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

Interim 中期 Report 報告 2009

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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

Directors

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

Company Secretary

Mr. NG Kwok Choi

Qualified Accountant

Mr. NG Kwok Choi

Authorized Representatives

Mr. FU Kwan
Mr. NG Kwok Choi

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
Rooms 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

D.S. Cheung & Co.

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Stock Code

0189

Business Overview

The economic trend in the second half of 2008 basically continued to the first half of 2009, yet has been improving since the end of the first quarter. The first half of 2009 remained challenging to Dongyue Group Limited (the "Company") and its subsidiaries (collectively the "Group"). The insufficient demand caused by the economic downturn has caused temporary adverse effects to the Group. Nevertheless, the Group is still able to maintain its leading position in the industry. Backing up by the advanced technology innovation, our independent research and development team as well as our world-wide sales network, the Group's long-term development prospect is still very optimistic.

On 27 June 2009, the Group had the honour to be visited by Premier Wen Jiabao ("Premier Wen") of the State Council of the People's Republic of China (the "PRC"). Premier Wen had given an important speech in the research centre of the Group, not only highly appreciated the Group's achievements in technology innovation as well as independent research and development, but also stated that the country would cultivate, encourage and support enterprises like Dongyue, which further strengthening the confidence of the management team and all employees of the Group in overcoming the financial crisis through technology innovation and structural adjustment. Premier Wen believes that, the current and future application of fluo-silicone materials is and will be very extensive. As a manufacturing enterprise of new materials with fluo-silicone, the Group's development is prosperous, with huge potentials to a bright future.

Refrigerants Business

Affected by the global economic crisis, the downstream product market (e.g. air-conditioners, vesicant and fluoropolymers) of the refrigerant segment of the Group has shrunk. The market demand of the refrigerant products decreased by more than approximately 30% over the corresponding period of 2008, and the selling price has been declined.

Notwithstanding the above, the adverse effect was overcame by the Group's dedicated efforts. Both the monthly sales volume and the selling prices of the Group increased steadily from January to June in 2009, whereby the Group grabbed the opportunity of market rejuvenation and enhanced the operating results in order to achieve the steady growth. Particularly, since July 2009, due to the further recovery of the refrigerant market, air-conditioners have been out of stock, resulting in an under-supply of the major refrigerant product HCFC-22 of the Group, and consequently driving a surge of selling price.

As people are getting more aware of environmental protection and energy saving, the new refrigerant enriched with energy saving and environment protecting features has become more popular. Although the sales volume of the R134a and R152a, the two major new refrigerants dropped approximately 30% and 40% respectively as affected by the financial crisis, the gross profit margin increased 20% and 24% respectively as compared to the corresponding period last year. It is believed that the new refrigerant will play a leading role in the market in the future.

Fluoropolymer materials business

Since the economic crisis in 2008, the world's demand for fluoropolymers declined, which affected the fluoropolymers industry and even the product prices dropped for a while. The sales volume of PTFE and HFP of the Company dropped about 21% and 18% respectively with the average price decreased approximately 13% and 15% respectively as compared to the corresponding period last year. However, catalyzed by a series of policies of the PRC government, such as boosting domestic demand through investment and increasing the export tax rebate of PTFE and HFP, both internal and external demand for PTFE and HFP recorded different extent of recovery. The Group grasped this opportunity to expand its market share ahead of its industry peers. The gross profit margins of PTFE and HFP rose approximately 5% and 4% respectively.

For the fluoropolymer materials segment, the Group, building on the existing production scale, will achieve commercialization of several new and high performance products through technological cooperation and research and development, so as to manufacture products with better quality and additional value.

Organic silicone business

The growth of market demand for organic silicone maintained at around 25% per annum in the past few years. Due to its outstanding features, it is expected that the demand could reach a growth rate of 15%–20% going forward. The production volume of the organic silicone manufacturers in the PRC can only satisfy less than 50% of domestic need, which implies a tremendous market potential. Given the extensive application of organic silicone in the construction and automotive industries, the PRC government, with an aim to stimulate economic development, implemented a series of infrastructural projects, which will directly boost the demand for organic silicone. The rapid development of the domestic automotive industry also facilitate the swift growth of the demand of organic silicone. From the beginning of 2009 up till recently, the price of organic silicone increased by approximately 20%.

For the current period under review, the Company implemented strategies for the expansion into the organic silicone deep-processing industry by constructing the relevant facilities with production capacities of 10,000 tons of silicone rubber and 5,000 tons of silicone oil, which had commenced full operation by 15 September this year.

Other products

Liquid alkali

2009 is a difficult year for chlor-alkali industry. Due to the impact of the financial crisis, the export of liquid alkali has been hindered. The liquid alkali industry of the PRC thus switched most of its yield from export to domestic sales, bringing an absorption pressure on the domestic market. With the imbalanced market supply and demand, the price also showed a falling trend by recording a decrease of approximately 24% from January to June 2009 as compared to the corresponding period last year. Due to the uncertainty of the restoration of the domestic market demand and the unlikely rebound of international needs in the near future, the liquid alkali market of the PRC in the second half of 2009 will still face a big challenge. Under the current condition, approximately 50% of the domestic liquid alkali production capacity is using the old diaphragm technique. The Group has fully leveraged on the advanced technology for ionic membrane caustic soda production and still maintained relatively high utilization rate of production capacity.

Dichloromethane

Owing to the stagnant demand in several industries such as pharmaceutical and vesicant industries, the production and sales volumes, and also the prices, of the dichloromethane substantially decreased as compared to the corresponding period last year. Since July 2009, however, the decrease of imported supply, insufficient stream efficiency of the domestic manufacturers and the decline of general market supply had resulted in drastic rise of the prices. The average price in June 2009 recorded a growth of approximately 13% as compared to that in January 2009. Currently, the market situation is further improving.

Future Prospects

The fluo-silicone industry has been named "golden industry" by the experts because of its high-tech, high performance and high added value. Fluo-silicone materials has been widely applied in various industries such as industrial, construction, electronics, aviation and aerospace, automobiles and utilities. Refrigerant is used as a cooling catalyst for the industrial, commercial and household refrigeration facility. PTFE, with its excellent capabilities such as heat, corrosion, aging and friction resistance, is applicable to the linings of chemical equipment and pipes, mechanical seal, high-pressure oil pipe, insulators for wires and cables, advanced dope and artificial organs, etc. Organic silicone is applicable to windtight buildings, airport runways, highways and glass windows. It can be used as the insulated materials of power facilities and wires as well as the production of automobile gasket, oil pipe and various key-press of the keyboard, and can also be used as civil application such as production of high-end cosmetics and baby dishware. The application of fluo-silicone should be further promoted with the advance of technology. The PRC government continues to treat fluo-silicone as the high-tech industry under encouragement and offers great support to it. The Group, being the leading enterprise of the fluo-silicone industry and the state-class high-tech development zone for fluo-silicone, enjoy huge development potential. Looking forward, with "new environment protection, new material, new energy" as its core business, together with its adherence to the objective of cyclic economy and independence and innovation, the Group aims at building a world-known research, development and production base for new fluo-silicone materials. In order the achieve the above goals, the Group has adopted the following development strategies:

- attract new high-tech experts to join the Group, and enhance the all-round technical innovation ability of the Group;

- building on its leading position in the refrigerant industry, accelerate the technical and market development of the new environmental-friendly refrigerant (eg. refrigerants of Tsing Hua series, R134a, R152a, R142b, F32, etc.) and maximise the market shares in order to pave the solid foundation for continuing and rapid growth of the Company in the refrigerant sector.

- continue to expand the scale and prolong the operating life of fluoropolymers high-tech production chain, and increase the technological features and additional value of the products. With the independent research and development, the Group can basically master some high-performance and new PTFE colophony skills which are up to the international advanced level of the same industry. The Group intends to invest in the PTFE colophony project with capacity of 8,000 tons per annum by the end of 2009 and commence production by 2010, which could optimise the product structure of the Group, enter into the high-end product market and enhance the benefit. The Group will continue to focus on the research and development of the new PTFE materials in the future.

- enhance the capacity of the organic silicone products and develop deep-processed organic silicone products, maximise scale production efficiency, and reduce per unit cost of the products. The Group plans to complete the construction of the new 100,000 tons organic silicone monomers project by 2010. Also, according to the latest market condition, the Group will extend the production capacity of deep-processed organic silicone such as silicon rubber, silicon oil and precipitated silica by building on the existing capacity of 10,000 tons silicon rubber and 5,000 tons silicon oil, as well as actively develop the high performance silicon rubber and build the industrial chain of the organic silicone product series.

- focus on brand building, establish a world renowned brand in the fluo-silicone material industry;

- accelerate the establishment of the raw material base, and occupy the mineral resources. Based on the integrated resources of fluorite minerals in Inner Mongolia, the Group is seeking for the construction of the silicone mine base under the planned strategy.

Financial Review

Results Highlights

For the six months ended 30 June 2009, the Group recorded turnover of approximately RMB1,529,852,000, representing a decrease of 26.68% over the corresponding period last year. The gross profit margin was 10.88% (corresponding period of 2008: 17.03%). During the period, the Group recorded loss before tax of approximately RMB10,257,000 (corresponding period of 2008: profit before tax RMB104,918,000). Nevertheless, according to the clarification notice issued during the current period by the PRC Ministry of Finance and State Tax Bureau in relation to the income tax policies on profit from Clean Development Mechanism ("CDM") project, the Group recorded reversal of overprovided income tax in prior years of RMB73,830,000. Therefore, the Group recorded net profit of approximately RMB54,957,000 (corresponding period of 2008: RMB78,286,000), while profit attributable to the Company's owners was approximately RMB63,257,000 (corresponding period of 2008: RMB60,737,000), representing an increase of 4.15% over the corresponding period last year. Basic earnings per share were RMB0.03 (corresponding period of 2008: RMB0.03).

Segment Operating Results

Set out below is the comparison, by products, of the Group's revenue, gross profit and gross profit margin for the six months ended 30 June 2009 and the six months ended 30 June 2008:

	For the six months ended 30 June 2009			For the six months ended 30 June 2008		
	Revenue (RMB'000)	**Gross profit (RMB'000)**	**Gross profit margin**	Revenue (RMB'000)	Gross profit (RMB'000)	Gross profit margin
Refrigerants(1)	**822,444**	**142,895**	**17.37%**	1,162,144	199,785	17.19%
Fluoropolymer materials	**279,263**	**29,719**	**10.64%**	373,463	32,738	8.77%
Organic silicone(2)	**186,257**	**2,552**	**1.37%**	231,110	30,815	13.33%
Other products(3)	**241,888**	**(8,710)**	**(3.60%)**	319,798	91,930	28.75%
	1,529,852	**166,456**	**10.88%**	2,086,515	355,268	17.03%

(1) It includes the operating results of CDM project and PVC.

(2) It includes silicone rubber product in the first half of 2009.

(3) Other products mainly include dichloromethane and liquid alkali.

Analysis of Sales and Gross Profit

During the period under review, the refrigerants business remained to be the largest contributor to the turnover of the Group, accounting for approximately 53.76%. The turnover decreased by 29.23% to RMB822,444,000 from RMB1,162,144,000 of the corresponding period last year, which was primarily caused by the decline of over 40% in the sales of HCFC22 and HFC134a, the two major refrigerant products of the Group. During the period, due to the diminished demand of the refrigerants, there showed a generally significant drop of both sales volume and selling price of the refrigerants as compared to the corresponding period of 2008.

During the period, the turnover of the fluoropolymer materials business decreased by 25.22% to RMB279,263,000 from RMB373,463,000 of the corresponding period last year. The decrease was mainly attributable to the drop of approximately 27% of the sales of PTFE, the Group's largest fluoropolymer materials product.

For the organic silicone business, the turnover decreased by 19.41% to RMB186,257,000 from RMB231,110,000 of the corresponding period last year, while its contribution to the Group's turnover was increased to 12.17% from 11.08% of the corresponding period last year. Compared to the other business segment, the decrease of the organic silicone business was the minimal, reflecting a huge market potential of the organic silicone business.

For other products, the turnover decreased by 24.36% to RMB241,888,000 from RMB319,798,000 of the corresponding period last year, accounting for 15.81% (corresponding period of 2008: 15.33%) of the total turnover of the Group. The decrease was mainly because of the decline of sales of the Group's two major products, dichloromethane and liquid alkali, the sales of which decreased by approximately 36% and 25% respectively over the corresponding period last year.

With regard to the gross profit, the total gross profit margin of the Group was 10.88% (corresponding period of 2008: 17.03%), representing a decline of 6.15% from the corresponding period of last year.

The gross profit of the refrigerants business contributed to 85.85% (correspond period of 2008: 56.24%) of the total gross profit of the Group, while its gross profit margin was 17.37%, which remained stable as compared with the corresponding period last year. With our current market position, the Group is not only influential to, but also commands a large extent of authority in the industry. In the first half of 2009, although suffered from the pressure of decreased selling price, the Group, with its initiative coordination and dedicated effort, as well as its stringent control on the raw materials and production cost during the period, had been able to maintain stable gross profit margin. In addition, our CDM project and PVC business also contributed to the gross profit of this business segment.

The fluoropolymer materials business contributed approximately 17.85% (corresponding period of 2008: 9.22%) to the total gross profit of the Group, while its gross profit margin increased to 10.64% from 8.77% of the corresponding period last year. It was mainly due to the successful reinforcement of its sales efforts in the face of the shrinking market of the relevant industries, thereby leading to the increase of the market share and its bargaining power. In addition, the export tax rebate rate applicable to this segment had been increased. The gross profit margin of PTFE and HFP, the two major products of the Group, were increased during the current period.

The contribution made by the organic silicone business accounted for about 1.53% (corresponding period of 2008: 8.67%) of the total gross profit of the Group. The gross profit margin of the business drastically decreased to 1.37% from 13.33% of the corresponding period last year, primarily due to the decline of product selling prices as a result of the unfavourable market as well as the soaring material prices.

Other products contributed approximately –5.23% (corresponding period of 2008: 25.87%) to the total gross profit of the Group. The gross profit margin decreased from 28.75% of the corresponding period last year to –3.60%. This was mainly attributable to the decease of the gross profit of the liquid alkali and dichloromethane. As the result of the recession of both the international and domestic market, the selling price of the liquid alkali and dichloromethane dropped substantially.

Capital Expenditure

For the six months ended 30 June 2009, the Group's capital expenditure was approximately RMB72,828,000 (six months ended 30 June 2008: RMB391,787,000), which was mainly used in the acquisition of fixed assets including equipment and facilities in our Industrial Park.

Liquidity and Financial Resources

The Group's financial position is sound with strong operational cash flow. As at 30 June 2009, the Group's total equity amounted to RMB2,142,440,000, representing a slight decrease of 0.99% compared with 31 December 2008. As at 30 June 2009, the Group's bank balances and cash totaled RMB558,582,000 (31 December 2008: RMB567,200,000). During the current period under review, the Group generated a total of RMB186,660,000 (six months ended 30 June 2008: RMB254,931,000 cash outflow) cash inflow from its operating activities. The current ratio[(1)] of the Group as at 30 June 2009 was 0.73 (31 December 2008: 0.74 (restated)).

Taking the above figures into account, together with available balance of bank balances and cash, its unutilized banking credit facilities and its support from its bankers as well as its operational cash flows, management is confident that the Group will have adequate resources to settle any debts and to finance its daily operational and capital expenditures.

Capital Structure

During the period, there has been no change in the share capital of the Company.

As at 30 June 2009, the borrowings of the Group totaled RMB2,233,242,000 (31 December 2008: RMB2,269,792,000). The gearing ratio[(2)] of the Group was 44% (31 December 2008: 44%).

Group Structure

During the current period under review, the Group has purchased the 3.18% equity interest in Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals") from an independent third party. After the purchase, Dongyue Chemicals became a wholly-owned subsidiary of the Group.

Save as disclosed above, there has been no material change in the structure of the Group during the six months ended 30 June 2009.

Notes:

(1) Current Ratio = Current Assets/Current Liabilities

(2) Gearing Ratio = Net Debt/Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Contingent Liabilities

The Group was advised that Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue F&S") and Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone"), subsidiaries of the Company (collectively, the "Subsidiaries"), have been named as defendants in a legal proceeding. It was alleged that the Subsidiaries' silicone business had infringed the intellectual property rights of China Bluestar (Group) Limited and Bluestar Chemical New Materials Limited (collectively, "China Bluestar Group"), and that as a result the Subsidiaries should pay damages to China Bluestar Group which they estimated would be RMB100 million or more (the "Alleged Claims").

The Group announced on 16 May 2008 that the High People's Court of Beijing Municipality (北京市高級人民法院) (the "High Court") has issued a judgment dismissing the action filed by China Bluestar Group against Dongyue Organic Silicone and decided that Dongyue Organic Silicone was not an appropriate defendant for the action. An appeal against such judgment was filed by China Bluestar Group at the Supreme Court of the People's Republic of China (最高人民法院) (the "Supreme Court") and the Supreme Court made an adjudication on 8 October 2008 withdrawing High Court's said judgment and requiring the High Court to retrial the said action. The High Court made an adjudication on 12 December 2008 stating that it has the jurisdiction on the action.

On 20 July 2009, the Group is in receipt of judgment from the High Court approving the withdrawal of the action filed by China Bluestar Group against the Subsidiaries.

Based on the above, no provision for the Alleged Claims and any further loss arising from this legal proceeding have been provided in the Group's financial statements as at 30 June 2009 (31 December 2008: Nil).

Charge on Assets

As at 30 June 2009, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,111,848,000 (31 December 2008: RMB1,508,959,000), and bank deposits of RMB412,049,000 (31 December 2008: RMB82,938,000), which were pledged to secure the Group's borrowings and the bill payables of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

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

Employees

The Group employed 3,622 employees in total as at 30 June 2009 (31 December 2008: 3,649). The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Company and its employees. In addition, the Group provided benefits such as medical insurance and pensions to ensure competitiveness.

Interim Dividend

The Board of Directors (the "Board") did not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

Use of Net Proceeds from the Initial Public Offering ("IPO")

Shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 10 December 2007 (the "Listing Date") with a total of 523,623,000 offer shares and the net proceeds for the new shares issue of approximately HK$1,051,549,270 (the "Net Proceeds"). As at 30 June 2009, the Net Proceeds have been utilized as follows:

- approximately HK$420.6 million (equivalent to approximately RMB370.8 million) was used to finance our expansion plans, including the expansion of production capacities of our existing plants and diversification into new product lines, of which:
    - approximately HK$168.2 million (equivalent to approximately RMB148.3 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$63.1 million (equivalent to approximately RMB55.6 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 included 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
- approximately 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 at 30 June 2009, any of the 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.

HKD1=RMB0.8819

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2009 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

Audit Committee

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

The Audit Committee met with the management and external auditors on 17 September 2009, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the six months ended 30 June 2009 before proposing to the Board for approval. The Audit Committee has reviewed the results announcement and the interim report of the Company for the six months ended 30 June 2009.

Remuneration Committee

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

Compliance with the Code on Corporate Governance Practices

Throughout the six months ended 30 June 2009, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

Code Provision A.2.1

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

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

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 Post-IPO Share Option Scheme:

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

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

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

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

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

As at 30 June 2009, particulars of the options granted to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme are set out below:

Name or Category of participant	Number of options Balance as at 1 January 2009	Lapsed during the period	Exercised during the period	Outstanding as at 30 June 2009	Exercise price HK$	Date of Grant	Exercisable from	Exercisable until
Directors:								
Mr. Zhang Jianhong	10,210,909	—	—	10,210,909	2.16	10 Dec 2007	10 Dec 2008	9 Dec 2011
Mr Liu Chuanqi	9,076,364	—	—	9,076,364	2.16	10 Dec 2007	10 Dec 2008	9 Dec 2011
Mr Cui Tongzheng	7,374,544	—	—	7,374,544	2.16	10 Dec 2007	10 Dec 2008	9 Dec 2011
Mr Yang Erning	1,701,818	—	—	1,701,818	2.16	10 Dec 2007	10 Dec 2008	9 Dec 2011
Mr. Zhang Jian	567,273	—	—	567,273	2.16	10 Dec 2007	10 Dec 2008	9 Dec 2011
Employees:								
In aggregate	26,605,092	—	—	26,605,092	2.16	10 Dec 2007	10 Dec 2008	9 Dec 2011
	55,536,000	—	—	55,536,000				

The weighted average fair value of options granted under the Pre-IPO Share Option Scheme determined using the Black-Scholes Option Pricing Model was HK$0.70 per option share. 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%. Such options will vest in tranches beginning on the first anniversary of the Listing Date as to 30%; a further 30% vesting on the second anniversary of the Listing Date; and the remaining 40% vesting on the third anniversary of the Listing Date.

As any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the model does not necessarily provide a reliable single measure of the fair value of the share options.

The accounting policy adopted by the Group to account for the fair value of the Company's share options has been disclosed in the 2008 Annual Report of the Company.

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, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for Shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the 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 "Offer") must be taken up within 28 days from the date of offer, with a payment of HK$1.00 as consideration. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the HKSE's daily quotations sheets for the five trading days immediately preceding the date on the date of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate exceed 208 million Shares which represents 10% of the total issued share capital as at the Listing Date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

No option had been granted or agreed to be granted to any person under the Scheme since its adoption.

Directors

The Directors during the six months ended 30 June 2009 and up to date of this report 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

Director's Rights to Acquire Shares

Apart from the Scheme disclosed above, at no time during the six months ended 30 June 2009 was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Disclosure of Interests

Interests of Directors

As at 30 June 2009, the interests or short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate % of issued share capital
Mr. Zhang Jianhong	Corporate interest[1]	166,551,273 (L)	7.99
	Beneficial interest	10,210,909 (L)	0.49
Mr. Fu Kwan	Corporate interest[2]	731,781,818 (L)	35.12
Mr. Cui Tongzheng	Corporate interest[3]	148,852,363 (L)	7.14
	Beneficial interest	7,374,544 (L)	0.35
Mr. Liu Chuanqi	Corporate interest[4]	87,360,000 (L)	4.19
	Beneficial interest	9,076,364 (L)	0.44
Mr. Yang Erning	Beneficial interest	1,701,818 (L)	0.08
Mr. Zhang Jian	Beneficial interest	567,273 (L)	0.03

Notes:

1. *Pursuant to the SFO, as Mr. Zhang Jianhong holds 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. *Pursuant to the SFO, as Mr. Cui Tongzheng holds 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.*

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

5. *L: Long Position*

Save as disclosed above, as at 30 June 2009, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code.

Interests of Substantial Shareholders

As at 30 June 2009, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company 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:

(i) Interests in the Shares of the Company

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	Approximate % of issued share capital
MACRO-LINK International Investment Co., Ltd.	Beneficial interest[1]	731,781,818 (L)	35.12
Macro-Link Sdn Bhd	Corporate interest[1]	731,781,818 (L)	35.12
Baring Private Equity Asia GP III Limited	Corporate interest[2]	283,636,364 (L)	13.61
Baring Private Equity Asia GP III, L.P.	Corporate interest[2]	283,636,364 (L)	13.61
Baring Private Equity Asia III Holding (9A) Limited	Beneficial interest[2]	283,636,364 (L)	13.61
Salata Jean	Corporate interest[2]	283,636,364 (L)	13.61
The Baring Asia Private Equity Fund III, L.P.1	Corporate interest[2]	207,943,080 (L)	9.98
International Finance Corporation	Beneficial interest	141,818,182 (L)	6.81
Dongyue Team Limited	Beneficial interest[3]	166,551,273 (L)	7.99
Dongyue Initiator Limited	Beneficial interest[4]	148,852,363 (L)	7.14

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	Approximate % of issued share capital
Bank of China Group Investment Limited	Corporate interest[5]	108,000,000 (L)	5.19
Bank of China Limited	Corporate interest[5]	108,000,000 (L)	5.19
Central SAFE Investments Limited	Corporate interest[5]	108,000,000 (L)	5.19
Fulland Enterprises Corp.	Beneficial interest[5]	108,000,000 (L)	5.19

Notes:

1. *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.*

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 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 holds 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.*

4. *Pursuant to the SFO, as Mr. Cui Tongzheng holds 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. *The 108,000,000 Shares are held directly by Fulland Enterprises Corp., which in turn is a subsidiary of Bank of China Group Investment Limited, which in turn is a subsidiary of Bank of China Limited, and which in turn is a subsidiary of Central SAFE Investments Limited.*

6. *L: Long Position*

(ii) Interests in other members of the Group as at 30 June 2009

Name of the Company's subsidiary	Name of shareholder of such subsidiary	Nature of interest	Approximate % of issued share capital/registered capital of the member
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 Fluorine Chemicals Co., Ltd.	Chifeng Peak Copper Co., Ltd.	Corporate	49%
Dongyue Organic Silicone	Hong Da Mining Industry Co., Ltd.	Corporate	16%
Guangdong Dongyue Fluorine Chemical Co., Ltd	Xiamen Hui Guong Yuan	Corporate	40%
Shandong 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.

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

Deloitte.
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TO THE BOARD OF DIRECTORS OF DONGYUE GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 21 to 38, which comprises the condensed consolidated statement of financial position of Dongyue Group Limited (the "Company") and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 September 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2009 RMB'000 (unaudited)	Six months ended 30 June 2008 RMB'000 (unaudited)
Revenue	*3*	**1,529,852**	2,086,515
Cost of sales		**(1,363,396)**	(1,731,247)
Gross profit		**166,456**	355,268
Other income	*4*	**12,438**	21,148
Distribution and selling expenses		**(67,062)**	(82,689)
Administrative expenses		**(57,792)**	(107,425)
Finance costs		**(64,349)**	(81,288)
Share of profit (loss) of an associate		**52**	(96)
(Loss) profit before tax	*5*	**(10,257)**	104,918
Income tax credit (expense)	*6*	**65,214**	(26,632)
Profit and total comprehensive income for the period		**54,957**	78,286
Profit and total comprehensive income attributable to:			
Owners of the Company		**63,257**	60,737
Minority interests		**(8,300)**	17,549
		54,957	78,286
Earnings per share	*7*		
Basic (RMB)		**0.03**	0.03
Diluted (RMB)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	9	**3,302,519**	3,421,976
Prepayment for purchase of property, plant and equipment		**67,356**	47,509
Prepaid lease payments		**203,608**	206,464
Intangible assets		**7,152**	8,789
Interest in an associate	10	**14,110**	14,058
Available-for-sale investment		**6,000**	6,000
Deferred tax assets		**92,258**	96,723
		3,693,003	3,801,519
Current assets			
Inventories		**414,289**	487,257
Prepaid lease payments		**5,713**	5,713
Trade and other receivables	11	**652,345**	650,310
Tax recoverable		**72,882**	—
Pledged bank deposits		**412,049**	82,938
Bank balances and cash		**558,582**	567,200
		2,115,860	1,793,418
Current liabilities			
Amount due to an associate	12	**1,358**	473
Amounts due to minority shareholders of subsidiaries	12	**1,807**	3,488
Trade and other payables	13	**1,242,404**	966,172
Borrowings	14	**1,648,512**	1,430,800
Tax liabilities		**1,893**	7,245
		2,895,974	2,408,178
Net current liabilities		**(780,114)**	(614,760)
Total assets less current liabilities		**2,912,889**	3,186,759

	Notes	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Capital and reserves			
Share capital	*15*	**197,854**	197,854
Reserves		**1,714,569**	1,701,052
Equity attributable to the owners of the Company		**1,912,423**	1,898,906
Minority interests		**230,017**	264,951
Total equity		**2,142,440**	2,163,857
Non-current liabilities			
Deferred income		**181,277**	180,281
Deferred tax liabilities		**4,442**	3,629
Borrowings	*14*	**584,730**	838,992
		770,449	1,022,902
		2,912,889	3,186,759

Zhang Jianhong
Director

Cui Tongzheng
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Merger reserve RMB'000 *(Note a)*	Capital reserve RMB'000 *(Note b)*	Statutory surplus reserve RMB'000 *(Note c)*	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2008 (audited)	197,515	1,168,345	2,657	(32,210)	176,952	99,389	232,912	1,845,560	235,437	2,080,997
Profit and total comprehensive income for the period	—	—	—	—	—	—	60,737	60,737	17,549	78,286
Shares issued	339	6,966	—	—	—	—	—	7,305	—	7,305
Transactions with minority interests arising from acquisition of additional interests in subsidiaries	—	—	—	—	(24,248)	—	—	(24,248)	24,248	—
Transaction costs attributable to issue of shares	—	(202)	—	—	—	—	—	(202)	—	(202)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	(10,686)	(10,686)
Dividends paid	—	—	—	—	—	—	(73,953)	(73,953)	—	(73,953)
Recognition of equity-settled shared-based payments	—	—	10,302	—	—	—	—	10,302	—	10,302
Balance at 30 June 2008 (unaudited)	197,854	1,175,109	12,959	(32,210)	152,704	99,389	219,696	1,825,501	266,548	2,092,049
Balance at 1 January 2009 (audited)	**197,854**	**1,175,109**	**21,710**	**(32,210)**	**157,348**	**111,660**	**267,435**	**1,898,906**	**264,951**	**2,163,857**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**63,257**	**63,257**	**(8,300)**	**54,957**
Transactions with minority interests arising from acquisition of additional interests in subsidiaries	**—**	**—**	**—**	**—**	**(8,469)**	**—**	**—**	**(8,469)**	**(17,531)**	**(26,000)**
Capital refund to minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,400)**	**(2,400)**
Dividends paid to minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(6,703)**	**(6,703)**
Dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(45,923)**	**(45,923)**	**—**	**(45,923)**
Recognition of equity-settled shared-based payments	**—**	**—**	**4,652**	**—**	**—**	**—**	**—**	**4,652**	**—**	**4,652**
Balance at 30 June 2009 (unaudited)	**197,854**	**1,175,109**	**26,362**	**(32,210)**	**148,879**	**111,660**	**284,769**	**1,912,423**	**230,017**	**2,142,440**

Notes:

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

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

The acquisitions of additional interest from minority shareholders in subsidiaries were recognised as transactions with minority shareholders and the corresponding discount/premium arisen therefrom were credited/debited directly against capital reserve.

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2009 RMB'000 (unaudited)	Six months ended 30 June 2008 RMB'000 (unaudited)
Net cash from (used in) operating activities	**186,660**	(254,931)
Net cash from (used in) investing activities:		
Interest received	**2,439**	14,990
Purchase of property, plant and equipment	**(92,675)**	(893,941)
Prepayment of land lease	**—**	(2,466)
Acquisition of interest in an associate	**—**	(4,000)
Government grants received	**8,780**	—
Other investing cash flows	**5,036**	101
	(76,420)	(885,316)
Net cash from (used in) financing activities:		
Proceeds from issue of shares	**—**	7,102
Net bank loans raised	**1,174,871**	1,300,533
Repayments of borrowings	**(1,211,421)**	(823,661)
Acquisition of further interests in subsidiaries	**(26,000)**	—
Dividends paid	**(45,923)**	(73,953)
Dividends paid to minority interests	**(6,703)**	(8,727)
Capital refund to minority interests	**(2,400)**	—
	(117,576)	401,294
Net decrease in cash and cash equivalents	**(7,336)**	(738,953)
Cash and cash equivalents at 1 January	**567,200**	1,455,583
Effect of foreign exchange rate changes	**(1,282)**	(23,987)
Cash and cash equivalents at 30 June, represented by		
Bank balances and cash	**558,582**	692,643

1. Basis of preparation

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

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

The Group has net current liabilities of approximately RMB780,114,000 (31 December 2008: RMB614,760,000). The interim financial information has been prepared on a going concern basis as in the opinion of the directors of the Company, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future, taking into account of the internally generated resources and the availability of its banking facilities and on the assumption that the Group is able to roll over its short term borrowings upon their maturities.

2. Significant accounting policies

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

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board, which are effective for the Group's financial year beginning on 1 January 2009.

IAS 1 (Revised 2007) Presentation of Financial Statements and IFRS 8 Operating Segments

IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. IFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, IAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segment. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segment determined in accordance with IAS 14 (see note 3). The adoption of the new and revised IFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied any new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of IFR3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment information

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segment. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

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

	Revenue Six months ended		**Segment result Six months ended**	
	30.6.2009 RMB'000 (Unaudited)	30.6.2008 RMB'000 (Unaudited)	**30.6.2009 RMB'000 (Unaudited)**	30.6.2008 RMB'000 (Unaudited)
Refrigerants	**1,037,857**	1,438,208	**45,501**	148,249
Polymer	**279,263**	373,463	**19,398**	5,564
Organic silicone	**186,257**	231,110	**(6,324)**	59,489
Others	**26,475**	43,734	**1,932**	1,812
	1,529,852	2,086,515	**60,507**	215,114
Unallocated corporate expenses (net)			**(6,467)**	(28,812)
Finance costs			**(64,349)**	(81,288)
Share of profit (loss) of an associate			**52**	(96)
(Loss) profit before tax			**(10,257)**	104,918
Income tax credit (expense)			**65,214**	(26,632)
Profit and total comprehensive income for the period			**54,957**	78,286

Segment profit represents the profit earned by each segment without allocation of other income, central administration costs, directors' salaries, finance costs and share of profit (loss) of an associate. This is the measure reported to the chief operating decision maker, the Chief Executive Officer, for the purposes of resource allocation and performance assessment.

4. Other income

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Release of deferred income in relation to government grants	**7,784**	5,594
Interest income	**2,439**	16,629
Others	**2,215**	(1,075)
	12,438	21,148

5. (Loss) profit before tax

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

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expenses	**1,358,953**	1,726,546
Depreciation of property, plant and equipment	**191,929**	163,134
Release of prepaid lease payments	**2,856**	2,856
Amortisation of intangible assets (included in cost of sales)	**1,637**	1,510
Share of tax of an associate (included in share of results of an associate)	**13**	—
Gain on disposals of property, plant and equipment	**(42)**	(101)
Interest income from bank deposits	**(2,439)**	(16,629)
Net foreign exchange gains	**(863)**	(2,256)

6. Income tax credit (expense)

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current PRC Enterprise Income Tax ("EIT")	**(3,338)**	(27,259)
EIT exemption on profit from Clean Development Mechanism ("CDM") project (Note)	**73,830**	—
(Charge) credit of deferred tax	**(5,278)**	627
Total income tax credit (expense)	**65,214**	(26,632)

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

7. Earnings per share

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

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**63,257**	60,737
Number of shares		
Weighted average number of ordinary shares ('000)	**2,083,623**	2,083,563

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the six months ended 30 June 2009 and 2008.

8. Dividends

During the period, a dividend of RMB45,923,000 (HK0.025 cents per share) was paid to shareholders as the final dividend for 2008 (six months ended 30 June 2008: RMB73,953,000 (HK0.04 cents per share for 2007)).

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2009.

9. Property, plant and equipment

During the period, the Group spent approximately RMB72,828,000 (six months ended 30 June 2008: RMB391,787,000) for the acquisition of property, plant and equipment to expand its operations.

In addition, the Group disposed of certain machinery and tools with a carrying amount of approximately RMB1,002,000 (six months ended 30 June 2008: RMB3,016,000) resulting in a profit on disposal of approximately RMB42,000 (six months ended 30 June 2008: RMB101,000).

10. Interest in an associate

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Cost of investment in an associate unlisted in the PRC	**14,000**	14,000
Share of post-acquisition results and reserves	**110**	58
	14,110	14,058

The details of the Group's associate at 30 June 2009 and 31 December 2008 are as follows:

Name of company	**Place of incorporation**	**Registered capital**	**Principal activities**	**Equity interest held by the Group**
Dongying Macro-Link Salt Co., Ltd.	Dongying, PRC	RMB50,000,000	Production and sales of salt	20%

11. Trade and other receivables

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

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Trade receivables	**570,221**	493,940
Less: allowance for doubtful debts	**(14,361)**	(14,361)
	555,860	479,579
Prepayment for raw materials	**60,507**	99,791
Deposits and other receivables	**35,978**	70,940
	652,345	650,310

Included in the trade receivables is bills receivables amounting to RMB290,694,000 (31 December 2008: RMB303,871,000).

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

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Within 90 days	**313,544**	404,706
91–180 days	**210,905**	67,676
181–365 days	**31,411**	7,197
	555,860	479,579

12. Amounts due to an associate/minority shareholders of subsidiaries

The amounts are interest free, unsecured and repayable on demand.

13. Trade and other payables

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Trade payables	**467,216**	498,779
Bill payables	**467,926**	70,880
Receipt in advance	**44,362**	51,593
Payroll payable	**71,663**	70,642
Payable for CDM project	**117,117**	179,725
Other payables and accruals	**74,120**	94,553
Total	**1,242,404**	966,172

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

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Within 30 days	**269,454**	235,284
31–90 days	**30,727**	88,536
91–180 days	**60,624**	123,143
181–365 days	**72,522**	43,172
1–2 years	**29,193**	8,644
More than 2 years	**4,696**	—
	467,216	498,779

13. Trade and other payables (continued)

The following is an analysis of bill payables by age:

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Within 30 days	**20,000**	10,880
31–90 days	**—**	60,000
91–180 days	**447,926**	—
	467,926	70,880

Bill payables were secured by the Group's pledged bank deposits.

14. Borrowings

During the period, the Group obtained new loans amounting to approximately RMB1,174,871,000 (31 December 2008: RMB1,300,533,000). The loans carry interest at variable market rates promulgated by the People's Bank of China.

As at 30 June 2009, borrowings included secured liabilities of RMB847,434,000 (31 December 2008: RMB802,390,000) which were secured by the Group's property, plant and equipment with net book value of approximately RMB1,093,781,762 (31 December 2008: RMB1,410,169,000) and prepaid lease payments with net book value of approximately RMB18,066,092 (31 December 2008: RMB98,790,000).

15. Share capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January and 30 June 2009	4,000,000	382,200
Issued and fully paid:		
At 1 January 2008	2,080,000	197,515
Issue of shares on subscription (note)	3,623	339
At 30 June 2008	2,083,623	197,854
At 1 January 2009 and 30 June 2009	2,083,623	197,854

Note: 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.

16. Capital commitments

At 30 June 2009, the Group had outstanding capital commitments as follows:

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**92,944**	120,309

16. Capital commitments (continued)

On 29 July 2008, Shandong Dongyue Polymers Co., Ltd. ("Dongyue Polymers"), a wholly-owned subsidiary of the Company, and Shandong Hi Tech Investment Co., Ltd. ("Shandong Hi Tech Investment"), a minority shareholder of a subsidiary which is a state-owned enterprise, entered into a conditional agreement pursuant to which Dongyue Polymers agreed to acquire an additional 16.78% equity interest in Shandong Dongyue Fluo-Silicon Materials Co., Ltd., a subsidiary of the Company, from Shandong Hi Tech Investment at the consideration of RMB117,500,000 to be satisfied by Dongyue Polymers in cash at completion, which shall be after approval for the sale to be obtained by Shandong Hi Tech Investment from the relevant bureau. The transfer is yet to be completed as of the date of this report.

17. Lease commitments

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

	At 30 June 2009 RMB'000 (Unaudited)	At 31 December 2008 RMB'000 (Audited)
Within one year	**4,280**	1,737
In the second to fifth years inclusive	**11,101**	6,947
Over five years	**41,900**	28,066
	57,281	36,750

18. Related party transactions

The Group entered into the following related party transactions during the period:

(a) Purchase of raw materials

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Minority shareholder of a subsidiary	**10,792**	45,210
Associate	**7,274**	3,253
	18,066	48,463

(b) Sales of goods

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Minority shareholder of a subsidiary	**7,545**	—

(c) Borrowings raised

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Minority shareholder of a subsidiary	**—**	5,000

(d) Interest expenses paid

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Shareholders	**8,183**	12,086

18. Related party transactions (continued)

(e) Compensation of key management personnel

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

	Six months ended	
	30.6.2009	30.6.2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**2,070**	4,574
Post-employment benefits	**5,567**	5,927
	7,637	10,501

19. Event after the end of the reporting period

The Group was advised on 19 December 2007 that Shandong Dongyue Fluo-Silicon Materials Co., Ltd. and Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone"), subsidiaries of the Company, have been named as defendants in a legal case. It was alleged that the Group's silicone business had infringed the intellectual property rights of China Bluestar (Group) Limited and Bluestar Chemical New Materials Limited (collectively "China Bluestar Group"), and that as a result the Group should pay to China Bluestar Group damages which they estimated would be RMB 100 million or more (the "Alleged Claims").

The High People's Court of Beijing Municipality issued a judgment dated 4 May 2008 dismissing the actions filed by China Bluestar Group against Dongyue Organic Silicone and that Dongyue Organic Silicone was not the appropriate defendant. China Bluestar Group then instituted an appeal at the Supreme Court of PRC which made the adjudication on 8 October 2008. The Supreme Court of PRC withdrew the High People's Court of Beijing Municipality's judgement and required the High People's Court of Beijing Municipality to retrial. The High People's Court of Beijing Municipality made the adjudication on 12 December 2008 and stated that High People's Court of Beijing Municipality had the jurisdiction on this litigation.

On 20 July 2009, the Group received a judgment from the High People's Court of Beijing Municipality approving the withdrawal of the Alleged Claims by China Bluestar Group.

20. Seasonality

Sales of refrigerants are affected by seasonality. The period from March to July is generally the peak season of sales of refrigerants due to the higher temperature in the PRC. Sales of refrigerants in the first quarter of the year is usually the lowest during the whole year due to the lower temperature in the PRC, the New Year's holiday, the Chinese spring holiday and annual inspection on production facilities. Other products generally are not affected by seasonality factors.

21. Comparative figures

The comparative figures of the prepayment for purchase of property, plant and equipment under non-current assets has been reclassified from prepayment under current assets, prepaid lease payments under current assets has been reclassified from prepaid lease payments under non-current assets and the amount due to an associate and amounts due to minority shareholders of subsidiaries have been reclassified from trade payables to conform to the current period's presentation.

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