



東岳集團有限公司

DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

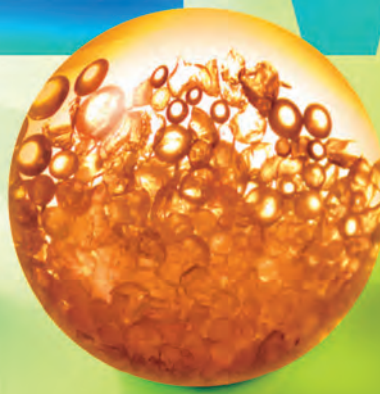
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號：0189

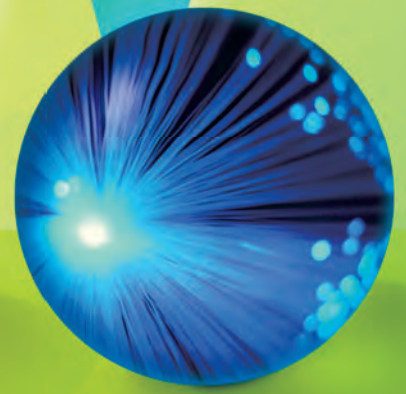
NEW



Environmental
Protection
新環保



Materials
新材料



Energies
新能源

2010
Interim Report
中期報告

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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. YAN Jianhua
Mr. ZHANG Jian

Independent Non-Executive Directors

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

Company Secretary

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

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong



Corporate Information (continued)

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

Management Discussion and Analysis

Business Review

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

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

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

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

Future Prospects

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

Financial Review

Results Highlights

For the six months ended 30 June 2010, the Group recorded revenue of approximately RMB2,590,832,000, representing an increase of 69.35% over the corresponding period last year. The gross profit margin was 25.44% (corresponding period of 2009: 10.88%). During the period, the Group recorded profit before tax of approximately RMB399,839,000 (corresponding period of 2009: loss before tax RMB10,257,000), and net profit of approximately RMB290,333,000 (corresponding period of 2009: RMB54,957,000), while profit attributable to the Company's owners was approximately RMB274,100,000 (corresponding period of 2009: RMB63,257,000), representing an increase of 333.31% over the corresponding period last year. Basic earnings per share were RMB0.13 (corresponding period of 2009: RMB0.03).

Segment Operating Results

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

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

Analysis of Sales and Gross Profit

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

Management Discussion and Analysis (continued)

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

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

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

The results of the refrigerants segment contributed 83.41% (corresponding period of 2009: 75.20%) of the total segment results of the Group, while its segment results margin was 14.32%, compared with 2.93% of the corresponding period last year. With our current market position, the Group is not only influential to, but also commands a large extent of authority in the industry. In the first half of 2010, as a result of the market recovery, there showed a remarkable rebound in the selling prices of the refrigerant products, while the Group was able to stabilize the operating costs through our leading market position and fully vertically-integrated production value chain. In addition, the Clean Development Mechanism project and PVC also contributed to the results of this segment. Moreover, there showed improved operating results margin for the Group's dichloromethane and liquid alkali products.

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

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

Administrative Expenses

During the period, the administrative expenses increased by 139.69% to RMB138,524,000 from RMB57,792,000 of the corresponding period last year. The increase was mainly attributable to the increase in the payroll expenses.

Capital Expenditure

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



Management Discussion and Analysis (continued)

Liquidity and Financial Resources

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

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

Capital Structure

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

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

Group Structure

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

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

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

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

Notes:

(1) *Current Ratio = Current Assets/Current Liabilities*

(2) *Gearing Ratio = Net Debt/Total Capital*

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Charge on Assets

As at 30 June 2010, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,052,408,000 (31 December 2009: RMB1,027,628,000), and bank deposits of RMB109,214,000 (31 December 2009: RMB213,309,000), which were pledged to secure the Group's borrowings and the bill payables of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

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

Employees

The Group employed 4,317 employees in total as at 30 June 2010 (31 December 2009: 3,829). The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as medical insurance and pensions to ensure competitiveness.

Interim Dividend

The Board of Directors (the "Board") did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).



Other Information

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

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

Model Code for Securities Transactions by Directors

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

Audit Committee

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

The Audit Committee met with the management and external auditors on 25 August 2010, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the six months ended 30 June 2010, which have been reviewed by the Group's external auditors, before proposing 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 2010.

Remuneration Committee

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

Compliance with the Code on Corporate Governance Practices

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

Code Provision A.2.1

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

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

Code Provision E.1.2

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

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

Share Options

(a) 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 the 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 the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved and amended by written resolutions of all the shareholders of the 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 IPO's Offer Price per Share;
- (b) grants of options are subject to the Listing Committee of the HKSE 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.

Other Information (continued)

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 HKSE (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 2010, 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					Exercise price HK\$	Date of Grant	Exercisable from	Exercisable until
	Balance as at 1 January 2010	Lapsed during the period	Reclassified during the period	Exercised during the period	Outstanding as at 30 June 2010				
Directors:									
Mr. Zhang Jianhong	7,147,636	—	—	—	7,147,636	2.16	16 November 2007	10 December 2008	10 December 2011
Mr Liu Chuanqi	6,353,454	—	—	—	6,353,454	2.16	16 November 2007	10 December 2008	10 December 2011
Mr Cui Tongzheng	5,162,180	—	—	—	5,162,180	2.16	16 November 2007	10 December 2008	10 December 2011
Mr Yang Erning	1,191,272	(1,191,272)	—	—	—	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Yan Jianhua	—	—	397,091	—	397,091	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Zhang Jian	397,091	—	—	—	397,091	2.16	16 November 2007	10 December 2008	10 December 2011
Employees:									
In aggregate	18,623,567	(453,818)	(397,091)	—	17,772,658	2.16	16 November 2007	10 December 2008	10 December 2011
	38,875,200	(1,645,090)	—	—	37,230,110				

Valuation of the share options granted under the Pre-IPO Share Option Scheme and its related accounting policy are set out in the 2009 Annual Report of the Company. As any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the valuation model for the share options does not necessarily provide a reliable single measure of the fair value of the share options.

(b) 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 of the Company and employees of the Group, for the recognition of their contribution of the Group, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for Shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the 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 of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate, exceed 208,000,000 which represents 10% of the total issued share capital as at the Listing Date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

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 2010 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 (resigned on 16 April 2010)
Mr. Yan Jianhua (appointed on 16 April 2010)
Mr. Zhang Jian

Independent Non-Executive Directors

Mr. Ting Leung Huel, Stephen
Mr. Yue Run Dong
Mr. Liu Yi

Other Information (continued)

Director's Rights to Acquire Shares

Other than as disclosed in the section headed "Share Options" in this report, at no time during the six months ended 30 June 2010 was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Disclosure of Interests

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

As at 30 June 2010, 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	% of issued share capital
Mr. Zhang Jianhong	Corporate interest ¹	166,551,273 (L)	7.99 (L)
	Beneficial interest	7,147,636 (L)	0.34 (L)
Mr. Fu Kwan	Corporate interest ²	745,781,818 (L)	35.79 (L)
Mr. Cui Tongzheng	Corporate interest ³	148,852,363 (L)	7.14 (L)
	Beneficial interest	5,162,180 (L)	0.25 (L)
Mr. Liu Chuanqi	Corporate interest ⁴	87,360,000 (L)	4.19 (L)
	Beneficial interest	6,353,454 (L)	0.30 (L)
Mr. Yan Jianhua	Beneficial interest	397,091 (L)	0.02 (L)
Mr. Zhang Jian	Beneficial interest	397,091 (L)	0.02 (L)

Other Information (continued)

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 2010, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the HKSE pursuant to the Model Code.

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

As at 30 June 2010, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Macro-Link International Investment Co., Ltd.	Beneficial interest ¹	745,781,818 (L)	35.79 (L)
Macro-Link Sdn. Bhd.	Corporate interest ¹	745,781,818 (L)	35.79 (L)
Dongyue Team Limited	Beneficial interest ²	166,551,273 (L)	7.99 (L)
Dongyue Initiator Limited	Beneficial interest ³	148,852,363 (L)	7.14 (L)

Other Information (continued)

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Bank of China Group Investment Limited	Corporate interest ⁴	108,000,000 (L)	5.19 (L)
Bank of China Limited	Corporate interest ⁴	108,000,000 (L)	5.19 (L)
Central SAFE Investments Limited	Corporate interest ⁴	108,000,000 (L)	5.19 (L)
Fulland Enterprises Corp.	Beneficial interest ⁴	108,000,000 (L)	5.19 (L)

Notes:

- 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.*
- 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.*
- 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.*
- 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.*
- L: Long Position*

Other Information (continued)

(c) Interests in other members of the Group as at 30 June 2010

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of interest	% of issued share capital/registered capital of such subsidiary
Dongyue F & S	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78%
Zibo Dongyue Lv Yuan 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	Zibo Hong Da Mining Industry Co., Ltd.	Corporate	16%
Guangdong Dongyue Fluorine Chemicals 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%
Dongying Macro-Link Salt	Macro-Link Holding Co., Ltd	Corporate	40%

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, as at 30 June 2010, 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.



Report on Review of Interim Financial Information

Deloitte.

德勤

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 18 to 38, which comprises the condensed consolidated statement of financial position of Dongyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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 enquiries, 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

25 August 2010

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Notes	Six months ended	
		30.6.2010 RMB'000 (Unaudited)	30.6.2009 RMB'000 (Unaudited)
Revenue	3	2,590,832	1,529,852
Cost of sales		(1,931,652)	(1,363,396)
Gross profit		659,180	166,456
Other income	4	17,646	12,438
Distribution and selling expenses		(87,527)	(67,062)
Administrative expenses		(138,524)	(57,792)
Finance costs		(52,128)	(64,349)
Share of result of an associate		1,192	52
Profit (loss) before tax		399,839	(10,257)
Income tax (expense) credit	5	(109,506)	65,214
Profit and total comprehensive income for the period	6	290,333	54,957
Profit and total comprehensive income attributable to:			
Owners of the Company		274,100	63,257
Non-controlling interests		16,233	(8,300)
		290,333	54,957
Earnings per share	7		
Basic and diluted (RMB)		0.13	0.03

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	Notes	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	3,422,860	3,243,681
Deposits for purchase of property, plant and equipment		157,167	130,366
Prepayment for land lease		5,145	9,716
Prepaid lease payments		222,035	207,786
Intangible assets		4,935	6,533
Interest in an associate	10	—	14,874
Available-for-sale investment		21,593	21,593
Deferred tax assets		76,499	75,293
		3,910,234	3,709,842
Current assets			
Inventories		534,825	430,015
Prepaid lease payments		6,227	6,182
Trade and other receivables	11	1,120,455	659,384
Tax recoverable		—	12,033
Pledged bank deposits		109,214	213,309
Bank balances and cash		554,320	853,509
		2,325,041	2,174,432
Current liabilities			
Trade and other payables	12	1,244,955	1,213,278
Borrowings	13	771,044	1,601,360
Tax liabilities		68,133	9,851
Deferred income		7,442	7,535
		2,091,574	2,832,024
Net current assets (liabilities)		233,467	(657,592)
Total assets less current liabilities		4,143,701	3,052,250

Condensed Consolidated Statement
of Financial Position (continued)

At 30 June 2010

	Notes	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
Capital and reserves			
Share capital	14	197,854	197,854
Reserves		2,028,850	1,816,792
Equity attributable to the owners of the Company		2,226,704	2,014,646
Non-controlling interests		277,068	230,627
Total equity		2,503,772	2,245,273
Non-current liabilities			
Deferred income		172,919	173,013
Deferred tax liabilities		18,805	7,744
Borrowings	13	1,448,205	626,220
		1,639,929	806,977
		4,143,701	3,052,250

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

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

Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2010

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

For the six months ended 30 June 2010

	Note	Six months ended	
		30.6.2010 RMB'000 (Unaudited)	30.6.2009 RMB'000 (Unaudited)
Net cash (used in) from operating activities		(15,263)	186,660
Net cash used in investing activities:			
Interest received		5,948	2,439
Purchase of property, plant and equipment		(264,888)	(92,675)
Government grants received		8,249	8,780
Interest bearing loan advances to third parties		(543,745)	—
Repayment of interest bearing loan advances to third parties		544,245	—
Net cash inflow from acquisition of subsidiaries	17	4,611	—
Other investing cash flows		44,095	5,036
		(201,485)	(76,420)
Net cash used in financing activities:			
Net bank loans raised		1,316,499	1,174,871
Repayments of borrowings		(1,334,830)	(1,211,421)
Acquisition of further interests in subsidiaries		—	(26,000)
Dividends paid		(64,110)	(45,923)
Dividends paid to non-controlling interests		—	(6,703)
Capital refund to non-controlling interests		—	(2,400)
		(82,441)	(117,576)
Net decrease in cash and cash equivalents		(299,189)	(7,336)
Cash and cash equivalents at 1 January		853,509	567,200
Effect of foreign exchange rate changes		—	(1,282)
Cash and cash equivalents at 30 June, represented by			
Bank balances and cash		554,320	558,582

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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.

2. Principal Accounting Policies

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

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

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

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

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



Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

2. Principal Accounting Policies (continued)

As set out in note 17, on 29 June 2010, Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue Fluo-Silicon"), a subsidiary of the Company, acquired additional 40% equity interest in its associate, Dongying Macro-Link Salt Co., Ltd. ("Macro-Link Salt"). After the acquisition, Macro-Link Salt has become a non-wholly owned subsidiary of the Group.

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

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

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

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

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

Notes to the Condensed Consolidated
Financial Statements (continued)

For the six months ended 30 June 2010

3. Segment Information

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

Six months ended on 30 June 2010

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

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

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

3. Segment Information (continued)

Six months ended on 30 June 2009

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

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

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

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

Inter-segment sales are charged at prevailing market rates.

Notes to the Condensed Consolidated
Financial Statements (continued)

For the six months ended 30 June 2010

4. Other Income

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

5. Income Tax (Expense) Credit

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

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

6. Profit and Total Comprehensive Income for the Period

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

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

7. Earnings Per Share

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

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

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

8. Dividends

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

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

9. Property, Plant and Equipment

During the period, the Group spent approximately RMB302,696,000 (six months ended 30 June 2009: RMB72,828,000) for the acquisition of property, plant and equipment to expand its operations relating to refrigerants, polymers and organic silicone.

10. Interest in an Associate

	31.12. 2009 RMB'000 (Audited)
Cost of investment in an associate unlisted in the PRC	13,633
Share of post-acquisition profits and total comprehensive income, net of dividends received	1,241
	<hr/> 14,874

Note: The balance as at 31 December 2009 represented the 20% equity interest in Macro-Link Salt held by Dongyue Fluo-Silicon, a subsidiary of the Company. On 29 June 2010, Dongyue Fluo-Silicon acquired additional 40% equity interest of Macro-Link Salt. After the acquisition, the Company indirectly holds 60% equity interest of Macro-Link Salt (note 17) and Macro-Link Salt has been accounted for as a subsidiary since the further acquisition.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

11. Trade and Other Receivables

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

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

Included in the trade receivables are bills receivables amounting to RMB447,517,000 (31 December 2009: RMB329,827,000). Included in other receivables is an entrusted loan to a third party amounting to RMB60,000,000 (31 December 2009: nil) which bears interest at 5.39% per annum with maturity of two months and a deposit receivable from a non-controlling interest of a subsidiary amounting to RMB23,500,000 included in trade and other receivables as set out in note 17 (31 December 2009: nil).

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

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

Notes to the Condensed Consolidated
Financial Statements (continued)

For the six months ended 30 June 2010

12. Trade and Other Payables

	30.6.2010 RMB'000 (Unaudited)	31.12.2009 RMB'000 (Audited)
Trade payables	725,842	827,023
Receipt in advance	52,289	54,855
Payroll payable	140,048	96,776
Payable for CDM project (Note)	70,921	115,131
Payable for property, plant and equipment	130,228	65,619
Payable for acquisition of subsidiaries (note 17)	35,200	—
Other payables and accruals	90,427	53,874
Total	1,244,955	1,213,278

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

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

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

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

13. Borrowings

During the period, the Group obtained new loans amounting to approximately RMB1,316,499,000 (six months ended 30 June 2009: RMB1,174,871,000). The loans carry interest at variable market rates promulgated by the People's Bank of China.

As at 30 June 2010, borrowings included secured borrowings of RMB518,898,000 (31 December 2009: RMB773,224,000) which were secured by the Group's property, plant and equipment with net book value of approximately RMB939,614,000 (31 December 2009: RMB1,009,791,000) and prepaid lease payments with net book value of approximately RMB112,794,000 (31 December 2009: RMB17,837,000).

Included in the borrowings is a RMB10,000,000 bank borrowings which is guaranteed by a non-controlling interest of a subsidiary (31 December 2009: nil).

14. Share Capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January and 30 June 2010	4,000,000	382,200
Issued and fully paid:		
At 1 January 2009 and 30 June 2009	2,083,623	197,854
At 1 January 2010 and 30 June 2010	2,083,623	197,854

Notes to the Condensed Consolidated
Financial Statements (continued)

For the six months ended 30 June 2010

15. Capital Commitments

At 30 June 2010, the Group had outstanding capital commitments as follows:

	30.6.2010	31.12.2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	54,226	116,155

On 29 June 2010, Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals"), a subsidiary of the Company, entered into an agreement pursuant to which Dongyue Chemicals agreed to acquire an additional 16% equity interest in Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone"), a subsidiary of the Company, from a third party for a cash consideration of RMB148,000,000. The acquisition requires approval from the relevant bureau. The transfer is yet completed as of the end of the reporting date. Subsequent to the end of the reporting period, the relevant bureau approved the acquisition.

16. Lease Commitments

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

	30.6.2010	31.12.2009
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	4,376	3,148
In the second to fifth years inclusive	13,465	10,977
Over five years	42,318	40,073
	60,159	54,198



Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

17. Acquisition of Subsidiaries

On 29 June 2010:

- (i) Dongyue Fluo-Silicon, a subsidiary of the Company acquired additional 40% equity interest in its associate, Macro-Link Salt, and
- (ii) the Company acquired 25% equity interest in Dongying Macro-Link Precision Chemical Co., Ltd. ("Precision Chemical"), a subsidiary of Macro-Link Salt, from an independent third party. Precision Chemical was established in Dongying, Shandong Province, the PRC as a sino-foreign joint venture company in 2007 with a registered capital of RMB10,000,000 and is principally engaged in the business of production and sale of bromine.

After the acquisition, Macro-Link Salt and Precision Chemical became subsidiaries of the Company. The directors of the Company accounted for the above two transactions as one acquisition as the directors of the Company consider Macro-Link Salt and Precision Chemical as a single unit. Both Macro-Link Salt and Precision Chemical are engaged in the production and sales of salt and bromine, which are essential raw materials for the production of the Group. It is expected that the acquisition will result in operational synergies.

Notes to the Condensed Consolidated
Financial Statements (continued)

For the six months ended 30 June 2010

17. Acquisition of Subsidiaries (continued)

Macro-Link Salt's consolidated carrying amount and provisional fair value at the date of acquisition:

	Amounts recognised at the date of business combination RMB'000
Net assets acquired:	
Property, plant and equipment	70,227
Prepaid lease payments	17,160
Inventories	3,259
Prepaid lease payment	719
Trade and other receivables	40,990
Bank balances and cash	4,611
Trade and other payables	(39,137)
Borrowings	(10,000)
Tax liabilities	(2,512)
	85,317
Non-controlling interests	(32,131)
Bargain purchase on acquisition of subsidiaries	(1,920)
	51,266
Total consideration	51,266
Satisfied by:	
Payable for acquisition of subsidiaries (note 12 and note a)	35,200
Transfer from interest in an associate	16,066
	51,266
Net cash inflow arising on acquisition:	
Cash consideration paid	—
Bank balances and cash acquired	(4,611)
	(4,611)

Note a: Cash consideration of RMB35,200,000 is payable within 30 days after completion of all transfer procedures required by the PRC regulatory authorities.

Bargain purchase of RMB1,920,000 arose on the acquisition of Macro-Link Salt and Precision Chemical. The above net identifiable assets acquired and the fair value of the previously held interest in Macro-Link Salt are determined on a provisional basis, awaiting the completion of professional valuation. Accordingly, the amount of bargain purchase may be changed after the completion of professional valuation.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

18. Related Party Transactions

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

(a) Purchase of raw materials from

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Non-controlling interest	21,935	10,792
Associate	11,784	7,274
	33,719	18,066

(b) Sales of goods to

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Non-controlling interest	—	7,545

(c) Interest expenses paid

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Shareholder which holds 6.81% equity interests of the Company	3,188	8,183

Notes to the Condensed Consolidated
Financial Statements (continued)

For the six months ended 30 June 2010

18. Related Party Transactions (continued)

(d) Compensation of key management personnel

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

	Six months ended	
	30.6.2010	30.6.2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,338	2,070
Post-employment benefits	5,774	5,567
	7,112	7,637

19. Event after the end of the Interim Period

Subsequent to the reporting date, the relevant bureau grants the approval to Dongyue Chemicals for its acquisition of additional 16% equity interest in Dongyue Organic Silicone (detail of which is set out in note 15). After the acquisition, the Company holds 100% equity interest of Dongyue Organic Silicone.

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.



Dongyue International Fluoro Silicone Material Industry Park

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