東岳集團有限公司

DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code：0189

Annual Report 2008



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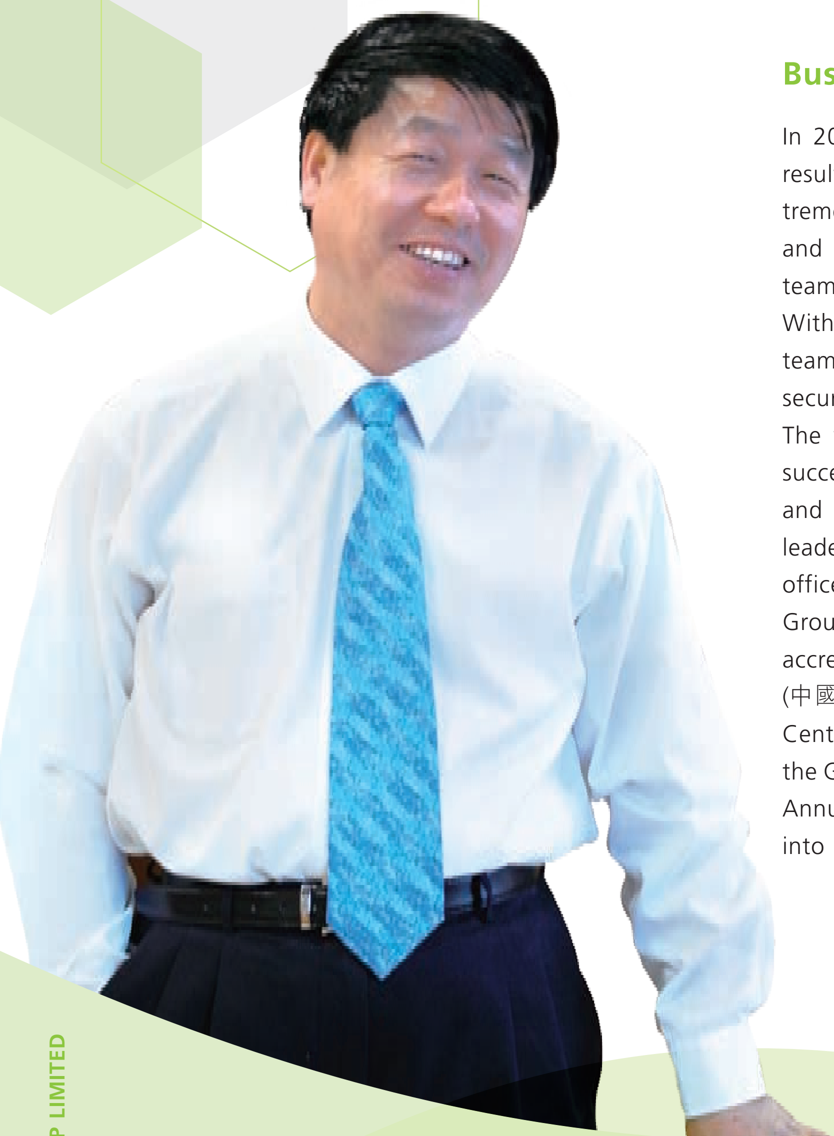
CHAIRMAN'S STATEMENT



Mr. ZHANG Jianhong

Chairman

Business Review

In 2008, drastic market changes and economic decline resulted from the global financial crisis had imposed tremendous impact on the Group's production, operation and project implementation. The Group's management team and staff faced with unprecedented challenges. With challenges and difficulties ahead, management team and staff of the Group dedicated themselves to secure the Group's leading position in the industry. The year of 2008 represents a year that Dongyue has successfully created new brands and corporate image, and acquired new resources as well. State and Party leaders Li Keqiang and Li Yuanchao had paid their visits at offices and factories of Dongyue to inspect and direct the Group's work. The Group was awarded with numerous accreditations, such as "Chinese Well-known Mark (中國馳名商標)" and "State-Level Enterprise Technology Centre (國家級企業技術中心)" during 2008. Moreover, the Group has successfully organized its "Win-Win 2009" Annual Customers Meeting. The above have all turned into Dongyue's new strengths for future development.

2008 project implementation progress:

The 60,000-ton organic silicone monomer project invested by the Group came into full production in 2008 after successful trial production at the end of 2007. Currently, the project operates smoothly and has achieved better economic efficiency in the first half of 2008.

120,000-ton PVC project invested by the Group has commenced production in 2008. By adopting an integrated approach, the project is able to utilize the Group's by-products and is currently under normal operation.

Several projects on coordination of raw materials invested by the Group had put into operation in the first half of 2008 and they are now under smooth operation. Construction works of the 160,000-ton liquid alkali project had completed in March 2008 and commenced operation. The Group's annual production capacity of liquid alkali has increased to 280,000 tons from the original level of 120,000 tons, which is able to meet all of the Group's demand in its raw material Chlorine. The AHF project with annual production capacity of 15,000 tons constructed at Inner Mongolia raw material base commenced production in May. Annual production capacity of AHF of the Inner Mongolia raw material base has reached 30,000 tons. The abundant supply of fluorite in Inner Mongolia will serve as a secure source of raw material for the Group.

Product market analysis:

Looking back the year 2008, there was an obvious difference in operating environment before and after the Beijing Olympic Games. From January to August 2008, the Group experienced significant surge in prices of its major raw materials and finished products. However, the prolonged global financial crisis emerged in 2008 had slowed down the worldwide economic growth, resulting in serious inadequate market demands, sudden decrease in prices of raw materials and finished products, as well as abrupt drop in sales volume.

As to the PRC market, substantial increase in prices of industrial products across the nation was noted in the first half of 2008. During January to August 2008, prices of the Group's major raw materials and energy rose aggressively. Apart from fluoropolymers, selling prices and sales volume of other major products recorded growth with different magnitudes when compared with figures of last year. The Group is still having the largest market share in the PRC market.

Since the commencement of production of the Group's organic silicone, and being the Group's new product this year, selling price of the Group's organic silicone had been rising constantly due to inadequate supply to meet with demand in the PRC market and the surge in raw material prices, the highest price of which represented an approximate increment of 40% when compared with its price at initial production stage. Most of the Group's organic silicone products are supplied to the mainland market. We have established and consolidated solid and loyal customer base in China as we always sought to be faithful and trustworthy in business dealings with customers. In addition, we strive to strengthen our services and regard our relationship with customers as long-term strategic partnership in which we uphold stringent quality standards and exercise due care. Our customers are mainly based in Jiangsu and Guangdong, with the remaining based in Ningbo and Shanghai. Many customers have regarded us as their key suppliers. In particular, our strategic collaboration with Calt Silicone Rubber Products (Nanjing) Co. Ltd. (高爾特矽橡膠製品(南京)有限公司) combines the strength of both parties in terms of raw material supply, cost structure, brands and technology, in order to achieve a win-win synergy from the partnership. The collaboration has also laid down a solid foundation for the Group's future development.

Starting from September 2008, the mainland economy had been greatly affected by the economic decline and inadequate demand resulted from the global financial crisis. All of the Group's products experienced drastic market slowdown, drop in selling prices and sales volume as well. Prices of raw materials plummeted following a sharp rising trend that lasted for eight months during the year, bringing dramatic changes to the entire operating environment of the industry.

The performance of overseas markets was almost the same as the domestic market. Taking the full year into account, having affected by financial crisis since September, sales of the Group's key products, such as R22, PTFE and liquid alkali, in overseas markets represented a growth of approximately 5%, 19% and 87% respectively when compared with the corresponding period in 2007. This is mainly benefited from the Group's outstanding export performance recorded during the period from January to August 2008. However, starting from September, export sales volume tumbled and resulted in continuous downward adjustment in prices.

Future Prospect

The prevailing situation suggests that the impact of the global financial crisis is still spreading vertically and horizontally, together with the emergence of trade protectionism among developed countries, greater challenges would be faced by the global and domestic economy and market competition would be intensified. Despite the challenges from the financial crisis lying ahead in 2009, we have made preparations to cope with the crisis and challenges. Not only be fully aware of how serious and complicated the situation maybe, we have to be mentally sound and well-equipped to tackle with long-term difficulties. At the same time, we also put our eyes on the economy of scale achieved by the Group's production facilities, the Group's brand name and reputation established over the last 22 years and our strong team built after years of survival in such a highly competitive environment. In 2009, the State and governments at all levels have introduced an array of effective initiatives for fueling domestic demand with investments, boosting exports and cutting interest rates in order to mitigate the impact of the global financial crisis. If we can capitalize on our existing strengths and bring them into full play, and improve our inadequacy with determination and confidence ahead of difficulties, we must be able to turn crisis into opportunities in the year of 2009 and lead the Group into a brand new phase of development.

In 2009, the Group will continuously stick to its target of enhancing operating profits, focus on market competition, put in efforts to reduce resource consumption and expenses, identify potential areas and enhance efficiency, in order to further implement its reform on assessment scheme and give full play to its integrated strengths and synergetic effects. By adhering to the strategy of large market, high output, low cost and stable profit margins, and the target of maintaining leading position within the sector, the Group will, starting from its own efforts in technology advancement, realize its upgrade and transformation from a giant enterprise to a powerful enterprise.

Major work measures in 2009

1. Gives full play to its leading sales position in order to boost operational efficiency throughout the entire production chain. The Group will continue to maintain its leading position in the industry, increase the market share of its products and ensure smooth sales channels. This could immediately help maintaining the normal operation of facilities and achievement of operation efficiency. For this reason, the Group will: firstly, be persistent in adopting market oriented approach, make every endeavor to retain the Group's customers, acquire more orders, maintain sales volume and market share; secondly, continue to recover trade receivables, so as to minimize operational risk; thirdly, strive to enhance its market influence and operational quality, in order to maximize its sales profit margins. In the coming year, the Group will keep itself fully informed of accurate market information; acquire an understanding of the movements of competitors and the market, control market initiative; and fully capitalize on its economy of scale and brand influence by taking proactive initiatives, in order to acquire greater market share, sales volume and profits.

2. Focuses on product technology advancement, strives for better production line management and smooth operation, so as to minimize resource consumption. Low product prices have become the strongest competitive edge under current market situation. Enterprises with low resource consumption and stringent cost structure will be able to control an initiative in market competition. Moreover, the Group will make key technological breakthrough for high value-added products with good marketability, and launch new generation products. The Group will place great emphasis on the enhancement of conversion rate of raw materials and return rate of key products, exploration of possibilities for energy saving and wastage reduction related to its skills and equipments and identification of efficiency in deep-processing for key products and conversion of by-products. The Group will identify key focuses on skills and technological advancement, followed by investment of manpower, resources and monies in skills improvement and technological progress. Each of the Group's products should benchmark with the best technology and lowest resources consumption of competitors from both domestic and international markets before product launching. The Group will make good use of its incentive scheme to reward personnel who have made concrete contribution to the Group's technology innovation and skills advancement, and allow them to be rewarded on a timely basis, so as to signify Dongyue's human resources philosophy of "Realizing value with value and rewarding wealth with wealth".

3. Secures stable supply and procurement, making stable supply as the most important guarantee for low cost structure and source of profits. In 2009, the Group will strengthen its supply and procurement management, intensify price and quality control, as well as its series of reforms, such as zero-inventory control. Firstly, the Group will capitalize on its strengths in bulk procurement, in order to carry out procurement activities at low costs after making perfect price comparison. Secondly, the Group will strictly abide quality standards for raw materials before making any procurement decision, and improve the quality and prices monitoring system. Thirdly, the Group will select suppliers with guaranteed quality at competitive prices for establishment of long-term co-operation relationship based on mutual trust.

4. Strengthens the control of the management team and builds a quality management team with loyalty, high efficiency and good discipline. Affected by the global financial crisis, 2009 will be a year of competition among enterprises, relatively more reorganization exercises will be seen within the industry. Sluggish demand, severe market competition and price wars will be the overall market background in 2009, which will result in greater challenges for enterprises, even more for management team of enterprises. Strong collaboration among all staff will be crucial when coping with difficulties. Our management team will build up its confidence and unite all staff in overcoming adversity. Starting from itself, the management team will aim at reducing technological consumption, lowering costs, enhancing sales volume and maximizing the efficiency of technological facilities to make our products profitable and maximize our profits.

5. Enhances the management of safety and environmental protection to ensure safety, environmental awareness and no accident. The Group will regard safety and environmental protection as their top value and top priority. Starting from making every staff accountable for their efforts in safety and environmental protection, the Group will install intelligence devices and alarm system, advise all staffs to handle operation with extra care, put an end to any operational malpractices, prevent the occurrence of serious accidents, and bear in mind safety and environmental protection are important values of Dongyue.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results Highlights

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB3,962,159,000, representing an increase of approximately 48% from last year. The gross profit margin was approximately 17% (2007: 24%). During the year, the Group reported an operating profit of approximately RMB265,493,000 (2007: RMB368,091,000), and profit attributable to shareholders was approximately RMB120,747,000 (2007: RMB208,306,000), representing a decrease of approximately 42% from last year. Basic earnings per share were RMB0.06 (2007: 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 2008 and 2007:

	Year ended 31 December 2008			Year ended 31 December 2007		
	Turnover (RMB'000)	Gross profit (RMB'000)	Gross profit margin	Turnover (RMB'000)	Gross profit (RMB'000)	Gross profit margin
Refrigerants	**2,070,705**	**396,116**	**19%**	1,424,142	300,584	21%
Fluoropolymer materials	**745,988**	**86,020**	**12%**	646,140	129,862	20%
Other products[1]	**1,145,466**	**193,668**	**17%**	614,439	204,231	33%
	3,962,159	**675,804**	**17%**	2,684,721	634,677	24%

(1) Other products mainly include organic silicone products, dichloromethane and liquid alkali.

Analysis of Sales and Gross Profit

During the year under review, the refrigerants business remained to be the largest contributor to the Group's turnover, contributing approximately RMB2,070,705,000 which represented approximately 52% of the Group's turnover. The turnover increased by approximately 45% as compared with the same period of last year.

During the year, the turnover of the fluoropolymers business increased by 15% to approximately RMB745,988,000 from last year's approximately RMB646,140,000. The increase was mainly driven by increasing in turnover of PTFE, a large contributor to the fluoropolymers business. Compared with the same period of last year, the turnover of PTFE increased by 7%. The growth in the business was due to the increase of 1,366 tons in product sales volume in 2008 as compared with 2007 as a result of sales staff's aggressive efforts in opening up market channels.

For other products, the turnover increased by 86% to approximately RMB1,145,466,000 from last year's approximately RMB614,439,000, representing 29% of the Group's total turnover. The growth in the business was due to (i) organic silicone, being a new product commencing production and launch to the market in 2008, has a great contribution to the turnover of other product business; and (ii) the increase in other products sales.

With regard to gross profit, the Group's total gross profit margin was approximately 17% (2007: 24%), a decrease of 7% from last year. The decrease was mainly attributable to (i) the substantial fall in the gross profit of PTFE, a large contributor to the turnover of the fluoropolymers business, which was approximately 9% in 2008 (2007: 20%); (ii) the low gross profit margin of organic silicon products in other product business, which diluted the gross profit of other product business, and the substantial fall in the gross profit of dichloromethane, which was approximately 16% in 2008 (2007: 37%); and (iii) higher raw materials costs in the first half of 2008 than those in the second half, and more inventory accumulation in the first half of the year. Some inventories with high costs were not digested by the market in the first half. Prices fell as the financial tsunami impacted the sales market in the second half, resulting in a substantial fall in the gross profit of products with high inventory costs.

The contribution to the Group's total gross profit attributable to the other products accounted for approximately 29%. The gross profit margin dropped from last year's 33% to approximately 17% mainly due to (i) the substantial fall in the gross profit of dichloromethane as a result of the rise in costs due to changes in the prices of raw materials; and (ii) the low gross profit margin of organic silicon products in other product business, which diluted the gross profit of other product business.

The contribution made by the fluoropolymers business and the refrigerants business accounted for approximately 13% and 59% of the Group's total gross profit respectively.

The gross profit margin of the refrigerants business decreased from last year's 21% to 19% as a result of the substantial fall in the gross profit margin of HFC134a and other refrigerants due to (i) the sharp fall in product prices as a result of decreased demand for products under the impact of the economic crisis; (ii) high costs of 134A as a result of insufficient stream efficiency of the 10,000 ton-134A plant and increased costs of overhaul; (iii) high costs of 152A as a result of insufficient stream efficiency of the 10,000 ton-152A plant and the rise in calcium carbide prices, then leading to the rise in the costs of mixed refrigerants produced with 142B, first with the use of 142B and subsequently 152A; and (iv) increase in production cost of F22 due to the procurement price of major raw material hydrofluoric acid used in producing F22 rose by 37% in 2008 from 2007.

The gross profit margin of the fluoropolymers business decreased to approximately 12% from last year's 20% mainly due to (i) the decrease of around RMB723 in the sales prices in 2008, down 1.8% from 2007 as a result of market competition in the same trade; and (ii) the rise in cost of fluoropolymer resulting from the reasons mentioned in (iv) in the above since F22 is the major raw material used in producing fluoropolymer.

Capital expenditure

For the year ended 31 December 2008, the capital expenditure was approximately RMB581,989,000 (2007: RMB1,902,588,000), which was mainly used to purchase fixed assets and land use rights.

Liquidity and Financial Resources

As at 31 December 2008, the total assets of the Group amounted to approximately RMB5,594,937,000 (2007: RMB6,536,552,000), comprising shareholders' funds of approximately RMB1,898,906,000 (2007: RMB1,845,560,000), minority interests of approximately RMB264,951,000 (2007: RMB235,437,000) and long-term and current liabilities of approximately RMB3,431,080,000 (2007: RMB4,455,555,000). The current ratio of the Group was 0.8 (2007: 0.9).

The Group had a sound financial position. The cash and cash equivalents of the Group amounted to approximately RMB567,200,000 (2007: RMB1,455,583,000) as at 31 December 2008.

As at 31 December 2008, the bank loans of the Group were approximately RMB2,269,792,000 (2007: RMB2,139,597,000). The gearing ratio was 44% (2007: 25%). The Group had no financial leasing assets during the year.

Note:

(1) Current ratio = current assets/current liabilities

(2) Gearing Ratio = Net Debt/Total Capital

Net Debt = Total Borrowings - Cash and Cash Equivalents

Total Capital = Net Debt + Total Equity

The Group had no particular borrowing behavior due to seasonality. As at 31 December 2008, the Group's borrowings comprised non-current portion (more than 1 year) and current portion (within 1 year). The non-current portion of borrowings amounting to approximately RMB685,071,000 are wholly repayable within 5 years, and approximately RMB153,921,000 are repayable in more than 5 years. At present, borrowings amounting to RMB1,430,800,000 are repayable within 1 year. The Group's borrowings are made at a fixed interest rate and a floating rate with a weighted average rate of 7.61% per annum. The Group's borrowings are denominated in Renminbi and US dollars, amounting to approximately RMB1,783,026,000 and approximately US$71,221,000 (equivalent to approximately RMB486,766,000) respectively.

US$1 = RMB6.8346

Exchange rate was based on the numerical value on 31 December 2008.

Contingent liabilities

The Group was advised on 19 December 2007 that Dongyue F&S and Dongyue Organosilicone, 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 as a result, the Group shall pay to the China Bluestar Group damages which they estimated would be RMB100 million or more (the "Alleged Claims").

Beijing High Court issued a judgment on 18 May 2008 dismissing the actions filed by China Bluestar Group against Dongyue Organic Silicone and that Dongyue Organic Silicone is not the appropriate defendant. China Bluestar Group brought the case to China Supreme Court and China Supreme Court made the adjudication on 8 October 2008. The Court withdrew Beijing High Court's judgement and required Beijing High Court to retrial. Beijing High Court made the adjudication on 12 December 2008 and stated that Bejing High Court has the jurisdiction on this litigation. The Alleged Claims are still in process till the reporting date.

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 2008.

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 arise from the trade receipts from overseas customers.

In order to mitigate the potential impact of currency movements, the Group closely monitors its foreign exchange exposures and makes 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 3,649 employees in total as at 31 December 2008. The Group implemented a remuneration policy as well as bonus and share option schemes based on its profit results and the performance of employees. In addition, the Group provided benefits such as medical insurance and pensions to maintain its competitiveness.

Proposed Dividend

The Board declared a final dividend for 2008 of HK$0.025 per share to the shareholders whose names appear on the Register of Members on 22 May 2009 (Friday). Such final dividend will be paid on 26 June 2009 (Friday).

The Register of Members of the Company will be closed from 22 May 2009 to 29 May 2009, 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 21 May 2009.

Issue and Listing of Shares

On 10 December 2007, the Company's Shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of public offer and placing.

On 3 January 2008, the Company issued another 3,623,000 over-allotment shares.

As at 31 December 2008, the Company had a total of 2,083,623,000 shares in issue by way of public offer and placing, at a price of HK$2.16 per share.

Use of Net Proceeds from the IPO

On 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. On 3 January 2008, the Company issued another 3,623,000 over-allotment Shares.

As at 31 December 2008, the Company had in issue a total of 2,083,623,000 shares. The net proceeds from the IPO minus relevant costs amounted to approximately HK$1,051,549,270.

As at 31 December 2008, such proceeds had been used in the following ways as disclosed in the Prospectus:

- approximately HK$407.2 million (equivalent to approximately RMB359.1 million had been used to finance our expansion plans, including the expansion of plant capacities and the development of new product lines, of which:
  - approximately HK$168.2 million (equivalent to approximately RMB148.4 million) was used for our refrigerants business;
  - approximately HK$189.3 million (equivalent to approximately RMB166.9 million) was used for our liquid alkali business;
  - approximately HK$49.7 million (equivalent to approximately RMB43.8 million) was used for polymers business;
- approximately HK$43.2 million (equivalent to approximately RMB38.1 million) was used to finance the construction plans for our organic silicone products, which include the construction of new manufacturing facilities for the production of organic silicone monomers and intermediates in our Industrial Park;
- approximately HK$157.7 million (equivalent to approximately RMB139.1 million) was 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
- HK$52.6 million (equivalent to approximately RMB46.4 million) was used to provide funding for our working capital and other general corporate purposes.

As of 31 December 2008, any of our net proceeds that were not applied immediately to the above purposes were deposited as short-term demand deposits with licensed banks in Hong Kong and/or the PRC and/or with financial institutions in Hong Kong.

HK$1 = RMB0.8819

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Directors

The board of directors of the Company is responsible for the management and operation of the Company's businesses and has the general authority in this regard. Certain information of the members of the board of directors is as follows:

Executive Directors

Mr. ZHANG Jianhong, aged 49, 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, Top 10 News Figures of Shandong Province in 2006 and the most outstanding CEO of the Year chosen by a Hong Kong magazine "資本才俊 Capital CEO". Mr. Zhang has also been the vice chairman of CAOFSMI's executive board since September 2006 and will continue to serve as the vice chairman until September 2010. Mr. Zhang did not have any other directorships in listed companies.

Mr. FU Kwan, aged 52, 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, Hunan Province, 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, the vice chairman of Hunan Federation of Industry & Commerce and the chairman of Chamber of Commerce of Beijing and Hunan Enterprises (北京湖南企業商會). 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 non-executive director of Wang-Zheng Sdn. Bhd., a company listed on the Kuala Lumpur Stock Exchange. He has also, in the past three years, been the chairman of the board of directors and executive director of Macro-Link International Holdings Limited (Stock code: 0472, now known as 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.

Mr. LIU Chuanqi, aged 59, 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 Chemicals, Dongyue Polymers, Dongyue Fluorine Silicone and Dongyue Organic Silicone. 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. 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.

Mr. CUI Tongzheng, aged 47, 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 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 manager of Dongyue Chemicals. Mr. Cui holds a bachelor degree from China Statistics Cadre College as well as a MBA diploma from Shanghai Jiao Tong University. Mr. Cui Tongzheng does not have any other directorships in listed companies.

Mr. YANG Erning, aged 48, 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 Fluorine 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.

Mr. ZHANG Jian, aged 36, 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 Economics and Law 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 JLF Investment Company Limited (Stock code: 0472), 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.

As a director representative of substantial shareholders (as well as non-controlling shareholders) of the board of directors of JLF Investment Company Limited, Mr Zhang Jian does not participate in the daily operations of JLF Investment Company Limited for the effective time management to serve the Company and the assumption of his responsibilities as a director.

Non-executive Director

SHAW Sun Kan, Gordon, aged 44, 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 experience in private equity and the finance industry in Asia. Prior to joining Baring Private Equity Asia Limited, he worked for Citibank in Hong Kong and was a director at AIG Investment Corp (Asia) Ltd. and an 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. He is 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.

Independent non-executive Directors

YUE Run Dong, aged 69, 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 was the dean and a technician of Shen Yang Chemical Research Institute, the dean of Chengdu Chen Guang Chemical Research Institute and the subdean of Chengdu Silicone Research Centre. Recently, he has taken the post of the manager of the technology department of China National Bluestar Group and the dean as well as the chairman of Bluestar Institute of Chemical Technology. Mr Yue is also the chairman of China Association of Organic Fluorine and Silicone Material Industry. Mr. Yue Run Dong does not have any other directorships in listed companies.

LIU Yi, aged 63, 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.

TING Leung Huel, Stephen MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD, aged 55, 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, JLF Investment Company Limited, Computer and Technologies Holdings Limited and Texhong Textile Group Limited. 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 53, 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. ZHANG Heng, aged 41, 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 and 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. WANG Weidong, aged 45, has worked for the Group since September 1996 and is responsible for technical matters and projects. 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 holds a bachelor degree in Chinese Literature.

Mr. YU Xiuyuan, aged 43, 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).

Qualified Accountant and Company Secretary

WONG Kwok Kuen, aged 36, 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.

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements for the year ended 31 December 2008.

Corporate Reorganisation

Pursuant to an agreement dated 8 December 2008, the Company agreed to purchase the 20.09% shares of Dongyue Polymers owned by Dongyue Chemicals at a consideration of RMB41 million. The purchase price for the 20.09% shares of Dongyue Polymers is based on the investment cost of the unaudited financial statement of Dongyue Chemicals as at 30 November 2008.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 34 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 36.

The Director now recommend the payment of a final dividend of HK$0.025 (2007: HK$0.04) in respect of the year ended 31 December 2008.

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 2008, the Company's reserve available for cash distribution as computed in accordance with the Companies Law (2003 Revision) of the Cayman Islands, amounted to RMB1,353,962,000, of which RMB45,939,000 has been proposed as final dividend for the year.

Pre-emptive Right

There is no provision for pre-emption right under the Company's articles 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 2008 and the Company has not redeemed any of its shares during the year ended 31 December 2008.

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 of the Stock Exchange 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 Stock Exchange.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

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 date on which dealings in the Shares first commence on the Stock Exchange (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 2008, the following options have been granted to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme on 16 November 2007, details of which are set out below:

	Number of options								
	held at 1st January 2008	granted during the year	expired during the year	exercised during the year	held at 31st December 2008	Exercise price HK$	Grant date	Exercisable from	Exercisable until
Mr. Zhang Jianhong	10,210,909	–	–	–	10,210,909	2.16	10 Dec 2007	10 Dec 2008	10 Dec 2011
Mr Liu Chuanqi	9,076,364	–	–	–	9,076,364	2.16	10 Dec 2007	10 Dec 2008	10 Dec 2011
Mr Cui Tongzheng	7,374,544	–	–	–	7,374,544	2.16	10 Dec 2007	10 Dec 2008	10 Dec 2011
Mr Yang Erning	1,710,818	–	–	–	1,710,818	2.16	10 Dec 2007	10 Dec 2008	10 Dec 2011
Mr. Zhang Jian	567,273	–	–	–	567,273	2.16	10 Dec 2007	10 Dec 2008	10 Dec 2011
Others	27,220,092	–	–	–	26,596,092	2.16	10 Dec 2007	10 Dec 2008	10 Dec 2011

The weighted average fair value of options granted during the period determined using the Black-Scholes 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 27 in Notes to the Consolidated Financial Statements 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 (the "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, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for shares of the Company in aggregate not exceeding 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 (the "Grant") must be taken up within 28 days form the date of Grant, with a payment of HK$1.00 as consideration for the agent. The exercise price of the 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 of Grant; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of Grant; and (iii) the nominal value of the Shares. The total number of shares available for issue under the Scheme is approximately 208 million which represents approximately 10% of the total issued share capital as at the date of this annual report. The options are exercisable at any time during a period of not more than 10 years from the date of Grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

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, Mr. Liu Chuangqi, Mr. Fu Kwan, Mr. Zhang Jian and Mr. Yang Erning hold office only until the Annual General Meeting ("AGM") and, being eligible, will offer themselves for re-election at the AGM.

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 2 and 3 years respectively commencing from 31 December 2007. 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 12.

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 with the relevant PRC regulations.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirement prescribed by the Mandatory Provident Scheme Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group is required to contribute 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 2008, 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	Capacity	Number of Shares	% of issued share capital
Mr. ZHANG Jianhong	Corporate interest[1]	166,551,273 (L)	7.99 (L)
	Benefical interest	10,210,909 (L)	0.49 (L)
Mr. FU Kwan	Corporate interest[2]	731,781,818 (L)	35.12 (L)
Mr. LIU Chuanqi	Corporate interest[3]	87,360,000 (L)	4.19 (L)
	Beneficial interest	9,076,364 (L)	0.44 (L)
Mr. CUI Tongzheng	Corporate interest[4]	148,852,363 (L)	7.14 (L)
	Beneficial interest	7,374,544 (L)	0.35 (L)
Mr. YANG Erning	Beneficial interest	1,701,818 (L)	0.08 (L)
Mr. ZHANG Jian	Beneficial interest	567,273 (L)	0.03 (L)

Notes:

(1) Pursuant to the SFO, as Mr. Zhang Jianhong held 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 166,551,273 Shares(L) held by Dongyue Team Limited.

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

(3) These Shares are directly held by Dongyue Wealth Limited which is wholly owned by Mr. Liu Chuanqi. Mr. Liu is deemed to be interested in the 87,360,000 Shares(L) held by Dongyue Wealth Limited under the SFO.

(4) Pursuant to the SFO, as Mr. Cui Tongzhen held 100% interest in Dongyue Initiator Limited, Mr. Cui is deemed to be interested in the 148,852,363 Shares(L) held by Dongyue Initiator Limited.

(5) L:Long Position

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 were required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers, 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 2008, 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 or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of shares interested	% of issued share capital
Macro-Link International	Beneficial interest[1]	731,781,818 (L)	35.12 (L)
Macro-Link SDN. BHD.	Corporate interest[1]	731,781,818 (L)	35.12 (L)
Baring Private Equity Asia GP III Limited	Corporate interest[2]	283,636,364 (L)	13.61 (L)
Baring Private Equity Asia GP III, L.P.	Corporate interest[2]	283,636,364 (L)	13.61 (L)
Baring Private Equity Asia III Holding (9A) Limited	Corporate interest[2]	283,636,364 (L)	13.61 (L)
Salata Jean	Corporate interest[2]	283,636,364 (L)	13.61 (L)
The Baring Asia Private Equity Fund III, L.P. 1	Corporate interest[2]	207,943,080 (L)	9.98 (L)
International Finance Corporation	Beneficial interest	141,818,182 (L)	6.81 (L)
Dongyue Team Limited	Beneficial interest[3]	166,551,273 (L)	7.99 (L)
Dongyue Initiator Limited	Beneficial interest[4]	148,852,363 (L)	7.14 (L)
Bank of China Group Investment Limtied	Corporate interest[5]	108,000,000 (L)	5.18 (L)
Bank of China Limtied	Corporate interest[5]	108,000,000 (L)	5.18 (L)
Central SAFE Investments Limited	Corporate interest[5]	108,000,000 (L)	5.18 (L)
Fulland Enterprises Corp.	Corporate interest[5]	108,000,000 (L)	5.18 (L)

Notes:

(1) These Shares are directly held by Macro-Link International Investment Co., Ltd. which in turn owned by Macro-Link SDN. BHD., a company in which Mr. Fu Kwan owns a 40% interest.

(2) 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 283,636,364 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.

(3) Pursuant to the SFO, as Mr. Zhang Jianhong held 100% interest in Dongyue Team Limited, Mr. Zhang Jianhong is deemed to be interested in the 166,551,273 Shares(L) and 0 Shares(S) held by Dongyue Team Limited.

(4) Pursuant to the SFO, as Mr. Cui Tongzheng held 100% interest in Dongyue Initiator Limited, Mr. Cui Tongzheng is deemed to be interested in the 148,852,363 Shares(L) and 0 Shares(S) held by Dongyue Initiator Limited.

(5) The 108,000,000 Shares were directly held 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.

(6) L: Long Position

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	Percentage of issued share capital /registered capital
Dongyue F & S	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78%
Zibo Dongyue Chlorine Co., Ltd	Shandong Hi Tech Investment Co., Ltd. (Note)		
Inner Mongolia Dongyue Peak Flourine Chemicals Co., Ltd	Chifeng Peak Copper Co., Ltd.	Corporate	29%
Inner Mongolia Dongyue Peak Flourine Chemicals Co., Ltd	Xilin Haote Tonghe Mining Company Limited	Corporate	20%
Shandong Dongyue Organosilicone Material Co., Ltd	Hong Da Mining Industry Co., Ltd.	Corporate	16%
Guangdong Dongyue Fluorine Chemical Co., Ltd	Xiamen Hui Guong Yuan	Corporate	40%
Dongyue Silicone Rubber Co., Ltd	Calt Silicone Rubber Products (Nanjing) Co., Ltd	Corporate	45%
Chifeng HuaSheng Mining Co., Ltd	Chifeng Peak Copper Co., Ltd	Corporate	20%

Note: Shandong Hi Tech Investment Co., Ltd. is a 16.78% equity holder in Dongyue F & S which, in turn, owns 100% of Zibo Dongyue Chlorine Co., Ltd. Consequently, Shandong Hi Tech Investment Co., Ltd. indirectly owns more than 10% of Zibo Dongyue Chlorine Co., Ltd.

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 2008, 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 or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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	14.41%
– five largest suppliers combined	38.37%
Sales	
– the largest customer	7.29%
– five largest customers combined	16.22%

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

On 29 July 2008, Dongyue Polymers and Shandong Hi Tech Investment Co,. Ltd. ("Shandong Hi Tech Investment") entered into an agreement (the "Agreement") pursuant to which Dongyue Polymers agreed to acquire 16.78% equity interest in Dongyue F & S from Shandong Hi Tech Investment at the consideration of RMB117,500,000, (the "Consideration") which shall be satisfied by Dongyue Polymers in cash at completion. The Consideration was arrived at after arm's length negotiations between the Parties and on normal commercial terms. The Consideration was agreed by reference to the financial position and prospects of Dongyue F & S, including its net asset value of approximately RMB608.59 million as at 30 June 2008 according to its unaudited management accounts for the six months ended 30 June 2008.

Immediately prior to the entering into the Agreement, the Company owned 69.79% direct equity interest in Dongyue F & S and owned another 13.43% equity interest through its interest in Dongyue Chemicals. Shandong Hi Tech Investment owns the remaining 16.78% equity interest in Dongyue F & S and is a substantial shareholder of Dongyue F & S. The entering into the Agreement constitutes a connected and discloseable transaction for the Company under the Listing Rules.

Dongyue F & S is engaged in the manufacture and sale of methane chloride (including CFM, dichloromethane and chloromethane), which are essential raw materials for the Group's refrigerant production. The Directors are of the view that the acquisition under the Agreement is a good opportunity for the Company to increase its effective interest of Dongyue F & S from 82.79% to 99.46% and thus, enable the Group to have larger share of return in Dongyue F & S and enhance its vertically-integrated production value chain and production capabilities and facilities for ranging from the upstream raw materials, such as chlorine and CFM, to downstream refrigerants and fluoropolymers. As at 31 December 2008, the transaction has not been completed.

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

Continuing connected transactions for the year 2008		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") ("CPC Agreement")	(i)	155	64
(II) Framework agreement for the purchase of fluorspar from Xilin Haote Tonghe Mining Company Limited ("XT") ("XT Agreement")	(ii)	52	16
(III) Framework agreement for the purchase of industrial salt from Dongying Macrolink Salt Co., Ltd. ("DMS") ("DMS Agreement")	(iii)	22	17
(IV) Framework agreement for the supply of organic silicone intermediate and organic silicone rubber to Calt Silicone Rubber Products (Nanjing) Co., Ltd. ("Calt Silicone")	(v)	73	61

Note:

(i) The purpose of CPC Agreement is for the purpose of production of AHF. CPC is a connected person by virtue of it being a substantial shareholder of one of subsidiaries, Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. ("Dongyue Peak"). CPC entered into the Revised CPC Agreement dated 3 May 2008 with Dongyue Peak pursuant to which CPC has agreed to supply sulphuric acid, electricity and steam to any member of our Group for a period up to 31 December 2010.

The purchase prices for the sulphuric acid, electricity and steam payable by the Group to CPC shall be paid by means of cheque or remittance with one month credit term and on normal commercial terms which will be determined after arm's length negotiation between the parties with reference to the then prevailing market price of sulphuric acid, electricity and steam that are no less favorable than those offered to independent third parties. There is no provision in the CPC Agreement requiring the Group to exclusively source sulphuric acid, electricity and steam from CPC.

(ii) The purpose of XT Agreement is for the purpose of production of HCFC22. XT is a connected person by virtue of it being a substantial shareholder in one of our subsidiaries, Dongyue Peak. XT entered into the Revised XT Agreement dated 3 May 2008 with Dongyue Peak, pursuant to which XT has agreed to supply fluorspar to any member of our Group for a period up to 31 December 2010.

The purchase price for the fluorspar payable by the Group shall be paid by means of cheque or remittance with one month credit term and on normal commercial terms which will be determined after arm's length negotiation between the parties with reference to the then prevailing market price of fluorspar that is no less favourable than that offered to independent third parties. There is no provision in the XT Agreement reguiring the Group to exclusively source fluorspar from XT.

(iii) The purpose of DMS Agreement is for the purpose of production of liquid alkali. 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, Macro-Link International Investment Co., Ltd. DMS entered into the Revised DMS Agreement dated 3 May 2008 with Dongyue F & S, pursuant to which DMS has agreed to supply industrial salt to any member of our Group for a period up to 31 December 2010.

The purchase price for the industrial salt payable by the Group shall be paid by means of cheque or remittance with one month credit term and on normal commercial terms which will be determined after arm's length negotiation between the parties with reference to the then prevailing market price of industrial salt that is no less favourable than that offered to independent third parties. There is no provision in the DMS Agreement requiring the Group to exclusively source industrial salt from DMS.

(iv) On 3 December 2008, Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone") and Shandong Dongyue Silicone Rubber Co., Ltd. ("Dongyue Silicone Rubber"), both subsidiaries of the Company, and Calt Silicone entered into a supply agreement in relation to the supply of organic silicone intermediate and organic silicone rubber to Calt Silicone for the period from the 3 December 2008 to 31 December 2010 (the "Supply Agreement"). Calt Silicone is a substantial shareholder of Dongyue Silicone Rubber and is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Supply Agreement constitute continuing connected transactions under the Listing Rules.

The purchase prices for the organic silicone intermediate and organic silicone rubber payable by Calt Silicone to the Group shall be paid by means of cheque or remittance on normal commercial terms which will be determined after arm's length negotiation between the parties with reference to the then prevailing market price of organic silicone intermediate and organic silicone rubber. There is no provision in the Supply Agreement requiring the Group to exclusively supply organic silicone intermediate and organic silicone rubber to Calt Silicone.

Dongyue Silicone Rubber was established to engage in the production and processing of downstream organic silicone products and in line with the Group's strategy, the Group will scale up its production of downstream organic silicone products at such time as appropriate. As the Group's production capacity in producing organic silicone monomers expands, the scale of deep-processing of organic silicone also expands. The transactions contemplated under the Supply Agreement will enable the Group to utilize its production facilities, secure a source of income from trading of organic silicone intermediate and organic silicone rubber and bring reasonable return to the Group.

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 connected transaction 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) the aforesaid continuing connected transactions have not exceeded the relevant caps disclosed in the relevant announcements and/or circulars of the Company.

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) the aforesaid continuing connected transactions have not exceeded the relevant caps disclosed in the relevant announcements and/or circulars of the Company.

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

No significant events occurred after the balance sheet date.

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 2008, they have fully complied with the required standards.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who will be retired until the forthcoming AGM. Besides, a resolution of Deloitte Touche Tohmatsu being appointed as the auditor will be proposed to the forthcoming AGM.

Closure of register of members

The register of members of the Company will be closed from 22 May 2009 to 29 May 2009, 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 21 May 2009.

On behalf of the Board

Zhang Jianhong
Chairman

Hong Kong, 16 April 2009

REPORT ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2008, 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.

A 2.1 Mr. Zhang Jianhong is the Chairman and chief executive officer of the Company.

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. The attendance were as follows:

Name of Director	Attendance
Executive Director	
Mr. Zhang Jianhong	5/5
Mr. Fu Kwan	3/5
Mr. Liu Chuanqi	5/5
Mr. Cui Tong Zheng	5/5
Mr. Yang Erning	5/5
Mr. Zhang Jian	4/5
Independent Non Executive Director	
Mr. Ting Leung Huel, Stephen	3/5
Mr. Yue Run Dong	4/5
Mr. Liu Yi	4/5
Non-Executive Director	
Mr. Shaw Sun Kan, Gordon	3/5

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 12 to 15 under the section "Directors and Senior Management".

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.Liu Chuangi, Mr. Fu Kwan, Mr. Yang Erning and Mr. Zhang Jian 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 every three years.

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. 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 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 2008.

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. For the year ended 31 December 2008, RC had reviewed the remuneration policy and remuneration packages.

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 had 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 2008, the Directors have:

1. selected suitable accounting policies and applied them consistently;
2. approved adoption of all HKFRSs;
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 34 of the 2008 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 the annual review of internal control evaluations by Pricewaterhousecoopers, 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 had 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.

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 have 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 2008, total audit fee amounted approximately RMB4,105,000 paid to PricewaterhouseCoopers were related to audit services and RMB585,000 related to consulting service.

The Audit Committee recommended the appointment of Deloitte Touche Tohmatsu to be the auditor of the Group in 2009.

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 36 to 108, which comprise the consolidated and company balance sheets as of 31 December 2008, 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 as to 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 2008, 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 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Revenue	5	3,962,159	2,684,721
Cost of sales	26	(3,286,355)	(2,050,044)
Gross profit		675,804	634,677
Selling and marketing expenses	26	(162,946)	(120,356)
Administrative expenses	26	(245,387)	(157,360)
Other income	24	25,119	25,038
Other losses – net	25	(27,097)	(13,908)
Operating profit		265,493	368,091
Finance income		21,069	18,210
Finance costs		(155,398)	(94,946)
Finance costs – net	28	(134,329)	(76,736)
Share of profit/(loss) of an associate	9	425	(214)
Profit before income tax		131,589	291,141
Income tax expense	29	6,789	(42,311)
Profit for the year	30	138,378	248,830
Attributable to:			
Equity holders of the Company		120,747	208,306
Minority interests		17,631	40,524
		138,378	248,830
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	31	0.06	0.14
– diluted	31	0.06	0.14
Dividend	32	45,939	78,044

The notes on pages 42 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	3,421,976	3,200,309
Lease prepayments	*7*	212,177	204,409
Intangible assets	*8*	8,789	10,693
Interest in an associate	*9*	14,058	9,633
Available-for-sale financial assets	*11*	6,000	6,000
Deferred income tax assets	*23*	96,723	54,513
		3,759,723	3,485,557
Current assets			
Inventories	*12*	487,257	455,601
Trade and bill receivables	*13*	479,579	305,597
Prepayments, deposits and other receivables	*14*	218,240	227,767
Pledged bank deposits	*15*	82,938	606,447
Cash and cash equivalents	*16*	567,200	1,455,583
		1,835,214	3,050,995
Total assets		5,594,937	6,536,552
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	197,854	197,515
Reserves	*18*		
– Proposed final dividend	*32*	45,939	78,044
– Others		1,655,113	1,570,001
		1,898,906	1,845,560
Minority interests in equity		264,951	235,437
Total equity		2,163,857	2,080,997

The notes on pages 42 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*21*	838,992	892,768
Deferred income	*22*	180,281	168,789
Deferred income tax liabilities	*23*	3,629	–
		1,022,902	1,061,557
Current liabilities			
Trade and bill payables	*19*	569,659	1,575,173
Accruals and other payables	*20*	400,474	523,297
Borrowings	*21*	1,430,800	1,246,829
Current income tax liabilities		7,245	48,699
		2,408,178	3,393,998
Total liabilities		3,431,080	4,455,555
Total equity and liabilities		5,594,937	6,536,552
Net current liabilities		(572,964)	(343,003)
Total assets less current liabilities		3,186,759	3,142,554

ZHANG Jianhong
Director

CUI Tongzheng
Director

The notes on pages 42 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	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 2007	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(a))*	57,954	306,767	–	364,721	–	364,721
Repurchase and new issue of shares *(note 17(b))*	(189,996)	189,996	–	–	–	–
Capitalisation of share premium *(note 17(c))*	121,895	(121,895)	–	–	–	–
Issue of new shares upon listing *(note 17(d))*	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
Profit for the year	–	–	120,747	120,747	17,631	138,378
Transfer	–	12,271	(12,271)	–	–	–
Premium paid to increase share holding in subsidiaries	–	(19,604)	–	(19,604)	19,604	–
Proceeds from shares issued	339	6,966	–	7,305	–	7,305
Share issue expenses	–	(202)	–	(202)	–	(202)
Contributions from minority shareholders	–	–	–	–	4,068	4,068
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	(11,789)	(11,789)
Share options granted to directors and employees	–	19,053	–	19,053	–	19,053
Dividend relating to 2007	–	–	(73,953)	(73,953)	–	(73,953)
Balance at 31 December 2008	197,854	1,433,617	267,435	1,898,906	264,951	2,163,857

The notes on pages 42 to 108 are an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	*33*	315,398	794,049
Interest paid		(192,886)	(142,286)
Income tax paid		(73,246)	(34,613)
Net cash from operating activities		49,266	617,150
Cash flows from investing activities			
Available-for-sale financial assets			
– reduction and return of capital		–	6,000
Acquisition of further interests in subsidiaries *(note 18(b)(i))*		–	(51,200)
Investment in associate		(4,000)	–
Purchases of property, plant and equipment (PPE)		(994,003)	(1,302,403)
Proceeds from disposal of PPE		630	1,815
Purchases of land use rights and intangible assets		(1,289)	(169,730)
Interest received		21,069	18,210
Net cash used in investing activities		(977,593)	(1,497,308)
Cash flows from financing activities			
Cash proceeds from issuing shares in subsidiaries to minority shareholders		4,068	40,500
Proceeds form issuance of			
– redeemable preference shares		(202)	268,135
– ordinary shares (net of share issue expenses)		7,305	991,405
Proceeds from borrowings		1,965,713	2,153,398
Repayments of borrowings		(1,810,957)	(1,372,566)
Dividends paid		(73,953)	(32,500)
Dividends paid to minority shareholders of subsidiaries		(11,416)	(7,500)
Net cash from financing activities		80,558	2,040,872
Net (decrease)/increase in cash and cash equivalents		(847,769)	1,160,714
Cash and cash equivalents at beginning of the year		1,455,583	315,159
Exchange losses on cash		(40,614)	(20,290)
Cash and cash equivalents at end of the year	*16*	567,200	1,455,583

The notes on pages 42 to 108 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		11	–
Investments in subsidiaries	*34*	1,518,884	497,824
		1,518,895	497,824
Current assets			
Prepayments, deposits and other receivables	*14*	9,615	5,957
Cash and cash equivalents	*16*	35,498	1,042,651
		45,113	1,048,608
Total assets		1,564,008	1,546,432
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*17*	197,854	197,515
Reserves	*18*		
– Proposed final dividend		45,939	78,044
– Others		1,308,023	1,259,616
		1,551,816	1,535,175
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*23*	3,629	–
Current liabilities			
Accruals and other payables	*20*	8,563	11,257
Total liabilities		12,192	11,257
Total equity and liabilities		1,564,008	1,546,432
Net current assets		36,550	1,037,351
Total assets less current liabilities		1,555,445	1,535,175

ZHANG Jianhong
Director

CUI Tongzheng
Director

The notes on pages 42 to 108 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.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 December 2007.

As at 31 December 2008, the Company is jointly controlled by Macro-Link SDN. BHD. and three senior management members of the Group, Mr. Zhang Jianhong, Mr. Liu Chuanqi, and 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 16 April 2009.

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

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.

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.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Amendment and interpretations effective in 2008 and adopted by the Group

The IAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

IFRIC – Int 11, 'IFRS 2 – Group and treasury share transactions, 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. This interpretation does not have an impact on the Group's financial statements.

IFRIC – Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', 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. This interpretation does not have any impact on the Group's financial statements, as the Group has no defined benefit plan.

(b) Interpretations effective in 2008 but not relevant to the Group's operations

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

IFRIC – Int 12 'Service Concession arrangements'

(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 2009 or later periods, but the Group has not early adopted them:

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)

IAS 1 (Revised) 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

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. The Group will apply IAS (Revised) from 1 January 2009.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IAS 32 (Amendment) 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of 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 as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 (Amendment) and IAS 1(Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

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 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply IAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

IFRS 3 (Revised) 'Business Combination' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IFRS 8 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard 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.

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)

IFRIC – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC – Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

IASB's annual improvements project published in May 2008

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009)

The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009.

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)

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

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)

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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. Summary of significant accounting policies (Continued)

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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in consolidated financial statements 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. Gains or losses on disposal to 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. Summary of significant accounting policies (Continued)

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 return that are different from those of segments operating in other economic environments.

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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains' net.

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.

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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 consolidated income statement.

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. Summary of significant accounting policies (Continued)

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

2.9.1 Classification

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.

(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.

2. Summary of significant accounting policies (Continued)

2.9 Financial assets (Continued)

2.9.2 Recognition and measurement

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 consolidated income statement as gains and losses from investment securities. Dividends on available-for-sale equity instruments are recognised in the consolidated 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 profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated 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 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 consolidated 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 consolidated income statement over the period of the borrowings using the effective interest method.

2. Summary of significant accounting policies (Continued)

2.15 Borrowings and borrowing costs (Continued)

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 consolidated income statement in the year in which they are incurred.

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 tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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.

2. Summary of significant accounting policies (Continued)

2.17 Current and deferred income tax (Continued)

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.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused investment tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused ivestment tax credits 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.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. 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 is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated 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.

2. Summary of significant accounting policies (Continued)

2.18 Employee benefits (Continued)

(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.

2.21 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.

2. Summary of significant accounting policies (Continued)

2.21 Recognition of revenue and income (Continued)

(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 gas 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), including upfront payment made for leasehold land and land use rights, are charged to the consolidated income statement on a 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;

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

2. Summary of significant accounting policies (Continued)

2.23 Research and development (Continued)

(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 Company'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.

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) were received from the listing proceeds, and when the Group earned revenue from overseas customers and when settling 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 converts 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 2008, if RMB had strengthened/weakened by 10% against USD with all other variables held constant, post-tax profit for the year would have been RMB22,680,000 (2007: RMB15,758,000) 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 2008, if RMB had strengthened/weakened by 10% against HKD with all other variables held constant, post-tax profit for the year would have been RMB446,000 (2007: 99,503,000) 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. An ageing analysis of trade and bill receivables s set out in note 13 to the consolidated financial statements. 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 16.2% of total revenue for the year ended 31 December 2008.

The Group also signed insurance contract with China Export & Credit Insurance Company to limit its credit exposure on export sales. According to the agreement, the Group will get 80% to 90% compensation from the insurance company if they can not get payment from their debtors.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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

	As at 31 December	
	2008 RMB'000	2007 RMB'000
Fully performing under credit term	434,072	255,642
Past due and partially impaired	59,868	61,929
Total trade and bill receivables	493,940	317,571
Less: provision for impairment	(14,361)	(11,974)
Trade and bill receivables – net	479,579	305,597

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.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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 2008						
Trade and bill payables	**226,395**	**167,566**	**175,698**	**–**	**–**	**569,659**
Borrowings	**84,058**	**502,474**	**892,487**	**796,090**	**167,211**	**2,442,320**
	310,453	**670,040**	**1,068,185**	**796,090**	**167,211**	**3,011,979**
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

(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 are 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 2008, 56% (2007: 58%) of the Group's borrowings bear fixed interest rates.

The weighted average effective interest rates on floating rate borrowings at 31 December 2008 were 6.84% (2007: 7.35%) per annum. At 31 December 2008, 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 RMB1,741,000 (2007: RMB1,082,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

3. Financial risk management (Continued)

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.

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.

The gearing ratios at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008 RMB'000	2007 RMB'000
Total borrowings (note 21)	2,269,792	2,139,597
Less: Cash and bank deposits (note 16)	(567,200)	(1,455,583)
Net debt	1,702,592	684,014
Total equity	2,163,857	2,080,997
Total capital	3,866,449	2,765,011
Gearing ratio	44%	25%

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 RMB74,212,000 higher or RMB90,703,000 lower.

(b) Deferred tax

Deferred tax assets relating to certain temporary differences, tax losses and tax credits are recognised as management considers it is probable that the future taxable profit will be available against which the temporary differences, tax losses or tax credit 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.

Deferred income tax assets are recognised for investment credit and tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of Rmb 33,793,000 (2007: nil) in respect of investment credit amounting to Rmb 84,533,000 (2007: nil) that can be carried forward against future taxable income.

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 reviews the debtor settlement status periodically and reassesses the sufficiency of provision accordingly.

(b) Impairment of property, plant and equipment

The Group follows the guidance of IAS 36 to determine when a property, plant and equipment is impaired in accordance with the accounting policy stated in note 2.8.

The Group's management determines the asset's value in use based on cash flow projections until the end of an asset's useful life, and determines the asset's fair value less costs to sell based on cash flow projections with agelong useful life after consider the reset cost to keep the assets operating.

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 silicones 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.

5. Segment information (Continued)

5.1 Primary reporting format – business segments (Continued)

The segment revenue (representing turnover of the Group), results and capital expenditure for the years ended 31 December 2008 and 2007 are as follows:

Year ended 31 December 2008

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Total gross segment revenue	4,276,221	745,988	430,514	97,246	(1,587,810)	3,962,159
Inter-segment revenue	(1,587,810)	–	–	–	1,587,810	–
Revenue*	2,688,411	745,988	430,514	97,246	–	3,962,159
Segment result	267,307	54,449	6,527	7,671	(13,998)	321,956
Unallocated costs						(56,463)
Finance costs – net *(note 28)*						(134,329)
Share of profit of an associate						425
Profit before income tax						131,589
Income tax expense *(note 29)*						6,789
Profit for the year						138,378
Other segment items						
Depreciation *(note 6)*	231,319	72,836	41,986	1,338	–	347,479
Amortisation *(notes 7 and 8)*	5,016	943	2,446	–	–	8,405
Capital expenditure	489,963	47,789	44,115	122	–	581,989

* Revenue in a segment also includes the sales of by-products and scraps. The CERs sales amount of RMB211,823,000 (2007: RMB135,061,000)are included in the Refrigerants segment. The corresponding CERs results included in Refrigerants segment is RMB180,171,000 in 2008 (2007: RMB126,077,000).

5. Segment information (Continued)

5.1 Primary reporting format – business segments (Continued)

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 28)*						(76,736)
Share of profit of an associate						(214)
Profit before income tax						291,141
Income tax expense *(note 29)*						(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

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), including additions resulting from acquisitions through business combination.

5. Segment information (Continued)

5.1 Primary reporting format – business segments (Continued)

The segment assets and liabilities at 31 December 2008 and 2007 for the years then ended are as follows:

As at 31 December 2008

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	4,007,634	912,709	1,433,440	45,124	(920,751)	5,478,156
Interest in an associate						14,058
Unallocated assets						102,723
Total assets						5,594,937
Segment liabilities	1,632,710	220,826	208,603	8,563	(920,288)	1,150,414
Unallocated liabilities						2,280,666
Total liabilities						3,431,080

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

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:

	2008 RMB'000	2007 RMB'000
PRC	**2,480,630**	1,569,921
Japan	**240,736**	101,850
Korea	**122,359**	96,793
India	**38,593**	53,485
The United Arab Emirates	**50,964**	17,858
Thailand	**40,237**	23,637
Singapore	**66,488**	54,296
Malaysia	**21,867**	20,578
Africa	**62,948**	51,497
Europe	**213,977**	313,114
America	**266,081**	202,169
Other countries/regions	**357,279**	179,523
Total	**3,962,159**	2,684,721

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

6. Property, plant and equipment

Group

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Furniture and fittings RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2007						
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
Year ended 31 December 2008						
Opening net book amount	467,537	2,104,694	12,020	88,236	527,822	3,200,309
Additions	86,550	101,951	3,930	4,239	373,200	569,870
Transfer	99,118	623,567	25	4,977	(727,687)	–
Depreciation charge	(39,428)	(280,575)	(2,235)	(25,241)	–	(347,479)
Disposals	–	(505)	(219)	–	–	(724)
Closing net book amount	613,777	2,549,132	13,521	72,211	173,335	3,421,976
At 31 December 2008						
Cost	703,691	3,195,787	24,913	140,580	173,335	4,238,306
Accumulated depreciation	(89,914)	(646,655)	(11,392)	(68,369)	–	(816,330)
Net book amount	613,777	2,549,132	13,521	72,211	173,335	3,421,976

6. Property, plant and equipment (Continued)

Group (Continued)

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

	2008 RMB'000	2007 RMB'000
Cost of sales	322,777	178,330
Administrative expenses	19,984	6,193
Selling and marketing expenses	4,718	3,938
	347,479	188,461

(b) As at 31 December 2008, bank borrowings and borrowings from independent third parties are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB1,410,169,000 (2007: RMB872,249,000) (note 21).

(c) As at 31 December 2008, the Group has not obtained the Building Ownership Certificates for certain of its self-constructed properties with an aggregate carrying value of approximately RMB35,237,000 (2007: RMB88,675,000). As of the date of these financial statements, the Group is in the process of applying the Building Ownership Certificates. The Directors of the Company are of the opinion that there has no obstacle preventing the Group to obtain Building Ownership Certificates.

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 2007	
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
Year ended 31 December 2008	
Opening net book amount	204,409
Additions	13,309
Amortisation charge	(5,541)
Closing net book amount	212,177
At 31 December 2008	
Cost	227,901
Accumulated amortisation	(15,724)
Net book amount	212,177

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

(b) As at 31 December 2008, bank borrowings and borrowings from independent third parties are secured by certain lease prepayments with an aggregate carrying value of approximately RMB98,790,000 (2007: RMB88,223,000) (note 21).

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 2007			
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
Year ended 31 December 2008			
Opening net book amount	10,624	69	10,693
Additions	960	–	960
Amortisation charge	(2,856)	(8)	(2,864)
Closing net book amount	8,728	61	8,789
At 31 December 2008			
Cost	19,119	77	19,196
Accumulated amortisation	(10,391)	(16)	(10,407)
Net book amount	8,728	61	8,789

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

9. Investment in an associate

Group

	2008 RMB'000	2007 RMB'000
At 1 January	9,633	9,847
Capital injection	4,000	–
Share of profit/(loss)	425	(214)
At 31 December	14,058	9,633
Investments, at cost Unlisted shares	14,000	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	Profit/(Loss) RMB'000
As at and for the year ended 31 December 2008	105,141	31,343	36,523	3,196
As at and for the year ended 31 December 2007	102,675	54,511	22,945	(1,073)

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 2008			
Available-for-sale financial assets (note 11)	–	6,000	6,000
Trade and bill receivables (note 13)	493,940	–	493,940
Pledged bank deposits (note 15)	82,938	–	82,938
Cash and cash equivalents (note 16)	567,200	–	567,200
Total	1,144,078	6,000	1,150,078
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

The Group has limited its credit exposure by restricting its pledged deposits and cash and cash equivalents (excluding cash on hand of RMB665,000 (2007: RMB1,522,000)) deposited with state-owned and other reputable banks.

10. Financial instruments by category (Continued)

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

	Other financial liabilities RMB'000
Liabilities as per consolidated balance sheet	
At 31 December 2008	
Trade and bill payables *(note 19)*	569,659
Borrowings *(note 21)*	2,269,792
Total	2,839,451
At 31 December 2007	
Trade and bill payables *(note 19)*	1,575,173
Borrowings *(note 21)*	2,139,597
Total	3,714,770

11. Available-for-sale financial assets

	Group	
	2008 RMB'000	2007 RMB'000
Available-for-sale investments		
– Unlisted equity shares	**6,000**	6,000

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 registered capital in 2007 and the Group has subsequently received the capital returned from Shandong Chuangxin of 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 using the equity method in Shandong Chuangxin's books 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	
	2008 RMB'000	2007 RMB'000
Raw materials	243,835	230,921
Work in progress	47,825	35,846
Finished goods	221,494	188,834
	513,154	455,601
Provision	(25,897)	–
	487,257	455,601

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,979,932,000 (2007: RMB1,276,280,000).

13. Trade and bill receivables

	Group	
	2008 RMB'000	2007 RMB'000
Trade receivables	190,069	220,098
Bills receivable	303,871	97,473
	493,940	317,571
Less: provision for impairment	(14,361)	(11,974)
Trade and bill receivables – net	479,579	305,597

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 is as follows:

	Group 2008 RMB'000	Group 2007 RMB'000
Within 90 days	**406,572**	288,569
91 to 180 days	**69,741**	16,575
181 to 365 days	**8,984**	3,064
1 to 2 years	**680**	1,416
2 to 3 years	**138**	2,349
Over 3 years	**7,825**	5,598
	493,940	317,571

Bills receivable do not have any significant credit risk as the settlement has been guaranteed by reputable 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 2008 RMB'000	Group 2007 RMB'000
At 1 January	**11,974**	14,913
Provision for impairment	**2,414**	(2,939)
Receivables written off during the year as uncollectible	**(27)**	–
At 31 December	**14,361**	11,974

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	
	2008 RMB'000	2007 RMB'000
RMB	393,686	173,307
USD	100,254	144,264
	493,940	317,571

The Group signed insurance contract with China Export & Credit Insurance Company in 2008 to limit its credit exposure on export sales. According to the insurance contract, the Group can get 80% to 90% compensation if insured receivables can not be collected.

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivable mentioned above excluding the insured export receivables.

14. Prepayments, deposits and other receivables

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Prepayments to materials suppliers	99,791	84,019	4,056	–
Prepayments for purchase of plant and machinery	47,509	53,375	–	–
Prepayments to government for land use rights	54,369	67,350	–	–
Insurance	4,267	3,701	–	–
Deposit	1,271	3,997	–	–
Due from related parties *(note 35)*	–	2,000	–	–
VAT deductible	–	6,618	–	–
Due from a subsidiary	–	–	5,410	5,932
Others	11,033	6,707	149	25
	218,240	227,767	9,615	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

	2008 RMB'000	2007 RMB'000
Deposits placed in banks as collaterals against trade finance facilities granted by banks	**82,938**	606,447
Denominated in:		
– RMB	**82,512**	606,014
– USD	**426**	433
	82,938	606,447
Maximum exposure to credit risk	**82,938**	606,447

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 1.99% (2007: 3.78%) per annum.

16. Cash and cash equivalents

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash at bank and in hand	**567,200**	1,455,583	**35,498**	1,042,651
Denominated in:				
– RMB	**461,666**	286,256	**–**	47,622
– USD	**96,158**	174,297	**31,090**	–
– HKD	**4,463**	995,030	**4,408**	995,029
– EUR	**4,913**	–	**–**	–
	567,200	1,455,583	**35,498**	1,042,651
Maximum exposure to credit risk (net of cash in hand)	**566,535**	1,454,061	**35,498**	1,042,651

The weighted average interest rates on demand deposits were 0.49% (2007: 0.38%) 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 RMB'000	Nominal value RMB'000
Authorised		
4,000,000,000 ordinary shares		
HK$0.1 each at 31 December 2007 and 2008	4,000,000	382,200
Issued:		
Ordinary shares		
At 1 January 2007	200,000	158,318
Conversion from preference shares *(note a)*	75,000	57,954
Repurchase and cancellation of issued ordinary shares *(note b)*	(275,000)	(216,272)
Issue of new ordinary shares to the shareholders *(note b)*	275,000	26,276
Capitalisation of share premium *(note c)*	1,285,000	121,895
Issue of new shares upon listing *(note d)*	520,000	49,344
At 31 December 2007	2,080,000	197,515
Issue of additional ordinary shares upon listing *(note e)*	3,623	339
At 31 December 2008	2,083,623	197,854
Preference shares		
At 1 January 2007	–	–
Issued during the year *(note a)*	75,000	57,954
Converted into ordinary shares *(note a)*	(75,000)	(57,954)
At 31 December 2007	–	–
At 31 December 2008	–	–

(a) 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.

17. Share capital (Continued)

(b) 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.

(c) 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 capitalization of the share premium accounts.

(d) 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.

(e) 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.

The Company raised net proceeds of approximately RMB7,305,000 from the issuing of the 3,623,000 additional ordinary shares, of which paid up capital was approximately RMB339,000 and share premium was approximately RMB6,966,000. The related share issue expenses amounted to RMB202,000.

18. Reserves

Group

	Share premium RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve (note a) RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	41,412	(32,210)	(12,599)	58,220	98,275	153,098
Profit for the year	–	–	–	–	208,306	208,306
Transfer from retained earnings	–	–	–	41,169	(41,169)	–
Dividend relating to 2006	–	–	–	–	(32,500)	(32,500)
Acquisition of further interests in subsidiaries from minority shareholders *(note b(i))*	–	–	(445)	–	–	(445)
Contributions from equity holders of the Company *(note 17(a))*	306,767	–	–	–	–	306,767
Repurchase and new issue of shares *(note 17 (b))*	–	–	189,996	–	–	189,996
Capitalisation of share premium *(note 17 (c))*	(121,895)	–	–	–	–	(121,895)
Issue of new shares upon listing *(note 17 (d))*	1,016,483	–	–	–	–	1,016,483
Share issue expenses	(74,422)	–	–	–	–	(74,422)
Issue of share opinions *(note b(iii))*	–	–	2,657	–	–	2,657
At 31 December 2007	1,168,345	(32,210)	179,609	99,389	232,912	1,648,045
Profit for the year	–	–	–	–	120,747	120,747
Transfer from retained earnings	–	–	–	12,271	(12,271)	–
Dividend relating to 2007	–	–	–	–	(73,953)	(73,953)
Acquisition of further interests in subsidiaries from minority shareholders *(note b(ii))*	–	–	(19,604)	–	–	(19,604)
Issue of new shares upon listing *(note 17 (e))*	6,966	–	–	–	–	6,966
Share issue expenses	(202)	–	–	–	–	(202)
Issue of share opinions *(note b(iii))*	–	–	19,053	–	–	19,053
At 31 December 2008	1,175,109	(32,210)	179,058	111,660	267,435	1,701,052

18. Reserves (Continued)

Company	Share premium RMB'000	Capital reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2007	41,412	–	(1,199)	40,213
Profit for the year	–	–	10,361	10,361
Dividend relating to 2006	–	–	(32,500)	(32,500)
Contributions from equity holders of the Company *(note 17(a))*	306,767	–	–	306,767
Repurchase and new issue of shares *(note 17 (b))*	–	189,996	–	189,996
Capitalisation of share premium *(note 17 (c))*	(121,895)	–	–	(121,895)
Issue of new shares upon listing *(note 17 (d))*	1,016,483	–	–	1,016,483
Share issue expenses	(74,422)	–	–	(74,422)
Issue of share opinions *(note b(iii))*	–	2,657	–	2,657
At 31 December 2007	1,168,345	192,653	(23,338)	1,337,660
Profit for the year	–	–	64,438	64,438
Dividend relating to 2007	–	–	(73,953)	(73,953)
Issue shares expenses	(202)	–	–	(202)
Proceeds from shares issued -IPO	6,966	–	–	6,966
Issue of share opinions	–	19,053	–	19,053
At 31 December 2008	1,175,109	211,706	(32,853)	1,353,962

(a) 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%.

18. Reserves (Continued)

(b) Movement in reserves

(i) 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.

(ii) The movement in capital reserve in 2008 arose from the share dilution of minority shareholders in subsidiaries through the way of unilateral capital injection by Dongyue Group Limited (note 34). The premium on these further injection amounted to RMB19,604,000.

The above mentioned 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.

(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.

18. Reserves (Continued)

(b) Movement in reserves (Continued)

(iii) (Continued)

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

	2008 Options (thousands)	2007 Options (thousands)
At 1 January	**56,160**	–
Granted		
– directors	**–**	28,931
– employees	**–**	27,796
Forfeited		
– employees	**(624)**	(567)
At 31 December	**55,536**	56,160

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

		Share options (thousands)	
Expiry date	Exercise price HK dollar per share	2008	2007
10 December 2009	2.16	**16,661**	16,848
10 December 2010	2.16	**16,661**	16,848
10 December 2011	2.16	**22,214**	22,464
		55,536	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 recognized in the income statement for share options granted to directors and employee.

19. Trade and bill payables

	Group	
	2008 RMB'000	2007 RMB'000
Trade payables	498,779	761,902
Bills payable	70,880	813,271
	569,659	1,575,173

The carrying amounts of trade and bills 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 is as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Within 30 days	246,164	903,892
31 to 90 days	148,536	403,934
91 to 180 days	123,143	228,615
181 to 365 days	43,172	30,165
1 year to 2 years	8,644	8,567
	569,659	1,575,173

20. Accruals and other payables

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Deposits and advance from customers	51,593	114,373	–	–
Salaries and bonus payable	22,550	43,851	146	104
Social contribution payable	39,838	37,216	–	–
VAT payable	7,292	–	–	–
Export related expense payable	8,353	14,105	–	–
Interest payable	1,445	391	–	–
Water and electricity fee	22,127	7,838	–	–
Welfare payable	8,254	5,252	–	–
Due to a related party *(note 35)*	2,830	781	–	781
Auditor's remuneration payable	3,052	3,430		3,430
CDM payable*	179,725	250,827	–	–
Advance from local government	38,194	38,056	–	–
Dividend payable to minority shareholders of subsidiary	1,352	979	–	–
Payables to subsidiaries	–	–	7,912	6,942
Others	13,869	6,198	505	–
Total	400,474	523,297	8,563	11,257

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

* 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.

21. Borrowings

Group	2008 RMB'000	2007 RMB'000
Non-current		
Between 1 to 2 years		
Bank borrowings	238,540	205,745
Borrowings from independent third parties	34,173	12,272
Between 2 to 5 years		
Bank borrowings	258,579	302,330
Borrowings from independent third parties	153,779	372,421
Wholly repayable within 5 years	685,071	892,768
Over five years	153,921	–
	838,992	892,768
Current		
Bank borrowings	1,412,291	1,208,557
Borrowings from independent third party	13,509	38,272
Borrowings from related parties *(note 35)*	5,000	–
	1,430,800	1,246,829
Total borrowings	2,269,792	2,139,597

Representing:	2008 RMB'000	2007 RMB'000
Bank borrowings		
– unsecured	1,448,893	1,223,659
– secured *(note d)*	460,517	492,973
	1,909,410	1,716,632
Borrowings from independent third parties		
– unsecured	13,509	56,680
– secured *(note d)*	341,873	366,285
	355,382	422,965
Borrowings from related parties		
– unsecured	5,000	–
Total	2,269,792	2,139,597

21. Borrowings (Continued)

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

	2008 RMB'000	2007 RMB'000
At fixed rates in RMB	1,257,884	1,189,213
At floating rates in RMB	525,142	538,810
	1,783,026	1,728,023
At fixed rates in USD	19,632	–
At floating rates in USD	467,134	411,574
	486,766	411,574
	2,269,792	2,139,597
Total borrowings		
– at fixed rates	1,277,516	1,189,213
– at floating rates	992,276	950,384
	2,269,792	2,139,597

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

	2008 RMB'000	2007 RMB'000
Bank borrowings	7.99%	7.36%
Borrowings from independent third parties	5.48%	6.99%

21. Borrowings (Continued)

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

	2008 RMB'000	2007 RMB'000
Carrying amounts	**838,992**	892,768
Fair values	**862,731**	888,967

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 2008 of 5.31% (2007: 7.47%) per annum.

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

(d) As at 31 December 2008, borrowings included secured liabilities of RMB802,390,000 (2007: RMB859,258,000) which were secured by the Group's property, plant and equipment of the with the net book value of approximately RMB1,410,169,000 (2007: RMB872,249,000) (note 6(b)) and lease prepayments with the net book amount of approximately RMB98,790,000 (2007: RMB88,223,000) (note 7(b)).

22 Deferred income

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

The movement on deferred revenue is as follows:

	Related to research project RMB'000	Tax refund due to purchase of domestic equipment RMB'000	Related to leasehold land prepayments *(note)* RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	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
Additions	–	19,470	–	600	20,070
Credited to the income statement	(586)	(2,397)	(3,911)	(1,684)	(8,578)
At 31 December 2008	3,041	23,578	154,746	(1,084)	180,281

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.

23. 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:

	2008 RMB'000	2007 RMB'000
Deferred income tax assets:		
– Deferred income tax asset to be recovered after 12 months	**103,433**	58,076
– Deferred income tax asset to be recovered within 12 months	**6,688**	7,723
	110,121	65,799
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after 12 months	**(12,376)**	(10,653)
– Deferred income tax liabilities to be settled within 12 months	**(4,651)**	(633)
	(17,027)	(11,286)
Deferred income tax assets – net	**93,094**	54,513

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	Investment tax credit and taxable losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	2,529	4,295	4,389	6,028	–	1,945	19,186
(Charged)/credited 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
Credited/(charged) to the income statement	3,922	2,589	670	(919)	40,495	(2,435)	44,322
At 31 December 2008	6,276	13,830	10,273	37,179	40,495	2,068	110,121

23. Deferred income tax (Continued)

Deferred income tax liabilities:

	Capitalised interests RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	(4,298)	–	(4,298)
Charged to the income statement	(6,988)	–	(6,988)
At 31 December 2007	(11,286)	–	(11,286)
Charged to the income statement	(2,112)	(3,629)	(5,741)
At 31 December 2008	(13,398)	(3,629)	(17,027)

Deferred income tax assets are recognised for investment credit and tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of Rmb 33,793,000 (2007: nil) in respect of investment credit amounting to Rmb 84,533,000 (2007: nil) that can be carried forward against future taxable income.

24. Other income

	2008 RMB'000	2007 RMB'000
Government grants	**20,259**	20,655
Others	**4,860**	4,383
	25,119	25,038

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

25. Other losses, net

	2008 RMB'000	2007 RMB'000
Net foreign exchange losses	27,003	24,147
Loss on disposals of property, plant and equipment, net	94	3,877
Gains on financial guarantee contracts	–	(14,116)
	27,097	13,908

26. Expenses by nature

	2008 RMB'000	2007 RMB'000
Raw materials and consumables used	2,003,092	1,406,876
Changes in inventories of finished goods and work in progress	(44,639)	(130,596)
Energy and fuel	842,649	496,457
Depreciation and amortisation	355,616	196,004
Inventory provision	25,897	–
Employee benefit expenses *(note 27)*	178,800	141,391
Transportation expenses	124,764	90,925
Maintenance fee	65,750	35,698
Office expenditures	39,236	35,704
Travel expenses	7,249	5,260
Research and development expenses	11,471	11,832
Provision/(reversal of provision) for impairment of receivables	2,119	(2,263)
Entertainment	11,247	9,726
Handling charges	6,979	1,090
Rental	10,415	8,360
Consultant fee	6,570	898
Auditor's remuneration	4,105	4,438
Advertising costs	4,792	2,831
Insurance	6,761	3,502
Stamp duty and property tax	8,712	2,922
Others	23,103	6,705
Total	3,694,688	2,327,760

27. Employee benefit expenses (including directors' emoluments)

	Group 2008 RMB'000	Group 2007 RMB'000
Wages, salaries and bonus	137,180	122,279
Retirement benefit contributions	10,284	9,198
Share options granted to directors and employees	19,053	2,657
Other staff welfare	12,283	7,257
	178,800	141,391

(a) Directors' emoluments

Details of the directors' emoluments for the years ended 31 December 2008 and 2007 are set out below:

Year ended 31 December 2008

	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	120	106	2,174	20	3,781	6,201
Mr. Liu Chuan Qi	120	106	2,174	24	3,361	5,785
Mr. Cui Tong Zheng	120	68	772	12	2,736	3,708
Mr. Yang Er Ning	120	360	320	–	546	1,346
Mr. Fu Kwan	120	–	–	–	–	120
Mr. Zhang Jian	120	–	–	–	182	302
Mr. Shaw Sun Kan	120	–	–	–	–	120
Mr. Ting Leung Huel	218	–	–	–	–	218
Mr. Yue Run Dong	120	–	–	–	–	120
Mr. Liu Yi	120	–	–	–	–	120
	1,298	640	5,440	56	10,606	18,040

27. Employee benefit expenses (including directors' emoluments)

(a) Directors' emoluments (Continued)

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 Kwan	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

Notes:

(i) As at 31 December 2008, 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 RMB10,606,000 which were expensed in the consolidated income statement for the year ended 31 December 2008.

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

(ii) Directors' fees disclosed above include RMB458,000 (2007: RMB39,000) 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 2008 and 2007.

27. Employee benefit expenses (including directors' emoluments) (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 4 (2007: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2007: 1) individual are as follows:

	2008 RMB'000	2007 RMB'000
Salary	**166**	192
Discretionary bonus	**657**	520
Pension scheme contributions	**10**	10
Share options granted	**911**	125
Other benefits	**3**	43
	1,747	890

28. Finance income and costs

	2008 RMB'000	2007 RMB'000
Gross interest expenses on		
– bank borrowings	**(172,129)**	(120,866)
– other borrowings	**(21,811)**	(28,407)
	(193,940)	(149,273)
Less: interest expenses capitalised in property, plant and equipment	**13,981**	41,598
Net foreign exchange gain on financing activities	**24,561**	12,729
Finance costs	**(155,398)**	(94,946)
Finance income		
– interest income on short-term bank deposits	**21,069**	18,210
Net finance costs	**(134,329)**	(76,736)

The borrowing costs have been capitalised at the weighted average interest rate of 7.64% (2007: 6.10%) per annum.

29. Income tax expense

	2008 RMB'000	2007 RMB'000
Current income tax	31,792	81,936
Deferred income tax (note 23)		
– Effect of change in applicable tax rate due to the new CIT law	–	(3,862)
– Credit for the year	(38,581)	(35,763)
	(38,581)	(39,625)
	(6,789)	42,311

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.

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.

Under the EIT Law, an enterprise incorporated in a foreign country or region may be classified as either a "non-resident enterprise" or a "resident enterprise." If any enterprise incorporated in the foreign countries or regions has its "de facto management organization" located within the PRC, such enterprise will be recognized as a PRC tax resident enterprise ("TRE") and thus will normally be subject to enterprise income tax at the rate of 25% on its worldwide income. The Implementing Rules provide that "de facto management organization" means the body which exercises substantial and comprehensive control over the production and operation, personnel, accounting, property, etc., of an enterprise. Substantially all of the members of our management are currently located in the PRC and we expect them to continue to be located in the PRC in the foreseeable future. Therefore, we may be deemed to be a PRC tax resident enterprise and subject to an enterprise income tax rate of 25% on our worldwide income. We did not accrue any tax that may be deemed collectible should the tax authorities determine that the Company is a TRE.

The EIT Law provides that dividend income between qualified resident enterprises is exempted income, which the Implementing Rules have clarified to mean dividend received by a resident enterprise on equity interest directly owned in another resident enterprise. It is likely, therefore, that dividends we receive from our PRC subsidiaries would be exempted income under the EIT Law and the Implementing Rules if we are deemed to be a "resident enterprise."

29. Income tax expense (Continued)

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

	Applicable EIT rate	
	2008	2007
Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals")	25%	24%
Shandong Dongyue Polymers Co., Ltd. ("Dongyue Polymers")	15%	7.5%
Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue F&S")	12.5%	12%
Zibo Dongyue Lvyuan Co., Ltd. ("Zibo Dongyue Chlorine")	25%	33%
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	25%	33%
Shandong Dongyue Organosilicon Material Co., Ltd.	0%	0%
Guangdong Dongyue Fluorine Chemicals Co., Ltd	25%	N/A
Shandong Dongyue Silicone rubber Co.,Ltd	25%	N/A
Chifeng HuaSheng Mining Co.,Ltd	25%	N/A

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 25% in 2008. Dongyue F&S was set up in late 2004 and was subject to tax exemption in 2005 and 2006 and a 50% reduction in 2008. Dongyue Polymers is qualified as 'Technology Intensive or Knowledge-Intensive Enterprise' and is subject to an EIT rate of 15%.

Zibo Dongyue Lvyuan Co., Ltd. ("Zibo Dongyue Chlorine"), Guangdong Dongyue Fluorine Chemicals Co., Ltd. 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 25% 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.

Shandong Dongyue Silicone rubber Co.,Ltd was set up in 2008 as domestic company in the PRC and was subject to an EIT rate of 25%.

Chifeng HuaSheng Mining Co.,Ltd is domestic company in the PRC and the applicable EIT rate is 25%.

29. 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:

	2008 RMB'000	2007 RMB'000
Profit before income tax	131,589	291,141
Tax calculated at rates based on the different tax status of the companies	30,029	67,956
Expenses and losses not deductible for tax purposes	14,897	620
Income not subject to tax	(320)	(2,689)
Effect of change in applicable tax rate for calculation of deferred income taxation resulted from the new CIT law	(285)	(3,862)
Effect of tax exemptions	–	(19,714)
Investment tax credit	(50,715)	–
Others	(395)	–
Income tax expense	(6,789)	42,311
Weighted average tax rates	23%	23%

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.

30. Profit 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 RMB64,438,000 (2007: RMB10,361,000).

31. 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.

	2008 RMB'000	2007 RMB'000
Profit attributable to equity holders of the Company	120,747	208,306
Weighted average number of ordinary shares in issue (thousands)	2,083,603	1,469,858
Basic earning per share (RMB per share)	0.06	0.14

(b) Diluted

Diluted earning per share is calculated by 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.

During the year ended 31 December 2008, those share options granted have no dilution effect on earnings per share in 2008 and diluted earnings per share is therefore same as basic earnings per share.

32. Dividends

The dividends paid in 2008 and 2007 were RMB73,953,000 (HK$0.04 per share) and RMB32,500,000 (RMB0.1625 per share) respectively.

At a meeting held on 16 April 2009, the directors of the Company proposed a final dividend of HK$0.025 per ordinary share, totalling RMB45,939,000. 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 2009.

33. Cash generated from operations

	2008 RMB'000	2007 RMB'000
Profit before income tax	131,589	291,141
Adjustments for:		
– depreciation *(note 6)*	347,479	188,461
– amortisation of lease prepayments *(note 7)*	5,541	5,103
– amortisation of intangible asset *(note 8)*	2,864	2,440
– loss on disposal of property, plant and equipment – net *(note 25)*	94	3,877
– share-based payment	19,053	2,657
– provision for impairment of inventory *(note 12)*	25,897	–
– provision/(reversal of provision) for impairment of receivables *(note 26)*	2,119	(2,263)
– finance cost – net *(note 28)*	134,329	76,736
– share of (profit)/loss of an associate *(note 9)*	(425)	214
– gains on financial guarantee contracts *(note 25)*	–	(14,116)
– Foreign exchange losses on cash	40,614	20,290
	709,154	574,540
Changes in working capital		
– Increase in inventories	(57,552)	(270,529)
– Increase in trade and bills receivables, prepayments, deposits and other receivables	(185,422)	(176,810)
– (Decrease)/increase in trade and bills payables, accruals and other payables	(685,783)	847,407
– Increase in pledged bank deposits	523,509	(311,262)
– Increase in deferred income	11,492	130,703
Cash generated from operations	315,398	794,049

34. Investments in subsidiaries

Company	2008 RMB'000	2007 RMB'000
At 1 January	497,824	281,859
Additions	1,021,060	215,965
At 31 December	1,518,884	497,824

During the year ended 31 December 2008, the Company has acquired additional interests in Dongyue Polymers from Dongyue Chemicals at the consideration of RMB41,000,000 and has injected additional capital in Dongyue Chemicals, Dongyue Polymers, Dongyue Organic Silicone and Dongyue F&S with an aggregate amount of RMB 980,060,000.

The following is a list of the subsidiaries at 31 December 2008, 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		Registered/ paid up capital	Principal activities
	2008	2007		
Dongyue Chemicals*	96.82%	94.56%	RMB340,000,000	Manufacturing and sale of refrigerant
Dongyue Polymers*	100.00%	98.43%	RMB165,000,000	Manufacturing and sale of polytetrafluoro-ethylene
Dongyue F&S***	82.79%	73.91%	RMB 400,000,000	Manufacturing and sale of methane chloride
Zibo Dongyue Chlorine Co., Ltd.**	82.79%	73.91%	RMB10,000,000	Manufacturing and sale of liquid chlorine and alkali
Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone") *	84.00%	60%	RMB 650,000,000	Manufacturing and sale of organosilicon material

34. Investments in subsidiaries (Continued)

Name	Equity interest held 2008	2007	Registered/ paid up capital	Principal activities
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. ("Dongyue Peak")**	**49.38%**	48.23%	RMB 50,000,000	Manufacturing and sale of anhydrous fluoride
Guangdong Dongyue Fluorine Chemicals Co., Ltd. ("Guangdong Dongyue")**	**58.09%**	56.74%	RMB 26,320,000	Manufacturing and sale of anhydrous fluoride
Shandong Dongyue Silicone rubber Co.,Ltd.	**46.20%**	N/A	RMB 20,000,000	Manufacturing and sale of Silicone rubber
Chifeng HuaSheng Mining Co.,Ltd	**77.46%**	N/A	RMB 2,000,000	Manufacturing and sale of fluorite

* directly held by the Company

** indirectly held by the Company

*** both directly and indirectly held by the Company

35. 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

	2008 RMB'000	2007 RMB'000
– Minority shareholders of subsidiary	79,750	–
– Associate	16,970	3,653

35. Related party transactions (Continued)

(b) Sales of goods

	2008 RMB'000	2007 RMB'000
– Minority shareholders of subsidiary	60,908	–

(c) Borrowings

	2008 RMB'000	2007 RMB'000
– Minority shareholders of a subsidiary	5,000	–

(d) Key management compensation

Key management are all directors of the Company and their compensation is disclosed in note 27(a).

(e) Advancement to a related party

In 2007, a subsidiary of the Company, Dongyue F&S made a prepayment of RMB2,000,000 to its associate, Dongying Macrolink Salt as capital contribution. Such registration has been completed in 2008, this prepayment is now recorded as investment in associate at the 2008 year end.

(f) Year-end balances

	2008 RMB'000	2007 RMB'000
Due from related parties *(note 14)* – associate	–	2,000
Due to a related party – Macro-Link SDN, BHD *(note 20)*	2,830	781
Borrowings – minority shareholders of a subsidiary	5,000	–

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

36. Commitments

(a) Capital commitment

Capital expenditure contracted for but not yet incurred as at 31 December 2008 is as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Property, plant and equipment	120,309	48,775

The Company did not have any capital commitment as at 31 December 2008 and 2007.

(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	
	2008 RMB'000	2007 RMB'000
Not later than 1 year	1,737	1,635
Later than 1 year and not later than 5 years	6,947	6,538
More than 5 years	28,066	28,054
	36,750	36,227

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

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

37. Contingent liabilities

(a) The Group was advised on 19 December 2007 that Dongyue F&S and Dongyue Organosilicone, 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 RMB 100 million or more (the "Alleged Claims").

Beijing High Court issued a judgment on 18 May 2008 dismissing the actions filed by China Bluestar Group against Dongyue Organic Silicone and that Dongyue Organic Silicone is not the appropriate defendant. China Bluestar Group brought the case to China Supreme Court and China Supreme Court made the adjudication on 8 October 2008. The Court withdrew Beijing High Court's judgement and required Beijing High Court to retrial. Beijing High Court made the adjudication on 12 December 2008 and stated that Bejing High Court has the jurisdiction on this litigation. The Alleged Claims are still in process till the reporting date.

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 2008.

38. Event after the balance sheet date

The China Ministry of Finance and State Tax Bureau issued a notice on 23 March 2009 to clarify the EIT policy on CER revenue. According to this notice, the profit earned from CER project is entitled to an exemption from EIT for the first three years and 50% reduction for the next three years ("EIT Exemption"), commencing from the time when the project starts to earn its CER revenue. This EIT Exemption would be retrospectively effected from 1 January 2007.

The Group has accrued EIT in relation to CER revenue in 2007 and 2008 with an aggregate amount of approximately Rmb 70 million.

FIVE-YEAR FINANCIAL SUMMARY

At the year ended 31 December 2008

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	As at 31 December 2008 RMB'000
ASSETS					
Non–current assets					
Property, plant and equipment	809,059	991,017	1,598,198	3,200,309	**3,421,976**
Leasehold land prepayments	39,390	70,727	108,488	204,409	**212,177**
Intangible assets	10,420	9,127	7,833	10,693	**8,789**
Investments in associates	–	9,829	9,847	9,633	**14,058**
Available-for-sale investments	12,020	12,020	12,000	6,000	**6,000**
Deferred income tax assets	10,792	17,925	14,888	54,513	**96,723**
	881,681	1,110,645	1,751,254	3,485,556	**3,759,723**
Current assets					
Inventories	104,113	136,020	185,072	455,601	**487,257**
Trade and bill receivables	176,183	243,170	190,459	305,597	**479,579**
Prepayments, deposits and other receivables	86,221	49,481	78,439	227,767	**218,240**
Pledged bank deposits	133,290	131,549	295,185	606,447	**82,938**
Cash and cash equivalents	217,299	275,448	315,159	1,455,583	**567,200**
	717,106	835,668	1,064,314	3,050,995	**1,835,214**
Total assets	1,598,787	1,946,313	2,815,568	6,536,552	**5,594,937**
EQUITY					
Ordinary share capital	122,390	122,390	158,318	197,515	**197,854**
Reserve	(46,866)	58,570	153,098	1,648,044	**1,701,052**
	75,524	180,960	311,416	1,845,560	**1,898,906**
Minority interests	128,556	245,343	213,647	235,437	**264,951**
Total Equity	204,080	426,303	525,063	2,080,997	**2,163,857**

FIVE-YEAR FINANCIAL SUMMARY

At the year ended 31 December 2008

	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	As at 31 December 2008 RMB'000
LIABILITIES					
Non–current liabilities					
Borrowings	173,970	211,616	489,698	892,768	**838,992**
Receipt in advance	–	–	26,773	–	**–**
Deferred income	8,358	37,873	38,086	168,789	**180,281**
Deferred income tax liabilities	–	–	–	–	**3,629**
	182,328	249,489	554,557	1,061,557	**1,022,902**
Current liabilities					
Trade and bill payables	605,400	483,983	585,600	1,575,173	**569,659**
Accruals and other payables	128,047	139,076	183,317	523,297	**400,474**
Borrowings	472,418	635,681	965,654	1,246,829	**1,430,800**
Current income tax liabilities	6,514	11,781	1,377	48,699	**7,245**
	1,212,379	1,270,521	1,735,948	3,393,999	**2,408,178**
Total liabilities	1,394,707	1,520,010	2,290,505	4,455,555	**3,431,080**
Total equity and liabilities	1,598,787	1,946,313	2,815,568	6,536,552	**5,594,937**
	–	–	–	–	–
Net current liabilities	(495,273)	(434,853)	(671,634)	(343,003)	**(572,964)**
Total assets less current liabilities	386,408	675,792	1,079,620	3,142,554	**3,186,759**

At the year ended 31 December 2008

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	As at 31 December 2008 RMB'000
Revenue	1,183,987	1,684,761	2,005,932	2,684,721	**3,962,159**
Cost of sales	(951,532)	(1,312,896)	(1,577,483)	(2,050,044)	**(3,286,355)**
Gross profit	232,455	371,865	428,449	634,677	**675,804**
Other gain/(loss)	(1,815)	(1,999)	(17,203)	(13,908)	**25,119**
Other income	3,105	15,326	8,568	25,038	**(27,097)**
Selling and marketing expenses	(60,104)	(71,858)	(94,450)	(120,356)	**(162,946)**
General and administrative expenses	(80,046)	(102,471)	(106,123)	(157,360)	**(245,387)**
Operating profit	93,595	210,863	219,241	368,091	**265,493**
Finance income	3,194	4,231	7,356	18,210	**21,069**
Finance costs	(36,241)	(46,624)	(68,021)	(94,946)	**(155,398)**
Finance costs – net	(33,047)	(42,393)	(60,665)	(76,736)	**(134,329)**
Share of profit/ (loss) of an associate	–	(171)	18	(214)	**425**
Profit before income tax	60,548	168,299	158,594	291,141	**131,589**
Income tax expense	(17,796)	(18,350)	(17,336)	(42,311)	**6,789**
Profit for the period	42,752	149,949	141,258	248,830	**138,378**
Attributable to:					
Equity holders of the Company	15,029	76,463	82,703	208,306	**120,747**
Minority interests	27,723	73,485	58,555	40,524	**17,631**
Earnings per share					
– basic	0.11	0.50	0.14	0.14	**0.06**
– diluted			0.14	0.14	**0.06**
Dividend	24,096	40,370	32,500	78,044	**45,939**

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
D.S. Cheung & Co.

Compliance Advisor

Guotai Junan Capital Limited

Stock Code

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