)	—	(445)	(50,755)	(51,200)
Proceeds from issue of preference shares *(note 17(d))*	57,954	306,767	—	364,721	—	364,721
Repurchase and new issue of shares *(note 17(e))*	(189,996)	189,996	—	—	—	—
Capitalisation of share premium *(note 17(f))*	121,895	(121,895)	—	—	—	—
Issue of new shares upon listing *(note 17(g))*	49,344	1,016,483	—	1,065,827	—	1,065,827
Share issue expenses	—	(74,422)	—	(74,422)	—	(74,422)
Contributions from minority shareholders	—	—	—	—	40,500	40,500
Share options granted to directors and employees	—	2,657	—	2,657	—	2,657
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	(8,479)	(8,479)
Dividend relating to 2006	—	—	(32,500)	(32,500)	—	(32,500)
Balance at 31 December 2007	197,515	1,415,133	232,912	1,845,560	235,437	2,080,997

The notes on pages 45 to 104 are an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	*35*	794,049	433,549
Interest paid		(142,286)	(74,432)
Income tax paid		(34,613)	(24,703)
Net cash from operating activities		617,150	334,414
Cash flows from investing activities			
Available-for-sale financial assets			
— reduction and return of capital		6,000	—
— sales proceeds received		—	20
Acquisition of further interests in subsidiaries *(note 18(d)(i))*		(51,200)	(179,399)
Purchases of property, plant and equipment (PPE)		(1,302,403)	(685,174)
Proceeds from disposal of PPE		1,815	1,017
Purchases of land use rights and intangible assets	*7, 8*	(169,730)	(39,580)
Interest received		18,210	7,356
Net cash used in investing activities		(1,497,308)	(895,760)
Cash flows from financing activities			
Cash proceeds from issuing shares in subsidiaries to minority shareholders		40,500	80,000
Proceeds form issuance of			
— redeemable preference shares		268,135	—
— ordinary shares (net of share issue expenses)		991,405	97,271
Proceeds from borrowings		2,153,398	1,154,267
Repayments of borrowings		(1,372,566)	(546,212)
Dividends paid		(32,500)	—
Dividends paid to minority shareholders of subsidiaries		(7,500)	(40,370)
Net cash from financing activities		2,040,872	744,956
Net increase in cash and cash equivalents		1,160,714	183,610
Cash and cash equivalents at beginning of the year		315,159	131,549
Exchange losses on cash		(20,290)	—
Cash and cash equivalents at end of the year	*16*	1,455,583	315,159

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*36*	**497,824**	281,859
Current assets			
Prepayments, deposits and other receivables	*14*	**5,957**	—
Cash and cash equivalents	*16*	**1,042,651**	15,121
		1,048,608	15,121
Total assets		**1,546,432**	296,980
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	**197,515**	158,318
Other reserves	*18*	**1,360,998**	41,412
Accumulated losses	*19*	**(23,338)**	(1,199)
		1,535,175	198,531
LIABILITIES			
Current liabilities			
Accruals and other payables	*21*	**11,257**	840
Borrowings	*22*	**—**	97,609
Total liabilities		**11,257**	98,449
Total equity and liabilities		**1,546,432**	296,980
Net current assets / (liabilities)		**1,037,351**	(83,328)
Total assets less current liabilities		**1,535,175**	198,531

Zhang Jianhong
Director

Cui Tongzheng
Director

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

1. General Information and Reorganization

Dongyue Group Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2006 as an exempted company with limited liability. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

Pursuant to a group reorganisation which was completed on 7 September 2006 (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. Details on the Reorganisation are set out in the prospectus of the Company dated 26 November 2007.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 December 2007 (the "Listing Date").

As at 31 December 2007, the Company is jointly controlled by Macro-Link SDN. BHD. and three senior management members of the Group, Mr. Zhang Jianhong, Mr. Liu Chuanqi, Mr. Cui Tongzheng (hereinafter collectively referred to as the "Management Shareholders") based on their act-in-concert agreements, which own 54% of the Company's shares. The remaining 46% of the shares are widely held.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the manufacturing, distribution and sales of refrigerants, fluoropolymers, and other fluorine silicone products. In addition, the Group has also established Shandong Dongyue HFC-23 Decomposition Project ("Dongyue CDM Project") to decompose certain greenhouse gases generated from the Group's production process in order to reduce greenhouse gases emission in 2007.

These consolidated financial statements have been approved for issue by the Board of Directors on 16 April 2008.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Reorganisation as referred to in note 1 has been reflected in the consolidated financial statements by regarding the Group comprising the Company and its subsidiaries as a continuing entity under common control of the controlling shareholders throughout the years ended 31 December 2007 and 2006. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group throughout the two years ended 31 December 2007 and 2006 presented, or since their respective dates of incorporation/establishment or from the effective dates of acquisition, whichever is the shorter period.

These consolidated financial statements of Dongyue Group Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

2. Summary of Significant Accounting Policies (continued)

2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of event and actions, actual results ultimately may differ from those estimates.

(a) Standards, amendment and interpretations effective in 2007 and adopted by the Group

- IFRS 7 "Financial instruments: Disclosures" and the complementary amendment to IAS 1 "Presentation of financial statements — Capital disclosures" introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- IFRIC-Int 8 "Scope of IFRS 2" requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statements.

- IFRIC-Int 10 "Interim financial reporting and impairment" prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4 "Insurance contracts";

- IFRIC-Int 7 "Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies"; and

- IFRIC-Int 9 "Re-assessment of embedded derivatives".

2. Summary of Significant Accounting Policies (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IAS 23 (Amendment) "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- IAS 1 (Revised) "Presentation of Financial Statements" (effective from 1 January 2009). IAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS.

- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

- IAS 32 and IAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity.

2. Summary of Significant Accounting Policies (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It changes slightly the definition of a "business" as an integrated set of activities and assets which are 'capable of being conducted' rather than 'are conducted and managed' for the purpose of providing return to investors or lower costs or other economic benefits directly and proportionately to policy holders as participants. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

- IFRS 8 "Operating segments" (effective from 1 January 2009). IFRS 8 requires a "management approach" under which segment information is presented on the same basis and consistent with the internal reporting provided to the chief operating decision-maker.

- IFRIC-Int 11 "IFRS 2 — Group and treasury share transactions" (effective from 1 March 2007). IFRIC-Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies.

- IFRIC-Int 12 "Service concession arrangements" (effective from 1 January 2008). IFRIC-Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.

- IFRIC-Int 13 "Customer loyalty programmes" (effective from 1 July 2008). IFRIC-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

- IFRIC-Int 14 "IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). IFRIC-Int 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

2. Summary of Significant Accounting Policies (continued)

2.1 Basis of preparation (continued)

The Group will apply the above standards and interpretations from 1 January 2008 or later periods. The Group has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies or presentation of the consolidated financial statements will be resulted.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases.

IFRS 3 "Business Combinations" does not prescribe the accounting treatment of business combinations of entities under common control. According to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Directors referred to other standard-setting bodies that use a similar conceptual framework and have relied on the guidance in Hong Kong Accounting Guideline 5 "Merger accounting for common control combinations" such that acquisition of entities that are under common control have been accounted for using the merger accounting method. In applying merger accounting, financial statement items of the combining entities for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities first came under the control of the controlling parties. The combined entity recognises the assets, liabilities and equities of the combining entities at the carrying amounts held by the controlling parties prior to the common control combination.

Acquisition of subsidiaries by the Group other than the above are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of Significant Accounting Policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment loss. The results of subsidiaries are accounted by the Company on the basis of dividend income, to the extent of those dividends arise from profit of subsidiaries after the date of acquisition. Dividends received in excess of such profit are recognised as a reduction of the cost of investment.

(b) Transactions with minority shareholders of subsidiaries

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary are recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. Summary of Significant Accounting Policies (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. All subsidiaries of the Group use RMB as functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and buildings	20 years
Equipment and machinery	5–10 years
Motor vehicles	5 years
Furniture and fittings	5 years

Construction-in-progress represents buildings and plant under construction, machinery and equipment under installation and testing, which is stated at cost. This includes cost of construction, equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use. When the assets concerned are brought into use, the costs are transferred to relevant categories property, plant and equipment and depreciation will then be commenced accordingly.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised within other losses/gains — net in the income statement.

2. Summary of Significant Accounting Policies (continued)

2.6 Lease prepayments

All land in Mainland China is state-owned and no individual land ownership exists. Lease prepayments represent upfront prepayments made for the land use rights. They are expensed in the income statement on a straight-line basis over the period of the land use right. Any impairment is expensed in the income statement.

2.7 Intangible assets

Proprietary technologies are initially recorded at cost and are amortised on a straight-line basis over their useful lives as stated in the contracts (10 years).

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives (3 to 5 years).

2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment or reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash-generating unit"). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables; available-for-sale financial assets; and at fair value through profit or loss. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. Currently, the Group has only two classes of financial assets: loans and receivables and available-for-sale financial assets.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as "trade and bills receivables" and "prepayment, deposits and other receivables" in the balance sheet, except for those with maturities greater than 12 months after the balance sheet date which will then be classified as non-current assets.

2. Summary of Significant Accounting Policies (continued)

2.9 Financial assets (continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is carried at cost less impairment. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of Significant Accounting Policies (continued)

2.11 Trade and bill receivables and other receivables

Trade and bill receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired.

The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks. The Group does not have any short term liquid investments with maturities of less than three months nor bank overdrafts. Bank deposits held with banks to pledge for short term (maturity of less than 1 year) trade finance facilities are excluded from cash and cash equivalents.

2.13 Share capital

Ordinary shares are classified as equity. Preference shares not mandatory redeemable and with no mandatory dividend payment are classified as equity. Conversion option attached to the preference shares which provides for a fixed number of preference shares to be converted to a fixed number of ordinary shares at an exchange rate fixed at the issuance date are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

2. Summary of Significant Accounting Policies (continued)

2.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurred because a specified debtor failed to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount determined in accordance with paragraph 2.19 below and (ii) the fair value initially recognised, less, when appropriate, cumulative amortisation.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associate, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

(a) Pension and medical benefit obligations

The employees of the Group are covered by the local municipal government-sponsored pension and medical benefit plans. The relevant government agencies are responsible for settling to the employees. The Group contributes to these pension and medical benefit plans on a monthly basis based on a percentage of the salaries of the employees. In respect of forfeited contributions paid by the Group on behalf of its employees who leave the pension plan prior to vesting fully in such contributions, such contributions may not be used by the Group to reduce the existing level of contributions. Under these plans, the Group has no legal or constructive obligation for the benefits beyond the contribution made. Contributions to these plans are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

2.18 Employee benefits (continued)

(b) Share-based compensation

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Profit-sharing and bonus plans

The expected cost of bonus payments is recognised as a liability when the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

Liabilities for the bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.20 Government grants

Grants from the government are recognised at their fair values where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the relevant asset.

2. Summary of Significant Accounting Policies (continued)

2.21 Recognition of revenue and income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group. The Group applies the sales recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

Revenue and income are recognised on the following bases:

(a) **Sales of goods**

Sales of goods are recognised when a group entity has delivered products to the customer, and the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) **Sale of Carbon Emission Reductions certificates**

The Kyoto Protocols provide for Clean Development Mechanism ("CDM") which allows entities in fast growing economies e.g. China to sell Carbon Emission Reductions ("CERs") certificates to industrialised countries that are committed to reducing their greenhouse gas emissions under the Kyoto Protocol. The self-generated CERs from Dongyue CDM Project are required to be certified by United Nations Framework Convention on Climate Change ("UNFCCC") before it can be sold.

The Group generated CERs by decomposing HFC23 during its manufacturing process. CERs are accounted for as finished goods upon obtaining the certificate from UNFCCC. Sales of CERs are recognised when the Group concludes a valid sales contract with the buyer, the risks and rewards of the CERs are properly transferred to the accounts of the buyer registered with UNFCCC and that the collectibility of the related receivables is reasonably assured.

(c) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

2.22 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight-line basis over the period of the lease.

2.23 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

2. Summary of Significant Accounting Policies (continued)

2.23 Research and development (continued)

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Development assets are tested for impairment annually, in accordance with IAS 36.

2.24 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group's functional currency is Renminbi ("RMB") with most of the transactions settled in RMB. However, foreign currencies (mainly Hong Kong Dollar "HKD" and USD) are received from the listing proceeds, and when the Group earned its revenue from overseas customers and when settling the group's purchases of machinery and equipment from the overseas suppliers. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

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 convert the foreign currencies into RMB upon receipt while taking into account its foreign currencies payment schedule in the near future.

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(a) Foreign exchange risk (continued)

At 31 December 2007, if RMB had strengthened/weakened by 10% against USD with all other variables held constant, post-tax profit for the year would have been RMB15,758,000 (2006: RMB13,226,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade and other receivables, and USD-denominated borrowings.

At 31 December 2007, if RMB had strengthened/weakened by 10% against HKD with all other variables held constant, post-tax profit for the year would have been RMB99,503,000 (2006: zero) lower/higher, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash.

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, investments and other current assets (except for prepayment) represent the Group's maximum exposure to credit risk in relation to financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem. Most of the Group's cash and cash equivalents are held in major financial institutions in the PRC, which management believes are of high credit quality.

The Group also has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Generally, customers are granted with credit periods less than 90 days and the Group usually does not require collaterals from trade debtors. Please refer to note 13 for ageing analysis of trade and bill receivables. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

The directors consider the Group does not have a significant concentration of credit risk. The top 5 customers accounted for less than 14.7% of total revenue for the year ended 31 December 2007.

The current portion of trade and bill receivables are analysed as below:

	As at 31 December	
	2007 RMB'000	2006 RMB'000
Fully performing under credit term	**255,642**	155,284
Past due and partially impaired	**61,929**	50,088
Total trade and bill receivables	**317,571**	205,372
Less: provision for impairment	**(11,974)**	(14,913)
Trade and bill receivables — net	**305,597**	190,459

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group has assessed the recoverability of all overdue receivables and provided for impairment loss accordingly. The directors consider that the provision is sufficient to cover the credit risk by reference to the counterparty's default history.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

Management monitors rolling forecasts of the Group's liquidity reserve comprises undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow.

The table below analysis the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For the borrowings repayable within one year, the Group adopts a strategy to negotiate for rolling-over these short term borrowings as soon as practicable.

	Less than 1 month RMB'000	Between 1 and 3 months RMB'000	Between 4 months and 1 year RMB'000	Between 1 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2007						
Trade and bill payables	**631,348**	**595,126**	**337,976**	**10,723**	**—**	**1,575,173**
Borrowings	**99,271**	**195,783**	**998,315**	**927,933**	**258,336**	**2,479,638**
	730,619	**790,909**	**1,336,291**	**938,656**	**258,336**	**4,054,811**
At 31 December 2006						
Trade and bill payables	239,810	136,936	202,373	6,481	—	585,600
Borrowings	162,724	140,009	730,730	565,947	—	1,599,410
	402,534	276,945	933,103	572,428	—	2,185,010

(d) Cash flow and fair value interest rate risk

Other than cash and cash equivalents and pledged bank deposits, the Group does not have significant interest-bearing assets. The weighted average interest rates of cash and cash equivalents and pledged bank deposits at the balance sheet date were disclosed in notes 15 and 16 to the consolidated financial statements respectively.

The Group's interest-rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. At 31 December 2007, 58% (2006: 70%) of the Group's borrowings bear fixed interest rates.

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(d) Cash flow and fair value interest rate risk (continued)

The weighted average effective interest rates on floating rate borrowings at 31 December 2007 were 7.35% (2006: 6.67%) per annum. At 31 December 2007, if interest rates on floating rate borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB1,082,000 (2006: RMB594,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

3.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits held in banks, receivable and payable balances, and short-term borrowings approximate their fair values due to their short maturities.

The fair value of non-current borrowing has been disclosed in note 22(c). The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The directors estimated the fair value of non-current borrowings based on the borrowing rate as promulgated by People's Bank of China from time to time.

The fair value of financial guarantee contracts is determined by reference to the fees charged in an arm's length transaction for similar services or the interest rate differentials charged by lenders on the related borrowings with and without the guarantees granted by the Group.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or raise finance from various sources.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

3. Financial Risk Management (continued)

3.3 Capital risk management (continued)

The gearing ratios at 31 December 2007 and 2006 were as follows:

	As at 31 December	
	2007 RMB'000	2006 RMB'000
Total borrowings *(note 22)*	**2,139,597**	1,455,352
Less: Cash and bank deposits *(note 16)*	**(1,455,583)**	(315,159)
Net debt	**684,014**	1,140,193
Total equity	**2,080,997**	525,063
Total capital	**2,765,011**	1,665,256
Gearing ratio	**25%**	68%

The decrease in the gearing ratio during 2007 resulted primarily from the receipt of the cash proceeds received from the initial public offering of the Company's shares which reduced the level of the Group's net debt.

4. Critical Accounting Estimates, Assumptions and Judgements

4.1 Critical accounting estimates and assumptions

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles and economic life of equipment. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Were the actual useful lives of the plant and equipment to differ by 10% from management's estimates, the carrying amount of the plant and equipment would be an estimated RMB42,847,000 higher or RMB52,369,000 lower.

4. Critical Accounting Estimates, Assumptions and Judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Deferred tax

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimate is changed.

(c) Accounting for CER contracts

The Group entered into a series of contracts with two customers (the "Customers") simultaneously on the same date:

- Sales and purchase contracts in respect of sale of CERs to the Customers at predetermined price;
- A contract for the purchase of equipment from one of the Customers. The consideration is payable by instalments and is interest bearing;
- A contract for the provision of development assistance service provided by one of the Customers; and
- A financing contract where the Customers agreed to prepay for the sale of CERs for a certain amount.

Based on IAS18, revenue shall be measured at the fair value of the consideration received or receivable. In accordance with IAS18.13, the Group has considered these transactions were linked together in such a way that their commercial effect cannot be understood without reference to the series of transactions as a whole. The Group therefore assessed the fair value of each of these contracts at the date of inception based on the valuation conducted by an independent professional valuer. The fair values of these contracts are aggregated to derive the relative percentage is then applied to the total face amounts of all four contracts to arrive at the appropriate values allocated to each individual transaction (the "adjusted price").

Sales of CERs are recognised based on the revenue recognition policy as detailed in note 2.21(b) at the adjusted price per unit. Equipment is recorded at the time of inception based on the accounting policy as detailed in note 2.5 at the adjusted price. Interest on the consideration paid for the equipment is also accrued based on the accounting policy as detailed in note 2.15 at the fair market interest rate. The CER assistance fee expense is recognised when the service is rendered at the adjusted price.

4. Critical Accounting Estimates, Assumptions and Judgements (continued)

4.2 Critical accounting judgement

(a) Provision for impairment of trade and other receivables

The Group's management assesses the recoverability and determines the provision for impairment of trade and other receivables in accordance with the accounting policy stated in note 2.11. Such judgement is based on the credit history of its customers and the current market conditions. Management review their debtor settlement status periodically and reassesses the sufficiency of provision accordingly.

(b) Accounting for business combination involving entities under common control

Accounting for business combination involving entities under common control is outside the scope of IFRS3 "Business Combination" and the Directors have elected to apply merger accounting to present business combination under common control for the preparation of Financial Information. A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. It is presumed that control is existed when there is a power to control more than half of the voting rights by virtue of an agreement with other investors, power to govern the financial and operating policies under an agreement, power to appoint and remove the majority of the members of the board of directors and power to cast the majority of votes at directors' meetings or equivalent governing body.

In applying the control concept, the Directors have assessed the voting rights in their board of directors' meeting and shareholders' meetings held directly by the Management Shareholders and through their close family members, and the entrustment arrangement of voting rights entered into between the Management Shareholders and several other owners who held interest in Zibo Huantai Dawei which in turn invested in Dongyue Chemicals to assess the effectiveness of control.

5. Segment Information

5.1 Primary reporting format — business segments

The Group is organised into three main business segments: (i) manufacture and sales of refrigerants and its side products and by-products (the "Refrigerants Segment"); (ii) manufacture and sales of polymer materials (the "Polymer Segment"), (iii) manufacture and sales of organic silicone (the "Organic silicone Segment"), and (iv) others (the "Other Segment"). Other segment refers to the product lines which produce fluoride such as Ammonium bifluoride. Refrigerants are mainly used for air-conditioners and refrigerators. Polymer materials are mainly used for the production of plastics. Organic silicone are mainly used in construction, automotive, electrical and electronics industries, and Ammonium bifluoride is mainly used in metallurgic industry and ceramic production.

Inter-segment sales were conducted at prices comparable to sales to third parties.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared service which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

The segment revenue (representing turnover of the Group), results and capital expenditure for the years ended 31 December 2007 and 2006 are as follows:

Year ended 31 December 2007

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Total gross segment revenue	2,398,214	676,070	6,573	52,757	(448,893)	2,684,721
Inter-segment revenue	(448,893)	—	—	—	448,893	—
Revenue*	1,949,321	676,070	6,573	52,757	—	2,684,721
Segment result	365,035	51,903	(13,816)	5,668	(10,129)	398,661
Unallocated costs						(30,570)
Finance costs — net *(note 30)*						(76,736)
Share of loss of an associate						(214)
Profit before income tax						291,141
Income tax expense *(note 31)*						(42,311)
Profit for the year						248,830
Other segment items						
Depreciation *(note 6)*	132,596	50,844	4,013	1,008	—	188,461
Amortisation *(notes 7 and 8)*	5,146	640	1,757	—	—	7,543
Capital expenditure	1,100,277	249,328	552,091	892	—	1,902,588

* *Revenue in a segment also includes the sales of by-products and scraps. The CERs sales amount of RMB135,061,000 (2006: Nil) are included in the Refrigerants segment.*

5. Segment Information (continued)

5.1 Primary reporting format — business segments (continued)

Year ended 31 December 2006

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Total gross segment revenue	1,730,478	500,460	—	35,089	(260,095)	2,005,932
Inter-segment revenue	(260,095)	—	—	—	260,095	—
Revenue*	1,470,383	500,460	—	35,089	—	2,005,932
Segment result	168,765	51,256	(531)	1,179	(205)	220,464
Unallocated costs						(1,224)
Finance costs — net *(note 30)*						(60,665)
Share of profit of an associate						18
Profit before income tax						158,593
Income tax expense *(note 31)*						(17,336)
Profit for the year						141,257
Other segment items						
Depreciation *(note 6)*	88,800	30,162	—	700	—	119,662
Amortisation *(notes 7 and 8)*	2,640	473	—	—	—	3,113
Provision for impairment of trade and other receivables	5,654	349	—	—	—	6,003
Capital expenditure	462,484	253,395	38,886	12,567	—	767,332

Segment assets consist primarily of property, plant and equipment, intangible assets, lease prepayment, inventories, receivables, prepayments and deposits, pledged bank deposits, and cash and cash equivalents. Unallocated assets comprise deferred income tax assets, available-for-sale financial assets and investment in an associate.

Segment liabilities comprise operating liabilities and mainly exclude current income tax liabilities and borrowings.

Capital expenditure comprises mainly additions to property, plant and equipment (note 6), lease prepayments (note 7) and intangible assets (note 8).

5. Segment Information (continued)

5.1 Primary reporting format — business segments (continued)

The segment assets and liabilities at 31 December 2007 and 2006 and capital expenditure for the years then ended are as follows:

As at 31 December 2007

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	**3,847,770**	**1,172,475**	**1,616,804**	**223,480**	**(394,123)**	**6,466,406**
Interest in an associate						**9,633**
Unallocated assets						**60,513**
Total assets						**6,536,552**
Segment liabilities	**1,635,679**	**566,115**	**435,611**	**12,947**	**(383,093)**	**2,267,259**
Unallocated liabilities						**2,188,296**
Total liabilities						**4,455,555**

As at 31 December 2006

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	1,999,766	697,581	130,689	22,161	(71,364)	2,778,833
Interest in an associate						9,847
Unallocated assets						26,888
Total assets						2,815,568
Segment liabilities	593,219	259,238	51,221	1,379	(71,281)	833,776
Unallocated liabilities						1,456,729
Total liabilities						2,290,505

5. Segment Information (continued)

5.2 Secondary reporting format — geographic segments

The Group operates principally in one geographic segment — the PRC. Substantially all of the Group's assets were located in the PRC. Geographic segment is presented based on the countries in which the customers are located:

	2007 **RMB'000**	2006 RMB'000
PRC	**1,569,921**	1,181,461
Japan	**101,850**	119,901
Korea	**96,793**	62,401
India	**53,485**	33,694
The United Arab Emirates	**17,858**	35,897
Thailand	**23,637**	33,562
Singapore	**54,296**	28,608
Malaysia	**20,578**	21,153
Africa	**51,497**	60,555
Europe	**313,114**	159,789
America	**202,169**	139,306
Other countries/regions	**179,523**	129,605
Total	**2,684,721**	2,005,932

Other countries/regions include Philippines, Indonesia, Taiwan, Iran, Saudi Arabia, etc.

6. Property, Plant and Equipment

Group

	Buildings RMB'000	Equipment & machinery RMB'000	Motor vehicles RMB'000	Furniture & fittings RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2006						
Cost	193,018	752,367	10,947	39,176	168,231	1,163,739
Accumulated depreciation	(25,248)	(124,196)	(5,321)	(17,957)	—	(172,722)
Net book amount	167,770	628,171	5,626	21,219	168,231	991,017
Year ended 31 December 2006						
Opening net book amount	167,770	628,171	5,626	21,219	168,231	991,017
Additions	8,269	32,391	2,571	16,085	668,436	727,752
Transfer	91,844	498,199	1,772	13,146	(604,961)	—
Depreciation charge	(8,873)	(98,491)	(1,886)	(10,412)	—	(119,662)
Disposals	—	(130)	(693)	(86)	—	(909)
Closing net book amount	259,010	1,060,140	7,390	39,952	231,706	1,598,198
At 31 December 2006						
Cost	293,183	1,282,656	14,134	68,355	231,706	1,890,034
Accumulated depreciation	(34,173)	(222,516)	(6,744)	(28,403)	—	(291,836)
Net book amount	259,010	1,060,140	7,390	39,952	231,706	1,598,198
Year ended 31 December 2007						
Opening net book amount	259,010	1,060,140	7,390	39,952	231,706	1,598,198
Additions	1,990	74,281	5,693	10,613	1,703,687	1,796,264
Transfer	225,352	1,127,521	2,136	52,562	(1,407,571)	—
Depreciation charge	(18,091)	(152,678)	(2,818)	(14,874)	—	(188,461)
Disposals	(724)	(4,570)	(381)	(17)	—	(5,692)
Closing net book amount	467,537	2,104,694	12,020	88,236	527,822	3,200,309
At 31 December 2007						
Cost	518,023	2,472,208	21,311	131,364	527,822	3,670,728
Accumulated depreciation	(50,486)	(367,514)	(9,291)	(43,128)	—	(470,419)
Net book amount	467,537	2,104,694	12,020	88,236	527,822	3,200,309

(a) Depreciation of the Group's property, plant and equipment has been charged to income statement as follows:

	2007 RMB'000	2006 RMB'000
Cost of sales	178,330	111,872
Administrative expenses	6,193	4,891
Selling and marketing expense	3,938	2,899
	188,461	119,662

6. Property, Plant and Equipment (continued)

Group (continued)

(b) As at 31 December 2007, bank borrowings and borrowings from independent third parties are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB872,249,000 (2006: RMB377,424,000) (note 22).

(c) As at 31 December 2007, the Group has not obtained the Building Ownership Certificates for certain of its self-constructed properties with an aggregate carrying value of approximately RMB88,675,000 (2006: RMB33,637,000). Based on a legal opinion and notice issued by Housing Administrative Bureau of Huantai County, the Directors of the Company are of the opinion that the Group will not be subject to penalty if such properties are for self use and for production purpose. As of the date of these financial statements, the Group is in the process of applying the Building Ownership Certificates.

(d) During the year ended 31 December 2007, a subsidiary of the Group (the "Subsidiary") entered into an agreement with a third party pursuant to which the Subsidiary transferred the legal title of certain of its plant and machinery to that third party. These plant and machinery produced electricity and steam for Dongyue Group's manufacturing use. Based on this arrangement, the Subsidiary has retained managerial involvement in the plant and machinery after the transfer. The Subsidiary also retained the risks and rewards associated with those plant and machinery transferred to the third party, and accordingly, the plant and machinery are not derecognised from the consolidated balance sheet. The net book value off the respective plant and machinery amounted to RMB91,456,000 as at 31 December 2007.

7. Lease Prepayments

Lease prepayments represent the Group's interests in land use rights in the PRC which are held on leases of between 10 to 50 years. The movement is as follows:

Group	RMB'000
At 1 January 2006	
Cost	73,988
Accumulated amortisation	(3,261)
Net book amount	70,727
Year ended 31 December 2006	
Opening net book amount	70,727
Additions	39,580
Amortisation charge	(1,819)
Closing net book amount	108,488
At 31 December 2006	
Cost	113,568
Accumulated amortisation	(5,080)
Net book amount	108,488
Year ended 31 December 2007	
Opening net book amount	108,488
Additions	101,024
Amortisation charge	(5,103)
Closing net book amount	204,409
At 31 December 2007	
Cost	214,592
Accumulated amortisation	(10,183)
Net book amount	204,409

(a) Amortisation of these prepayments has been charged to cost of sales.

(b) As at 31 December 2007, bank borrowings and borrowings from independent third parties are secured by certain lease prepayments with an aggregate carrying value of approximately RMB88,223,000 (2006: RMB51,849,000) (note 22).

8. Intangible Assets

Intangible assets comprise of proprietary technologies and acquired computer software. Proprietary technologies consist of licences for the production of methane chloride and technical knowhow to reduce greenhouse gas emission during the manufacturing process and franchise for the production of Tsinghua Series Green Refrigerants. The movement of intangible assets is as follows:

Group

	Proprietary technologies RMB'000	Software RMB'000	Total RMB'000
At 1 January 2006			
Cost	12,936	—	12,936
Accumulated amortisation	(3,809)	—	(3,809)
Net book amount	9,127	—	9,127
Year ended 31 December 2006			
Opening net book amount	9,127	—	9,127
Amortisation charge	(1,294)	—	(1,294)
Closing net book amount	7,833	—	7,833
At 31 December 2006			
Cost	12,936	—	12,936
Accumulated amortisation	(5,103)	—	(5,103)
Net book amount	7,833	—	7,833
Year ended 31 December 2007			
Opening net book amount	7,833	—	7,833
Additions	5,223	77	5,300
Amortisation charge	(2,432)	(8)	(2,440)
Closing net book amount	10,624	69	10,693
At 31 December 2007			
Cost	18,159	77	18,236
Accumulated amortisation	(7,535)	(8)	(7,543)
Net book amount	10,624	69	10,693

Amortisation of intangible assets has been charged to cost of sales.

9. Investment in an Associate

Group

	2007 RMB'000	2006 RMB'000
At 1 January	9,847	9,829
Share of (loss)/profit	(214)	18
At 31 December	9,633	9,847
Investments, at cost		
Unlisted shares	10,000	10,000

The details of the Group's associate, which is an unlisted company, are as follows:

Name	Place of establishment and principal operations	Registered capital	Equity interests held by the Group directly	Principal activities
Dongying Macro-Link Salt Co., Ltd.	Dongying, the PRC	RMB50,000,000	20%	Production and sales of salt

The financial information of the associate is summarised as below:

	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	(Loss)/profit RMB'000
As at and for the year ended 31 December 2007	102,675	54,511	22,945	(1,073)
As at and for the year ended 31 December 2006	74,436	25,199	4,606	94

10. Financial Instruments by Category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
Assets as per consolidated balance sheet			
At 31 December 2007			
Available-for-sale financial assets *(note 11)*	—	6,000	6,000
Trade and bill receivables *(note 13)*	317,571	—	317,571
Pledged bank deposits *(note 15)*	606,447	—	606,447
Cash and cash equivalents *(note 16)*	1,455,583	—	1,455,583
Total	2,379,601	6,000	2,385,601
At 31 December 2006			
Available-for-sale financial assets *(note 11)*	—	12,000	12,000
Trade and bill receivables *(note 13)*	205,372	—	205,372
Pledged bank deposits *(note 15)*	295,185	—	295,185
Cash and cash equivalents *(note 16)*	315,159	—	315,159
Total	815,716	12,000	827,716

The Group has limited its credit exposure by restricting its pledged deposits and cash and cash equivalents (excluding cash on hand of RMB1,522,000 (2006: RMB1,301,000)) deposited with state-owned and other reputable banks.

Quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and bill receivables is set out in note 13.

10. Financial Instruments by Category (continued)

	Other financial liabilities RMB'000
Liabilities as per consolidated balance sheet	
At 31 December 2007	
Trade and bill payables *(note 20)*	1,575,173
Borrowings *(note 22)*	2,139,597
Total	3,714,770
At 31 December 2006	
Trade and bill payables *(note 20)*	585,600
Borrowings *(note 22)*	1,455,352
Total	2,040,952

11. Available-for-sale Financial Assets

	Group	
	2007 RMB'000	2006 RMB'000
Available-for-sale investments — Unlisted equity shares	**6,000**	12,000

Available-for-sale investments comprise a 10.7% equity interest in an unlisted company, Shandong Chuangxin Investment & Guarantee Co., Ltd. ("Shandong Chuangxin"), at an original cost of RMB12,000,000. The investments are denominated in RMB. Shandong Chuangxin has reduced 50% of its register capital in 2007 and the Group has subsequently received the capital returned from Shandong Chuangxin RMB6,000,000 in December 2007.

The investment is carried at cost because the investment is not quoted in an active market and the fair value cannot be reliably measured. Shandong Chuangxin itself has a number of investments in unlisted enterprises which have no readily available information concerning their market values. These investments held by Shandong Chuangxin are stated at cost in Shandong Chuangxin's book prepared under the PRC accounting standards. The directors consider that the underlying values of these investments were not less than their carrying amounts at each balance sheet date.

12. Inventories

	Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**230,921**	90,988
Work in progress	**35,846**	3,317
Finished goods	**188,834**	90,767
	455,601	185,072

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,276,280,000 (2006: RMB1,019,377,000).

13. Trade and Bill Receivables

	Group	
	2007	2006
	RMB'000	RMB'000
Trade receivables	**220,098**	184,069
Bill receivables	**97,473**	21,303
	317,571	205,372
Less: provision for impairment	**(11,974)**	(14,913)
Trade and bill receivables — net	**305,597**	190,459

13. Trade and Bill Receivables (continued)

Customers are generally granted with credit period less than 90 days. Bill receivables are generally due in 90 days or 180 days. Aging analysis of trade and bill receivables at respective balance sheet dates are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Within 90 days	**288,569**	182,595
91 to 180 days	**16,575**	7,241
181 to 365 days	**3,064**	5,536
1 to 2 years	**1,416**	4,245
2 to 3 years	**2,349**	2,891
Over 3 years	**5,598**	2,864
	317,571	205,372

Bill receivables do not have any significant credit risk as the settlement of which has been guaranteed by reputable banks or state-owned banks. Trade receivables within credit period are normally not considered impaired.

Movement of the Group's provision for impairment on trade receivables are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
At 1 January	**14,913**	9,011
Provision for impairment	**—**	5,902
Unused amounts reversed	**(2,939)**	—
At 31 December	**11,974**	14,913

The loss has been included in administrative expenses in the income statement. Provision for impairment includes specific provision and collective assessment and credit risk evaluation based on past due status of the receivables. Write-off of a debt is only made if the debtor is unlikely to repay, e.g. bankrupt. The Group did not require collaterals from trade debtors.

The carrying amounts of the Group's current trade and bills receivables approximate their fair value.

13. Trade and Bill Receivables (continued)

The carrying amounts of trade and bill receivables are denominated in the following currencies:

	Group	
	2007 RMB'000	2006 RMB'000
RMB	**173,307**	70,132
USD	**144,264**	135,240
	317,571	205,372

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivable mentioned above. The Group does not hold any collateral as security.

14. Prepayments, Deposits and Other Receivables

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Prepayments to materials suppliers	**84,019**	22,175	**—**	—
Prepayments for purchase of plant and machinery	**53,375**	35,332	**—**	—
Prepayments to government for land use rights	**67,350**	—	**—**	—
Deposit	**3,997**	6,517	**—**	—
Due from related parties *(note 37)*	**2,000**	1,558	**—**	—
VAT deductible	**6,618**	8,055	**—**	—
Due from a subsidiary	**—**	—	**5,932**	—
Others	**10,408**	4,802	**25**	—
	227,767	78,439	**5,957**	—

The carrying amounts of prepayments, deposits and other receivables approximately their fair values. The maximum exposure to credit risk at the reporting date is the carrying amounts of the receivable balances mentioned above.

15. Pledged Bank Deposits

	2007 RMB'000	2006 RMB'000
Deposits placed in banks as collaterals against trade finance facilities granted by banks	**606,447**	295,185
Denominated in:		
— RMB	**606,014**	288,897
— USD	**433**	794
— EUR	**—**	5,494
	606,447	295,185
Maximum exposure to credit risk	**606,447**	295,185

The corresponding trade finance facilities mainly represent bank guarantees for bills payable to suppliers and letters of credit for import. The weighted average interest rate on pledged bank deposits is 3.78% (2006: 2.29%) per annum.

16. Cash and Cash Equivalents

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash at bank and in hand	**1,455,583**	315,159	**1,042,651**	15,121
Denominated in:				
— RMB	**286,256**	234,886	**47,622**	—
— USD	**174,297**	80,265	**—**	15,117
— HKD	**995,030**	8	**995,029**	4
	1,455,583	315,159	**1,042,651**	15,121
Maximum exposure to credit risk (net of cash in hand)	**1,454,061**	313,858	**1,042,651**	15,121

The weighted average interest rates on demand deposits were 0.38% (2006: 0.83%) per annum.

RMB is not a freely convertible currency in the international market. The remittance of these RMB funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

17. Share Capital

	Company	
	Number of shares	Nominal value RMB'000
Authorised		
925,000,000 ordinary shares and 75,000,000 preference shares of US$0.1 each at 31 December 2006	1,000,000,000	798,450
4,000,000,000 ordinary shares HK$0.1 each at 31 December 2007	4,000,000,000	382,200
Issued:		
Ordinary shares		
At date of incorporation *(note a)*	1	—
Issued to Macro-Link International Co. Ltd. as share swap *(note b)*	128,999,999	102,458
Issued to Dongyue Team Limited, Dongyue Wealth Limited and Dongyue Initiator Limited for cash *(note c)*	71,000,000	55,860
At 31 December 2006	200,000,000	158,318
Conversion from preference shares *(note d)*	75,000,000	57,954
Repurchase and cancellation of issued ordinary shares *(note e)*	(275,000,000)	(216,272)
Issue of new ordinary shares to the shareholders *(note e)*	275,000,000	26,276
Capitalisation of share premium *(note f)*	1,285,000,000	121,895
Issue of new shares upon listing *(note g)*	520,000,000	49,344
At 31 December 2007	2,080,000,000	197,515
Preference shares		
At date of incorporation and at 31 December 2006	—	—
Issued during the year *(note d)*	75,000,000	57,954
Converted into ordinary shares *(note d)*	(75,000,000)	(57,954)
At 31 December 2007	—	—

(a) The Company was incorporated on 24 July 2006 with a 1,000,000,000 authorised share capital of US$100,000,000 divided into 925,000,000 ordinary shares and 75,000,000 preference shares with par value of US$0.1 each. 1 ordinary share was issued at date of incorporation.

(b) On 24 July 2006, 128,999,999 ordinary shares of nominal value of US$0.1 per share were issued by the Company to Macro-Link International Investment Co., Ltd. ("Macro-Link") pursuant to the Reorganisation to acquire its interests in the companies then comprising the Group.

17. Share Capital (continued)

(c) On 24 July 2006, 25,334,403 ordinary shares of nominal value of US$0.1 per share, totalling RMB19,932,000, were issued to Dongyue Team Limited, Dongyue Wealth Limited and Dongyue Initiator Limited (collectively the "Companies") for cash at a premium of RMB14,777,000 in order to acquire the interests held by the Management Shareholders in the companies now comprising the Group.

The remaining 45,665,597 ordinary shares of nominal value of US$0.1 per share, totalling RMB35,928,000, were issued to the Companies for cash at a premium of RMB26,635,000 to acquire further interests in certain subsidiaries from the minority shareholders.

(d) On 12 April 2007, 75,000,000 preference shares of nominal value of US$0.1 per share, totalling RMB57,954,000, were issued to Baring Private Equity Asia III Holding (9A) Limited ("Baring") and International Finance Corporation ("IFC") for cash at a premium of RMB306,767,000. The preference shares were convertible by the holders at a rate of one preference share to one ordinary share. On 31 July 2007, the preference shares were all being converted into ordinary shares of the Company.

(e) On 16 November 2007, the Company repurchased all of the 275,000,000 issued ordinary shares of US$0.1 each at HK$27,500,000 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 of RMB189,996,000 was credited directly to the capital reserve.

(f) On 10 December 2007, the Company issued and allotted 1,285,000,000 ordinary shares of HK$0.1 each at par to the shareholders whose names appear on the register of members of the Company on 15 November 2007 by the capitalisation of the share premium accounts.

(g) On 10 December 2007, the Company issued 520,000,000 new shares with nominal value of HK$0.1 each for its international public offering and public offer at the offer price of HK$2.16 (equivalent to approximately RMB2.05) each.

The Company raised net proceeds of approximately RMB991,405,000 from the issuing of the 520,000,000 new shares, of which paid up capital was approximately RMB49,344,000 and share premium was approximately RMB1,016,483,000. The related share issue expenses amounted to RMB74,422,000.

18. Other Reserves

Group

	Share premium RMB'000	Merger reserve *(note a)* RMB'000	Capital reserve *(note b)* RMB'000	Statutory surplus reserve *(note c)* RMB'000	Statutory welfare reserve *(note c)* RMB'000	Total RMB'000
At 1 January 2006	14,777	(32,210)	(12,795)	26,776	10,370	6,918
Transfer from retained earnings	—	—	—	21,074	—	21,074
Transfer from statutory welfare reserve to statutory surplus reserve	—	—	—	10,370	(10,370)	—
Acquisition of further interests in subsidiaries from minority shareholders *(note d(i))*	—	—	196	—	—	196
Contributions from equity holders of the Company *(note d(ii))*	26,635	—	—	—	—	26,635
At 31 December 2006	41,412	(32,210)	(12,599)	58,220	—	54,823
Transfer from retained earnings	—	—	—	41,169	—	41,169
Acquisition of further interests in subsidiaries from minority shareholders *(note d(i))*	—	—	(445)	—	—	(445)
Contributions from equity holders of the Company *(note 17(d))*	306,767	—	—	—	—	306,767
Repurchase and new issue of shares *(note 17 (e))*	—	—	189,996	—	—	189,996
Capitalisation of share premium *(note 17 (f))*	(121,895)	—	—	—	—	(121,895)
Issue of new shares upon listing *(note 17 (g))*	1,016,483	—	—	—	—	1,016,483
Share issue expenses	(74,422)	—	—	—	—	(74,422)
Issue of share opinions *(note d(iii))*	—	—	2,657	—	—	2,657
At 31 December 2007	1,168,345	(32,210)	179,609	99,389	—	1,415,133

Company

	Share premium RMB'000	Capital reserve RMB'000	Total RMB'000
At 1 January 2006	—	—	—
Issue of new shares *(note 17 c)*	41,412	—	41,412
At 31 December 2006	41,412	—	41,412
Contributions from equity holders of the Company *(note 17(d))*	306,767	—	306,767
Repurchase and new issue of shares *(note 17 (e))*	—	189,996	189,996
Capitalisation of share premium *(note 17 (f))*	(121,895)	—	(121,895)
Issue of new shares upon listing *(note 17 (g))*	1,016,483	—	1,016,483
Share issue expenses	(74,422)	—	(74,422)
Issue of share opinions *(note d(iii))*	—	2,657	2,657
At 31 December 2007	1,168,345	192,653	1,360,998

18. Other Reserves (continued)

(a) Merger reserve

Merger reserve of the Group represents surplus arising on issue of shares by the Company in exchange for shares in the subsidiaries arose as a result of the Reorganisation as referred to in note 1 and represented the excess of the portion of the consolidated net asset of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof as if the merger had been completed at the earliest date presented.

(b) Capital reserve

Capital reserve of the Company represents (i) the difference between any consideration paid to acquire further interest in a subsidiary from minority shareholders and the relevant carrying value of net assets acquired (ii) increase in indirect interests in subsidiaries deemed to be injected by the Management Shareholders and (iii) the excess of the nominal value of the ordinary shares repurchased and cancelled (the "Cancellation ") over the nominal value of the new ordinary shares issued to the share holders for the Cancellation.

(c) Statutory reserves

Subsidiaries incorporated in Mainland China are required to make appropriations to certain statutory reserves from profit for the year after offsetting accumulated loses from prior years and before profit distribution to equity holders. The percentage appropriated to the statutory surplus reserve is determined according to the relevant regulations in Mainland China at 10% and the percentage appropriated to the statutory welfare reserve is determined at the discretion of the board of directors of the respective companies which is 5%. From 2006 onwards, in accordance with the revised Company Law in the PRC, the companies comprising the Group ceased the appropriation of net profit to the statutory welfare reserve, the balance of statutory welfare reserve at 31 December 2005 had been transferred to statutory surplus reserve.

(d) Movement in reserves

(i) The movement in capital reserve in 2006 arose from acquisitions of additional 34.8% interest in Dongyue Chemicals, 15% interest in Dongyue Fluorine Silicone, and 23.04% interest in Dongyue Polymers from the respective minority shareholders. The discount on these further acquisitions amounted to RMB196,000.

The movement in capital reserve in 2007 arose from the acquisition of additional 15.95% interest in Dongyue Chemicals and 10% interests in Zibo Dongyue Chlorine Co., Ltd. from the respective minority shareholders. The premium on these further acquisitions amounted to RMB445,000.

All of the abovementioned acquisitions of additional interests were recognised as transactions with minority shareholders and therefore the corresponding discount/premium arisen therefrom were credited/debited directly against capital reserve.

(ii) The Company issued shares for RMB35,928,000 with a premium of RMB26,635,000 to Dongyue Team Limited, Dongyue Wealth Limited and Dongyue Initiator Limited for cash as consideration for the acquisitions of additional interests in certain subsidiaries from minority shareholders (note 17(c)).

18. Other Reserves (continued)

(d) Movement in reserves (continued)

(iii) On 16 November 2007, the Company's Pre-IPO Share Option Scheme was approved by the Board of Directors and 56,727,273 options have been granted to certain of the Company's directors and the Group's employees on the same date. The exercise price of the granted options is equal to the initial public offering price of HK$2.16 per share. Options are conditional on the employee completing three year's service (the vesting period). 30% of the options are exercisable starting one year from the grant date, 30% of the options are exercisable starting two years from the grant date, and 40% of the options are exercisable starting three years from the grant date. The exercise period of options is twelve months from the starting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The Board of Directors also approved the Company's Share Option Scheme on 16 November 2007 and no option under such scheme has been granted up to the date of these consolidated financial statements. The terms of the Company's Share Option Scheme are the same as those of the Company's Pre-IPO Share Option Scheme.

Movements in the number of share options outstanding are as follows:

	2007 Options (thousands)	2006 Options (thousands)
At 1 January	**—**	—
Granted		
— directors	**28,931**	—
— employees	**27,796**	—
Forfeited		
— employees	**(567)**	—
At 31 December	**56,160**	—

18. Other Reserves (continued)

(d) Movement in reserves (continued)

(iii) (continued)

Share options outstanding at the end of the year have the following expiry dates and exercise price:

Expiry date	Exercise price HK dollar per share	Share options (thousands) 2007	2006
16 November 2008	2.16	**16,848**	—
16 November 2009	2.16	**16,848**	—
16 November 2010	2.16	**22,464**	—
		56,160	—

The weighted average fair value of options granted during the year determined using the Binominal Option Pricing Model was HK$0.70 per option. The significant inputs into the model were the exercise price shown above, volatility of 35.2%, dividend yield of 2.9%, an expected option life of three years and on annual risk-free interest rate of 3.6%. See note 29 for the total expense recognised in the income statement for share options granted to directors and employee.

19. Retained Earnings/(Accumulated Losses)

	Group RMB'000	Company RMB'000
At 1 January 2006	51,654	—
Profit/(loss) for the year	82,702	(1,199)
Transfer to other reserves	(21,074)	—
Dividend relating to 2005	(15,007)	—
At 31 December 2006	98,275	(1,199)
Profit for the year	208,306	10,361
Transfer to other reserves	(41,169)	—
Dividend relating to 2006	(32,500)	(32,500)
At 31 December 2007	232,912	(23,338)

20. Trade and Bill Payables

	Group	
	2007 **RMB'000**	2006 RMB'000
Trade payables	**761,902**	340,869
Bill payables	**813,271**	244,731
	1,575,173	585,600

The carrying amounts of trade and bill payables approximate their fair values.

The credit period granted by the creditors generally ranged from 30 to 180 days.

Ageing analysis of trade and bills payables at respective balance sheet dates are as follows:

	Group	
	2007 **RMB'000**	2006 RMB'000
Within 30 days	**903,892**	316,724
31 to 90 days	**403,934**	229,618
91 to 180 days	**228,615**	23,382
181 to 365 days	**30,165**	15,876
1 year to 2 years	**8,567**	—
	1,575,173	585,600

21. Accruals and Other Payables

	Group		Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Deposits and advance from customers	**114,373**	62,648	**—**	—
Salaries and bonus payable	**43,851**	44,335	**104**	—
Social contribution payable	**37,216**	32,853	**—**	—
Export related expense payable	**14,105**	11,713	**—**	—
Financial guarantee contracts	**—**	14,116	**—**	—
Interest payable	**391**	6,133	**—**	—
Water and electricity fee	**7,838**	6,000	**—**	—
Welfare payable	**5,252**	1,969	**—**	—
Due to a related party *(note 37)*	**781**	805	**781**	805
Auditor's remuneration payable	**3,430**	—	**3,430**	—
CDM payable*	**250,827**	—	**—**	—
Advance from local government	**38,056**	—	**—**	—
Dividend payable to minority shareholders of subsidiary	**979**	—	**—**	—
Payables to subsidiaries	**—**	—	**6,942**	—
Others	**6,198**	2,745	**—**	35
Total	**523,297**	183,317	**11,257**	840

The carrying amounts of accruals and other payables approximate their fair value.

The loss/gain arising from financial guarantee contracts is recognised in the income statement within other losses — net (note 27). Details of the financial guarantee contracts are set out in note 39(a) to the consolidated financial statements.

* *According to PRC regulation, 65% of the proceeds from sales of CERs belong to PRC government and the Group has collected this portion on behalf of the PRC government.*

22. Borrowings

Group

	2007 RMB'000	2006 RMB'000
Non-current		
Between 1 to 2 years		
Bank borrowings	**205,745**	7,500
Borrowings from employees	**—**	60,667
Borrowings from independent third parties	**12,272**	20,221
Between 2 to 5 years		
Bank borrowings	**302,330**	401,310
Borrowings form independent third parties	**372,421**	—
Wholly repayable within 5 years	**892,768**	489,698
Current		
Bank borrowings	**1,208,557**	810,020
Borrowings from employees	**—**	35,458
Borrowings from independent third parties	**38,272**	120,176
	1,246,829	965,654
Total borrowings	**2,139,597**	1,455,352

	2007 RMB'000	2006 RMB'000
Representing:		
Bank borrowings		
— unsecured *(note d)*	**1,223,659**	203,910
— secured *(note d)*	**492,973**	236,000
— guaranteed *(note d)*	**—**	778,920
	1,716,632	1,218,830
Borrowings from employees — unsecured	**—**	96,125
Borrowings from independent third parties		
— unsecured	**56,680**	140,397
— secured	**366,285**	—
	422,965	140,397
Total	**2,139,597**	1,455,352

22. Borrowings (continued)

Company

	2007 RMB'000	2006 RMB'000
Borrowings from independent third parties	—	97,609

As at 31 December 2006, the Company's borrowings from Baring (a shareholder of the Company) of USD12,500,000 (equivalent to approximately RMB97,609,000) were unsecured and interest free. The related borrowings were subsequently capitalised as the Company's preference shares at 12 April 2007.

(a) An analysis of the carrying amounts of the Group's borrowings by type and currency is as follows:

	2007 RMB'000	2006 RMB'000
At fixed rates in RMB	**1,189,213**	892,943
At floating rates in RMB	**538,810**	402,100
	1,728,023	1,295,043
At fixed rates in USD	—	124,389
At floating rates in USD	**411,574**	35,920
	411,574	160,309
	2,139,597	1,455,352
Total borrowings		
— at fixed rates	**1,189,213**	1,017,332
— at floating rates	**950,384**	438,020
	2,139,597	1,455,352

Floating rate borrowings denominated in RMB will be repriced when there is a change in the borrowing rate promulgated by the People's Bank of China from time to time. The contractual interest repricing date for USD floating rate loans is within 3 months.

(b) The weighted average effective interest rates per annum at the respective balance sheet dates are as follows

	2007 RMB'000	2006 RMB'000
Bank borrowings	**7.36%**	6.22%
Borrowings from employees	**N/A**	9.72%
Borrowings from independent third parties	**6.99%**	8.07%

22. Borrowings (continued)

(c) The carrying amounts and fair values of non-current borrowings are as follows:

	2007 RMB'000	2006 RMB'000
Carrying amounts	**892,768**	489,698
Fair values	**888,967**	492,281

The fair value are based on discounted cash flows using the borrowings rate as announced by the People's Bank of China as at 31 December 2007 of 7.47% (2006: 6.38%) per annum.

The carrying amounts of current borrowings approximate their fair values as the impact of discounting is insignificant.

(d) As at 31 December 2007, borrowings included secured liabilities of RMB859,258,000 (2006: RMB236,000,000) which were secured by the Group's property, plant and equipment of the with the net book value of approximately RMB872,249,000 (2006: RMB377,424,000) (note 6(b)) and lease prepayments with the net book amount of approximately RMB88,223,000 (2006: RMB51,849,000) (note 7(b)).

As at 31 December 2006, borrowings of RMB56,000,000 and RMB722,920,000 were guaranteed by related parties(Notes 37(b)) and independent third parties respectively.

23. Receipt in Advance

A subsidiary of the Company had entered into an agreement with two customers who agreed to purchase Carbon Emission Reductions (CERs) certificates from the subsidiary at specified price from 2008 to 2012. The subsidiary received a prepayment in 2006 from one of the customers for subsequent sale of CERs in 2008. The related amount was included in current liabilities as advance from customers as at 31 December 2007 (note 21).

24. Deferred Income

Deferred income includes government grants relating to research project and leasehold land prepayment and EIT refund due to purchase of domestic equipment.

The movement on deferred revenue is as follows:

	Related to research project RMB'000	EIT refund due to purchase of domestic equipment RMB'000	Related to leasehold land prepayments (note) RMB'000	Total RMB'000
At 1 January 2006	5,850	4,791	27,232	37,873
Additions	—	3,070	—	3,070
Credited to the income statement	(1,637)	(532)	(688)	(2,857)
At 31 December 2006	4,213	7,329	26,544	38,086
Additions	10,740	—	134,670	145,410
Credited to the income statement	(11,326)	(824)	(2,557)	(14,707)
At 31 December 2007	3,627	6,505	158,657	168,789

Note: Deferred income in respect of leasehold land prepayments represents payments made to acquire land use rights which were subsequently refunded by the municipal government as a form of grant to promote local business.

25. Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

	2007 RMB'000	2006 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after 12 months	**58,076**	12,114
— Deferred income tax asset to be recovered within 12 months	**7,723**	7,072
	65,799	19,186
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after 12 months	**(10,653)**	(2,128)
— Deferred income tax liabilities to be settled within 12 months	**(633)**	(2,170)
	(11,286)	(4,298)
Deferred income tax assets — net	**54,513**	14,888

25. Deferred Income Tax (continued)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are set out as follows:

Deferred income tax assets:

	Provision for impairment of assets RMB'000	Accelerated accounting depreciation RMB'000	Provision for employee benefits RMB'000	Government grants on lease prepayment RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	1,997	2,290	8,834	6,068	918	20,107
(Charged)/credited to the income statement	532	2,005	(4,445)	(40)	1,027	(921)
At 31 December 2006	2,529	4,295	4,389	6,028	1,945	19,186
Credited/(charged) to the income statement	(175)	6,946	5,214	32,070	2,558	46,613
At 31 December 2007	2,354	11,241	9,603	38,098	4,503	65,799

Deferred income tax liabilities:

	Capitalised interests RMB'000
At 1 January 2006	(2,182)
Charged to the income statement	(2,116)
At 31 December 2006	(4,298)
Charged to the income statement	(6,988)
At 31 December 2007	(11,286)

26. Other Income

	2007 RMB'000	2006 RMB'000
Government grants	**20,655**	7,885
Others	**4,383**	683
	25,038	8,568

Government grants mainly represented supporting funds granted by local government to the Group.

27. Other Losses, Net

	2007 RMB'000	2006 RMB'000
Net foreign exchange losses	**24,147**	5,536
Loss/(gain) on disposals of property, plant and equipment, net	**3,877**	(108)
(Gains)/losses on financial guarantee contracts	**(14,116)**	11,776
	13,908	17,204

28. Expenses by Nature

	2007 RMB'000	2006 RMB'000
Raw materials and consumables used	**1,406,876**	1,041,733
Changes in inventories of finished goods and work in progress	**(130,596)**	(22,356)
Energy and fuel	**496,457**	357,100
Depreciation and amortisation	**196,004**	122,775
Employee benefit expenses *(note 30)*	**141,391**	96,180
Transportation expenses	**90,925**	66,332
Maintenance fee	**35,698**	36,675
Office expenditures	**35,704**	34,934
Travel expenses	**5,260**	7,841
Research and development expenses	**11,832**	3,197
(Reversal of provision)/provision for impairment of receivables	**(2,263)**	6,003
Entertainment	**9,726**	4,254
Handling charges	**1,090**	3,337
Rental	**8,360**	3,227
Consultant fee	**898**	2,230
Auditor's remuneration	**4,438**	3,041
Advertising costs	**2,831**	1,789
Insurance	**3,502**	2,111
Stamp duty and property tax	**2,922**	1,704
Others	**6,705**	5,949
Total	**2,327,760**	1,778,056

29. Employee Benefit Expenses (Including Directors' Emoluments)

	2007 RMB'000	2006 RMB'000
Wages, salaries and bonus	122,279	79,076
Retirement benefit contributions	9,198	9,155
Share options granted to directors and employees	2,657	—
Other staff welfare	7,257	7,949
	141,391	96,180

(a) *Directors' emoluments*

Details of the directors' emoluments for the years ended 31 December 2007 and 2006 are set out below:

Year ended 31 December 2007

	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Pension scheme contributions RMB'000	Other benefits (note i) RMB'000	Total RMB'000
Mr. Zhang Jian Hong	7	743	5,238	20	520	6,528
Mr. Liu Chuan Qi	7	743	5,238	24	462	6,474
Mr. Cui Tong Zheng	7	473	520	12	420	1,432
Mr. Yang Er Ning	7	473	520	—	121	1,121
Mr. Fu K wan	7	—	—	—	—	7
Mr. Zhang Jian	7	—	—	—	25	32
Mr. Shaw Sun Kan*	7	—	—	—	—	7
Mr. Yue Run Dong*	7	—	—	—	—	7
Mr. Liu Yi*	7	—	—	—	—	7
Mr. Ting Leung Huel*	14	—	—	—	—	14
	77	2,432	11,516	56	1,548	15,629

* *Appointed on 16 November 2007*

Year ended 31 December 2006

	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Pension scheme contributions RMB'000	Other benefits RMB'000	Total RMB'000
Mr. Zhang Jian Hong	—	750	5,238	21	—	6,009
Mr. Liu Chuan Qi	—	750	5,238	28	—	6,016
Mr. Cui Tong Zheng	—	480	520	12	45	1,057
Mr. Yang Er Ning	—	480	520	—	46	1,046
Mr. Fu K wan	—	—	—	—	—	—
Mr. Zhang Jian	—	—	—	—	—	—
	—	2,460	11,516	61	91	14,128

29. Employee Benefit Expenses (Including Directors' Emoluments) (continued)

Notes:

(i) As at 31 December 2007, 5 directors of the Company had 28,930,908 share options which are exercisable at HK$2.16 per share granted by the Company on 16 November 2007 under the Pre-IPO Share Option Scheme approved by the shareholders on 16 November 2007. None of the share options granted was exercised by the directors. Other benefits include of the fair value, after taking into account the vesting condition, of the share options granted to the directors under Pre-IPO Share Option Scheme (note 18(iii)) of RMB1,457,000 which had expensed in the consolidated income statement for the year ended 31 December 2007.

Details of the movement of share options granted and exercised during the year are set out in note 18(d)(iii) to the consolidated financial statements.

(ii) Directors' fees disclosed above include RMB39,000 (2006: Nil) paid to independent non-executive directors.

(iii) During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the years ended 31 December 2007 and 2006.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group include 4 (2006: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2006: 1) individual are as follows:

	2007 RMB'000	2006 RMB'000
Salary	**192**	480
Discretionary bonus	**520**	520
Pension scheme contributions	**10**	12
Share options granted	**125**	—
Other benefits	**43**	40
	890	1,052

30. Finance Income and Costs

	2007 RMB'000	2006 RMB'000
Gross interest expenses on		
— bank borrowings	**(120,866)**	(69,281)
— other borrowings	**(28,407)**	(7,563)
	(149,273)	(76,844)
Less: interest expenses capitalised in property, plant and equipment	**41,598**	8,823
Net foreign exchange gain on financing activities	**12,729**	—
Finance costs	**(94,946)**	(68,021)
Finance income		
— interest income on short-term bank deposits	**18,210**	7,356
Net finance costs	**(76,736)**	(60,665)

The borrowing costs have been capitalised at the weighted average interest rate of 6.10% (2006: 6.22%) per annum.

31. Income Tax Expense

	2007 RMB'000	2006 RMB'000
Current income tax	**81,936**	14,299
Deferred income tax *(note 25)*		
— Effect of change in applicable tax rate due to the new CIT law	**(3,862)**	—
— (Credit)/charge for the year	**(35,763)**	3,037
	(39,625)	3,037
	42,311	17,336

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

31. Income Tax Expense (continued)

The subsidiaries established in Mainland China are subject to Enterprise Income Tax ("EIT") at the following rates:

Applicable EIT rate

	2007	2006
Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals")	**24%**	24%
Shandong Dongyue Polymers Co., Ltd. ("Dongyue Polymers")	**7.5%**	7.5%
Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue F&S")	**12%**	0%
Zibo Dongyue Lvyuan Co., Ltd. ("Zibo Dongyue Chlorine")	**33%**	33%
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	**33%**	N/A
Shandong Dongyue Organosilicon Material Co., Ltd.	**0%**	0%

Subsidiaries incorporated as foreign investment enterprises in Mainland China have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

Dongyue Chemicals has passed its tax exemption/reduction period and was subjected to an EIT rate of 24% in 2007 because it is located in a coastline economic open zone. Dongyue F&S was set up in late 2004 and was subject to tax exemption in 2005 and 2006 and a 50% reduction in EIT from 2007. Dongyue Polymers is qualified as 'Technology Intensive or Knowledge-Intensive Enterprise' and is subject to an EIT rate of 15%. It was exempted from EIT in 2004 and subjected to a 50% reduction in 2007.

Zibo Dongyue Lvyuan Co., Ltd. ("Zibo Dongyue Chlorine") and Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. were set up as domestic company in the PRC and were subject to an EIT rate of 33% without preferential tax treatment.

Shandong Dongyue Organosilicon Material Co., Ltd. was set up in late 2006 and exempted from income tax in 2007 as foreign investment enterprises.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008. Resulting from the change in applicable tax rate under the new CIT Law, the carrying amounts of deferred income tax assets have been increased by RMB3,862,000 as at 31 December 2007, with a corresponding credit of the same amount to the consolidated income statement.

Under the new CIT Law, enterprises established outside of the China whose "de facto management bodies" are located in China are considered "resident enterprises" and will be generally be subject to the uniform 25% enterprise income tax rate for their global income. The new CIT law does not define the term "de facto management bodies" and the circumstances under which an enterprise's "de facto management bodies" would be considered to be located in China are currently unclear. Since the Company has no material income except the dividend form its subsidiaries which located in China, the directors believe that there has no material impact on the Company no matter whether it will be treated as resident enterprise or not.

31. Income Tax Expense (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to consolidated profits of the Group as follows:

	2007 RMB'000	2006 RMB'000
Profit before income tax	**291,141**	158,593
Tax calculated at rates based on the different tax status of the companies	**67,956**	15,156
Expenses not deductible for tax purposes	**620**	2,710
Income not subject to tax	**(2,689)**	(132)
Effect of change in applicable tax rate for calculation of deferred income taxation resulted from the new CIT law	**(3,862)**	—
Effect of tax exemptions	**(19,714)**	(470)
Others	**—**	72
Income tax expense	**42,311**	17,336
Weighted average tax rates	**23%**	10%

The weighted average tax rate is calculated by dividing profit before income tax with tax calculated based on the different tax status of the companies. Group companies are subject to different tax rate, tax exemption or tax reduction according to their tax status as described above.

32. Profit/Loss Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company presented in the financial statements of the Company amounts to RMB10,361,000 (2006: loss of RMB1,199,000).

33. Earnings Per Share

(a) Basic

Basic earning per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007 RMB'000	2006 RMB'000
Profit attributable to equity holders of the Company	**208,306**	82,702
Weighted average number of ordinary shares in issue (thousands)	**1,469,858**	988,343
Basic earning per share (RMB per share)	**0.14**	0.08

33. Earnings Per Share (continued)

(a) Basic (continued)

The capitalisation (note 17(f)) lead to the ordinary shares outstanding increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented, and the calculation of earning per share for 2006 presented is adjusted retrospectively.

(b) Diluted

Diluted earning per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As the exercise price of the share options granted by the Company was higher than the average market price of the Company's shares for the year ended 31 December 2007, those share options granted has no dilution effect on earnings per share in 2007 and diluted earnings per share is therefore same as basic earnings per share.

34. Dividends

Dividends of RMB32,500,000 declared for the financial year 2006 represented dividends declared by the Company to the shareholders at RMB0.1625 per share.

At a meeting held on 16 April 2008, the directors of the Company proposed a final dividend of HK$0.04 (equivalent to approximately RMB0.04) per ordinary share, totaling RMB78,044,000. This proposed dividend is not reflected as dividend payable in these consolidated financial statements until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

35. Cash Generated from Operations

	2007 RMB'000	2006 RMB'000
Profit before income tax	**291,141**	158,593
Adjustments for:		
— depreciation *(note 6)*	**188,461**	119,662
— amortisation of lease prepayments *(note 7)*	**5,103**	1,819
— amortisation of intangible asset *(note 8)*	**2,440**	1,294
— loss/(profit) on disposal of property, plant and equipment — net *(note 27)*	**3,877**	(108)
— share-based payment	**2,657**	—
— (reversal of provision)/provision for impairment of receivables *(note 29)*	**(2,263)**	6,003
— finance cost — net *(note 30)*	**76,736**	60,665
— share of loss/(profit) of an associate *(note 9)*	**214**	(18)
— (Gains)/losses on financial guarantee contracts *(note 27)*	**(14,116)**	11,776
— Foreign exchange losses on cash	**20,290**	—
	574,540	359,686
Changes in working capital		
— Increase in inventories	**(270,529)**	(49,052)
— (Increase)/decrease in trade and bills receivables, prepayments, deposits and other receivables	**(176,810)**	47,766
— Increase in trade and bills payables, accruals and other payables	**847,407**	94,673
— Increase in pledged bank deposits	**(311,262)**	(19,737)
— Increase in deferred income	**130,703**	213
Cash generated from operations	**794,049**	433,549

Major non-cash transactions

(a) On 12 April 2007, a independent third party borrowing amounted to RMB97,609,000 has been converted into Company's preference shares(Note 17 and 22).

(b) On 10 December 2007, the Company has issued share capital of RMB121,895,000 by the capitalisation of share premium amounts(Note 17(f)).

36. Investments in Subsidiaries

Company

	2007 RMB'000	2006 RMB'000
At 1 January	281,859	—
Additions	215,965	281,859
At 31 December	497,824	281,859

During the year ended 31 December 2007, the Company has acquired additional interests in Dongyue Chemical from minority shareholders at the consideration of RMB45,929,000 and has injected additional capital in Dongyue Organic Silicone and Dongyue Polymer with an aggregate amount of RMB170,036,000.

The following is a list of the subsidiaries at 31 December 2007, the Company has direct or indirect interests in the following subsidiaries, all of which were incorporated in the People's Republic of China as limited liability companies:

Name	Equity interest held 2007	Equity interest held 2006	Registered/ paid up capital	Principal activities
Dongyue Chemicals*	94.56%	78.61%	RMB60,000,000	Manufacturing and sale of refrigerant
Dongyue Polymers***	98.43%	89.09%	RMB115,000,000	Manufacturing and sale of polytetrafluoroethylene
Dongyue F&S***	73.91%	70.72%	RMB200,000,000	Manufacturing and sale of methane chloride
Zibo Dongyue Chlorine Co., Ltd.**	73.91%	63.65%	RMB10,000,000	Manufacturing and sale of liquid chlorine and alkali
Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone")*	60%	—	RMB200,000,000	Manufacturing and sale of organosilicon material
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. ("Dongyue Peak")**	48.23%	—	RMB50,000,000	Manufacturing and sale of anhydrous fluoride
Guangdong Dongyue Fluorine Chemicals Co., Ltd. ("Guangdong Dongyue")**	56.74%	—	RMB100,000,000/ RMB40,000,000	Manufacturing and sale of anhydrous fluoride

* *directly held by the Company*

** *indirectly held by the Company*

*** *both directly and indirectly held by the Company*

37. Related Party Transactions

The Company is jointly controlled by Macro-Link SDN. BHD. and the Management Shareholders based on their act-in-concert agreements, which own 54% of the Company's shares. The remaining 46% of the shares are widely held.

The following transactions were carried out with related parties:

(a) *Purchases of goods and services*

	2007 RMB'000	2006 RMB'000
— Minority shareholders of subsidiary	—	23,471
— Associate	3,653	—

(b) *Acceptance of financial guarantee*

	2007 RMB'000	2006 RMB'000
— Minority shareholders of subsidiary	—	25,000
— Macro-Link SDN. BHD	—	56,000

(c) *Key management compensation*

Key management are all directors of the Company and their compensation is disclosed in note 29(a).

(d) *Purchase investments form minority shareholders of subsidiaries*

The Company acquired various interests in subsidiaries from the Management Shareholders and issue shares to its shareholders to effect the Reorganisation as mentioned in notes 17 and 18.

(e) *Advancement to a related party*

Before the date of listing, a subsidiary of the Company, Dongyue F&S made a prepayment of RMB2,000,000 to its associate, Dongying Macrolink Salt as capital contribution. As such registration is still being processed and has not been completed, this prepayment is now classified as a receivable from an associate as a related party transaction.

37. Related Party Transactions (continued)

(f) Year-end balances

		2007 RMB'000	2006 RMB'000
i	Due from related parties *(note 14)*		
	— a minority shareholder of a subsidiary	**—**	1,558
	— associate	**2,000**	—
ii	Due to a related party		
	— Macro-link SDN, BHD *(note 21)*	**781**	805

The related receivable and payable balances with related parties are unsecured, interest free and have no fixed repayment terms.

38. Commitments

(a) Capital commitment

Capital expenditure contracted for but not yet incurred as at 31 December 2007 is as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Property, plant and equipment	**48,775**	106,063

The Company did not have any capital commitment as at 31 December 2007 and 2006.

(b) Operating lease commitments

The Group leases various lands under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Not later than 1 year	**1,635**	1,606
Later than 1 year and not later than 5 years	**6,538**	6,425
More than 5 years	**28,054**	29,310
	36,227	37,341

The lease agreements were signed between the Company and nearby counties to lease the land from these counties.

38. Commitments (continued)

(b) Operating lease commitments (continued)

All these contracts will expire in 2029. According to the contracts, the annual rent is equal to the then market price of wheat at the annual payment date calculated based on 0.67 ton wheat per square kilometre leased.

The Company cannot use these lands for manufacturing purpose during the lease period.

39. Contingent Liabilities

(a) As at 31 December 2006, the Group had contingent liabilities arising from guarantees given to banks in connection with bank loans borrowed by independent third parties of RMB790,530,000. The guarantees were released in November 2007 prior to the listing of the Company's shares.

(b) The Group was advised on 19 December 2007 that Dongyue F&S and Dongyue Organic Silicone, subsidiaries of the Company, have been named as defendants in a legal case. It was alleged that the Group's silicone business had infringed the intellectual property rights of China Bluestar (Group) Limited and Bluestar Chemical New Materials Limited (collectively, "China Bluestar Group"), and that as a result the Group should pay to the China Bluestar Group damages which they estimated would be RMB100 million or more (the "Alleged Claims").

The legal proceeding is at an initial stage. Based on the legal advice of the Group's legal counsel, management have reviewed the facts and circumstances and are of the view that the Alleged Claims are unfounded. It is considered that the likelihood of the Group suffering material loss is low, consequently, no provision for any loss arising from this pending litigation has been provided in the Group's consolidated financial statements as at 31 December 2007.

40. Event After the Balance Sheet Date

On 3 January 2008, the Company issued and allotted 3,623,000 additional ordinary shares at the offer price of HK$2.16 each as a result of the exercise of the over-allotment option granted on 16 November 2007 as part of the public offering of the Company's shares.

Consolidated Balance Sheet

	As at 31 December 2004 RMB'000	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000	**As at 31 December 2007 RMB'000**
ASSETS				
Non-current assets				
Property, plant and equipment	809,059	991,017	1,598,198	**3,200,309**
Leasehold land prepayments	39,390	70,727	108,488	**204,409**
Intangible assets	10,420	9,127	7,833	**10,693**
Investments in associates	—	9,829	9,847	**9,633**
Available-for-sale investments	12,020	12,020	12,000	**6,000**
Deferred income tax assets	10,792	17,925	14,888	**54,513**
	881,681	1,110,645	1,751,254	**3,485,557**
Current assets				
Inventories	104,113	136,020	185,072	**455,601**
Trade and bill receivables	176,183	243,170	190,459	**305,597**
Prepayments, deposits and other receivables	86,221	49,481	78,439	**227,767**
Pledged bank deposits	217,299	275,448	295,185	**606,447**
Cash and cash equivalents	133,290	131,549	315,159	**1,455,583**
	717,106	835,668	1,064,314	**3,050,995**
Total assets	1,598,787	1,946,313	2,815,568	**6,536,552**
EQUITY				
Ordinary share capital	(122,390)	(122,390)	(158,318)	**(197,515)**
Other reserves	53,665	(6,918)	(54,823)	**(1,415,133)**
Retained profits	(6,799)	(51,654)	(98,275)	**(232,912)**
	(75,524)	(180,962)	(311,416)	**(1,845,560)**
Minority interests	(128,556)	(245,341)	(213,647)	**(235,437)**
Total Equity	(204,080)	(426,303)	(525,063)	**(2,080,997)**

Consolidated Balance Sheet (continued)

	As at 31 December 2004 RMB'000	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000	**As at 31 December 2007 RMB'000**
LIABILITIES				
Non-current liabilities				
Borrowings	(173,970)	(211,616)	(489,698)	**(892,768)**
Receipt in advance	—	—	(26,773)	**—**
Deferred income	(8,358)	(37,873)	(38,086)	**(168,789)**
Deferred income tax liabilities	—	—	—	**—**
	(182,328)	(249,489)	(554,557)	**(1,061,557)**
Current liabilities				
Trade and bill payables	(605,400)	(483,983)	(585,600)	**(1,575,173)**
Accruals and other payables	(128,047)	(139,076)	(183,317)	**(523,297)**
Borrowings	(472,418)	(635,681)	(965,654)	**(1,246,829)**
Taxes payable	(6,514)	(11,781)	(1,377)	**(48,699)**
	(1,212,379)	(1,270,521)	(1,735,948)	**(3,393,998)**
Total liabilities	(1,394,707)	(1,520,010)	(2,290,505)	**(4,455,555)**
Total equity and liabilities	(1,598,787)	(1,946,313)	(2,815,568)	**(6,536,552)**
Net current liabilities	(495,273)	(434,853)	(671,634)	**(343,003)**
Total assets less current liabilities	386,408	675,792	1,079,620	**3,142,554**

Consolidated Income Statement

	As at 31 December 2004 RMB'000	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000	**As at 31 December 2007 RMB'000**
Sales	(1,183,987)	(1,684,761)	(2,005,932)	**(2,684,721)**
Cost of goods sold	951,532	1,312,896	1,577,483	**2,050,044**
Gross profit	(232,455)	(371,865)	(428,449)	**(634,677)**
Other gain/(loss)	1,815	1,999	17,204	**13,908**
Other income	(3,105)	(15,326)	(8,568)	**(25,038)**
Selling and marketing expenses	60,104	71,858	94,450	**120,356**
General and administrative expenses	80,046	102,471	106,123	**157,360**
Operating profit	(93,595)	(210,863)	(219,240)	**(368,091)**
Finance income	(3,194)	(4,231)	(7,356)	**(18,210)**
Finance costs	36,241	46,624	68,021	**94,946**
Finance costs — net	33,047	42,393	60,665	**76,736**
Share of result of an associate	—	171	(18)	**214**
Profit before income tax	(60,548)	(168,299)	(158,593)	**(291,141)**
Income tax expense	17,796	18,350	17,336	**42,311**
Profit for the period	(42,752)	(149,949)	(141,257)	**(248,830)**
Attributable to:				
Equity holders of the Company	(15,029)	(76,464)	(82,702)	**(208,306)**
Minority interest	(27,723)	(73,485)	(58,555)	**(40,524)**
Earnings per share				
— basic	0.02	0.09	0.08	**0.14**
— diluted	0.02	0.09	0.08	**0.14**
Final dividend	24,096	40,370	32,500	**78,044**

CORPORATE INFORMATION

Registered Office

Offshore Incorporation (Cayman) Ltd.
Scotia Centre
4th Floor, P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in the PRC

Dongyue International Fluoro
Silicone Material Industry Park,
Zibo City,
Shandong Province,
the PRC

Principal Place of Business in Hong Kong

1501 Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Website Address

www.dongyuechem.com

Company Secretary

Mr. WONG, Kwok Kuen

Qualified Accountant

Mr. WONG, Kwok Kuen

Authorized Representatives

Mr. FU Kwan
Mr. WONG, Kwok Kuen

Audit Committee

Mr. TING Leung Huel, Stephen (Chairman)
Mr. YUE Run Dong
Mr. LIU Yi

Remuneration Committee

Mr. LIU Yi (Chairman)
Mr. TING Leung Huel, Stephen
Mr. ZHANG Jianhong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

China Construction Bank Corporation
Huantai Branch
48 Heng Road
Zibo City, Huantai
Shandong Province, PRC

Industrial and Commercial Bank of China Limited
Huantai Branch
Zhangbei Road
Zibo Huantai
Shandong Province, PRC

Bank of China Limited
Huantai Branch
134 Jianshe Road
Zibo City, Huantai
Shandong Province, PRC

Legal Adviser

Richards Butler

Compliance Advisor

Guotai Junan Capital Limited

Stock Code

189

Dongyue International Fluoro Silicone Material Industry Park
中國山東桓東岳氟硅材料產業園區
Tel 電話：(0086)-533-8510072
Fax 傳真：(0086)-533-8513000
Postal Code 郵編：256401
Website 網址：http://www.dongyuechem.com
E-mail 電郵：group@dongyuechem.com