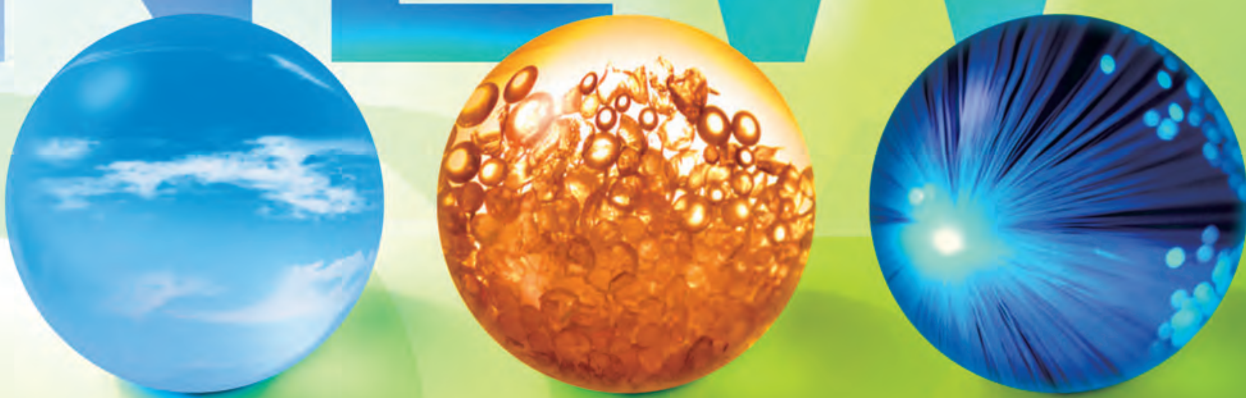
DONGYUE FEDERATION

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
Annual Report
年報

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Chairman's Statement

In 2010, driven by the incentive policies and the resilience of the global economy at the same time, the economy of the People's Republic of China ("China") has managed to shake off the gloom of the global financial crisis, and the economic growth factors had changed for the better, giving rise to a favorable situation propelled by investments under the market forces, consumption and exports. Dongyue Group Limited (the "Company") and its subsidiaries (collectively the "Group") firmly captured the opportunities afforded by the improving economy and market and fully leveraged our technological innovations, brand recognition, strength in business scale and our integrated operations to ensure product quality and to meet the market demand; the Group encouraged technological advancement and innovations, thereby improved our overall operation efficiency. In 2010, refrigerants and polymers, the principal products of the Group, enjoyed a substantial rise in prices, hence the steep rise in profit.

For the year ended 31 December 2010, the Group's revenue was RMB5,964,322,000, representing an increase of 68.27% from 2009, while profit attributable to shareholders was RMB733,869,000, representing an increase of 343.95% from 2009; the basic earnings per share was RMB0.35.

In review, the Group made progress in the following major aspects in 2010:

Revenue of the Group hit an all-time high with the share price of the Company trading at favourable levels. In 2010, the Group grasped firmly at the rare opportunity of the dissipating financial crisis and the rapid rebound of the market and focusing resolutely on the key area of growing by increasing the production capacity, as such, the Group initiated drives to lift its production, promote its sales and improve its cost-effectiveness such as the "general campaign in production" for the second quarter, the "pushing through the 10 billion mark general campaign", the "achieving the three goal" race and the "managing the two areas well and tackling the two markets well", which actually gave play to the Group's strengths in its massive production capacity, great sales volume, major brand name and having a wide market so that the revenue of the Group hit an all-time high. With the support of satisfactory operating result and our significant achievements in technological research and development, the Group took on an active role to have effective communications with investors for a better understanding of the Company by the capital market. As a result of our effort, the shares of the Company were traded at HK$1.48 per share at the beginning of the year to a closing of HK$4.84 per share on 31 December 2010 with the market capitalization going through HK$10 billion, thus becoming one of the Hong Kong Stocks of excellent performance.

In 2010, a significant breakthrough in technological innovation was achieved in the Group's two major technology attainments in research and development. One of these is the Group's ionic membrane project, an important project of the State in scientific research, had been officially applied in our 10,000-tonnes chloralkali production device on 30 June 2010, and only until then was the domestic production and commercial application of the chloralkali ionic membrane in China truly realized, which ended once and for all the time of long lasting reliance on import by China's chloralkali ionic membrane industry. As such, it was awarded the Shandong Province First Prize in Technological Invention. Li Keqiang and Zhang Dejiang, Vice Premiers of the State Council respectively gave instructions in writing to support the widened commercial applications of the Group's ionic membrane. The second application of technology achievements is DONGYUE No. 3, the new environmental friendly refrigerant which is a product based on the Group's independent research efforts, has also found commercial application to be launched onto the market; in June 2010, it was given an globally common serial no, which is R439A, which means that DONGYUE No. 3 has been given the green light to access the world market, in addition to its having been granted the Inventions & Patents Award of China. The product has become the first choice of new refrigerants to replace old ones for major domestic air-conditioner producers such as Haier, Hisense, Gree and Midea.

The Group's production structure adjustment was further optimized, making its production chain even more comprehensive. In 2010, focusing on the improvement in the advanced technological production chain for fluorosilica and upgrading of production, the Group carried out new upgrading and expansion project construction. The 60,000-tonne annual production capacity methane chloride project expansion was completed during the year, and the 7,300-tonne annual production capacity high performance PTFE resin project with the second phase of the organic silica project put into service on 1 October, support has been made available for the production upgrading and production structure adjustment. Also, the Group has made 59 technological revamp and upgrading in 2010 to optimize its production chain and production value structure of its product range, so that the entire technology park has gone on the creditable track of environmental protection and resources saving.

In 2011, it is anticipated that the global economy will continue to be recovering moderately and China's export will enjoy a faster growth, and that the real growth in consumption will slide slightly whereas the impetus of growth in investment will remain strong. Judging from the current situation, the market prices of the Group's principal products will stay at a high level and the products will continue to be in great demand; however, from what 2011 now appears, the governments will likely step up their macroeconomic control measures to tackle inflation and surplus liquidity so that the economic growth may slacken a little in the second half of the year. Given the discrete operation of the Group, the following initiatives will be adopted in order to increase the market share in the industry:

Expansion of R125 project of 5,000 tonnes annual production capacity and ancillary TFE project of 10,000 tonnes annual production capacity

In the world to date, the principal replacements for the refrigerant HCFC22 are R439A (independently developed by the Group) and R410, and their Ozone Depletion Potential (ODP) are both 0, which have already seen them being applied on many occasions. As for R125, it is one of the key ingredients of the above-mentioned environmental friendly refrigerants. It is precisely because of the heightened global awareness of environmental protection that gives rise to the strong demand for R125. The combined effect of the strong market demand and the relatively limited supply means the current market price of R125 remains remarkably optimistic.

Investment for the construction of raw vulcanizate project of 20,000 tonnes annual production capacity and gross rubber project of 5,000 tonnes annual production capacity

Demand for raw vulcanizate and gross rubber as the downstream products of organic silicone have seen continuous rise in the wake of the economic growth. Amid the impact of product mix adjustment and market prices, users of downstream organic silicone products have essentially stopped production and sale of raw vulcanizate (other than a small number of products of special specifications for self-consumption) and purchases are made directly from organic silicon monomers producers, and existing producers as well as impending monomers producers have broadened the varieties of follow-up products.

For this reason, the Group invested in the construction of a project for the further processing of organic silicone so as to increase our competitiveness in the industrial chain of organic silicone. It is anticipated that the raw vulcanizate project of 20,000 tonnes annual production capacity will be completed by April 2011, and construction of the project of 5,000 tonnes annual production capacity gross rubber will be completed by July 2011.

Construction of a gaseous silica project of 5,000 tonnes annual production capacity

Silica is an important nano inorganic chemical material which has superior surface chemical functions and good physiological inertness. It has found wide applications in areas such as silicon rubber, adhesives, paints, coatings, printing inks, electronics, paper, cosmetics, medical, food and agriculture. Its functions are mainly as stiffeners, thickeners, thixo and extinction and it is an indispensable raw material in national advanced technology and the national defense industry.

At present, the Group has already installed a production device for an annual production capacity of 1,000 tonnes of silica, the production technology of which is mature and the operation is smooth with product quality meeting the requirements of users. Based on the existing technology, a device of 5,000 tonnes annual production capacity of an optimized version will be designed and installed. Upon completion and commencement of production, it will be able to handle the by-product generated by an organic silica device of 200,000 tonnes annual production capacity. It is anticipated that construction of the project will be completed by October 2011.

The Group shall step up the construction of a raw material base so as to ensure the steady supply of raw materials. With the scale on the rise, supply of raw materials is becoming more and more important. The Group attaches great importance to the construction of the raw material base, and the Group shall apply ourselves in setting up the raw material base in China so as to ensure the supply of raw materials for the Group's sustained growth in future.

The Group shall continue to strengthen the independent research and development and improve the core competitiveness. The Group has been attaching great importance to the independent research and development. The Group's achievements were great in 2010, and they were merely a small part of the results of the massive independent research and development over the years. In 2011, the Group will further step up our efforts in independent research and development with a view to, in the arena of fluorochemical and silicone materials, increasing the technological elements of the products; and strengthening the associated corporate development.

Both our management and our staff had captured the invaluable opportunity of development in 2010 and created an all-time great result for the Group. I myself and, on behalf of the Group and our Board of Directors, must thank them from the depth of my heart for their good efforts over the year, and I also express my gratitude to our shareholders, customers and business partners.

Zhang Jianhong
Chairman

China, 16 March 2011

Management Discussion and Analysis

Financial Review

Results Highlights

For the year ended 31 December 2010, the Company and its subsidiaries (together the "Group") recorded revenue of approximately RMB5,964,322,000, representing an increase of 68.27% over RMB3,544,447,000 of last year. The gross profit margin increased to 27.56% (2009: 14.68%), representing an increase of 12.88% over 2009. During the year, the Group recorded profit before tax of approximately RMB1,065,909,000, representing a substantial increase of 712.60% over RMB131,173,000 of last year, and net profit of approximately RMB781,497,000, representing a substantial increase of 407.57% over RMB153,969,000 of last year, while profit attributable to the Company's owners was approximately RMB733,869,000 (2009: RMB165,303,000), representing a substantial increase of 343.95% over last year. Basic earnings per share were RMB0.35 (2009: RMB0.08).

The board of Directors of the Company recommend the payment of a final dividend for 2010 of HK$0.135 (2009: HK$0.035) per share to the shareholders whose names appear on the register of members of the Company on 11 May 2011. The expected date for payment of such dividend is 7 June 2011.

Segment Operating Results

Set out below is the comparison, by segments, of the Group's revenue and results for the year ended 31 December 2010 and the year ended 31 December 2009:

	For the year ended 31 December 2010			For the year ended 31 December 2009		
Reportable Segments	**Revenue (RMB'000)**	**Results (RMB'000)**	**Operating Results Margin %**	Revenue (RMB'000)	Results (RMB'000)	Operating Results Margin %
Refrigerants	4,571,194	902,015	19.73	2,794,177	189,262	6.77
Polymers	1,413,337	244,559	17.30	666,793	62,770	9.41
Organic silicone	547,771	7,652	1.40	419,107	2,791	0.67
Others	349,728	34,530	9.87	67,997	814	1.20
	6,882,030	1,188,756	17.27	3,948,074	255,637	6.47
Less: Inter-segment sales	(917,708)	—	—	(403,627)	—	—
Consolidated	5,964,322	1,188,756	19.93	3,544,447	255,637	7.21

Management Discussion and Analysis

Analysis of Revenue and Results

During the year under review, the refrigerants segment remained to be the largest contributor to the revenue of the Group, accounting for approximately 64.10% (excluding inter-segment sales). The revenue increased by 63.60% to RMB4,571,194,000 from RMB2,794,177,000 of 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 sale of liquid alkali, the Group's side products in this segment. During the year, 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 year of 2009.

During the year, the revenue of the polymers segment increased by 111.96% to RMB1,413,337,000 from RMB666,793,000 of the year of 2009. 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 30.70% to RMB547,771,000 from RMB419,107,000 of last year, while its contribution to the Group's revenue was decreased to 9.18% from 11.82% of last year (excluding inter-segment sales).

With regard to the operating results, the consolidated segment operating results margin of the Group was 19.93% (2009: 7.21%), representing a substantial increase of 12.72% from 2009.

The results of the refrigerants segment contributed 75.88% (2009: 74.04%) to the total segment results of the Group, while its segment results margin was 19.73%, compared with 6.77% in the year of 2009. 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 year 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 dichlormethane and liquid alkali products.

The polymers segment contributed approximately 20.57% (2009: 24.55%) to the total segment results of the Group, while its segment results margin increased to 17.30% from 9.41% of last year. The operating results margin of PTFE and HFP, the two major products of this segment, continued to increase during the current year.

The contribution made by the organic silicone segment accounted for about 0.64% (2009: 1.09%) of the total segment results of the Group. The operating results margin of the segment increased to 1.40% from 0.67% of last year, primarily due to the increased selling price of D4 and DMC, the Group's major organic silicone products.

Administrative Expenses

During the year of 2010, the administrative expenses increased by 113.41% to RMB329,592,000 from RMB154,442,000 of last year. The increase was mainly attributable to the increase in the payroll expenses.

Capital Expenditure

For the year ended 31 December 2010, the Group's capital expenditure was approximately RMB1,019,416,000 (2009: RMB219,103,000), 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.

Liquidity and Financial Resources

The Group's financial position is sound with strong operational cash flow. As at 31 December 2010, the Group's total equity amounted to RMB2,866,588,000, representing an increase of 27.67% compared with 31 December 2009. As at 31 December 2010, the Group's bank balances and cash totaled RMB594,621,000 (31 December 2009: RMB853,509,000). During the current year under review, the Group generated a total of RMB549,081,000 (year ended 31 December 2009: RMB880,672,000) cash inflow from its operating activities. The current ratio[(1)] of the Group as at 31 December 2010 was 0.92 (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 operational cash flows, the management is confident that the Group will have adequate resources to settle any debts and to finance its daily operational and capital expenditures.

Capital Structure

On 9 December 2010, the Company issued and allotted a total of 15,826,921 new shares at HK$2.16 per share as a result of the exercise of the Pre-IPO share options. After the issuance, as at 31 December 2010, the number of issued shares of the Company had increased to 2,099,449,921.

Save as disclosed above, there had been no change in the share capital of the Company during the year under review.

As at 31 December 2010, the borrowings of the Group totaled RMB2,732,944,000 (31 December 2009: RMB2,227,580,000). The gearing ratio[(2)] of the Group was 42.72% (31 December 2009: 37.96%).

The Group had no particular borrowing behaviour due to seasonality. As at 31 December 2010, the Group's borrowings comprised non-current portion (more than 1 year) and current portion (within 1 year). The non-current portion of borrowings amounted to approximately RMB1,409,678,000, of which approximately RMB1,260,340,000 are repayable more than 1 year but not more than 5 years and approximately RMB149,338,000 are repayable more than 5 years. The current portion of borrowings amounted approximately to RMB1,323,266,000. The Group's borrowings were made at fixed interest rates and floating rates. The weighted average effective interest rates on floating rate borrowings and fixed rate borrowings at 31 December 2010 were 4.90% (2009: 5.33%) and 5.38% (2009: 5.76%) per annum, respectively. As at 31 December 2010, 39% (2009: 70%) of the Group's borrowings bear fixed interest rates.

As at 31 December 2010, the Group's borrowings were denominated in Renminbi ("RMB") and US dollars, amounting to approximately RMB2,399,046,000 and approximately US$49,457,000 (equivalent to approximately RMB333,898,000) respectively.

Group Structure

During the year under review, (i) Shandong Dongyue Fluo-Silicon Materials Co. Ltd ("Dongyue F&S"), a subsidiary of the Company, acquired 40% equity interests in Dongying Macrolink Salt Co., Ltd ("Dongying Macrolink Salt"), (ii) the Company acquired 25% equity interests in Dongying Macro-Link Precision Chemical Co., Ltd. ("Macrolink Precision Chemicals"), (iii) Shandong Dongyue Chemicals Co. Ltd. ("Dongyue Chemicals"), a subsidiary of the Company, acquired 16% equity interests in Shandong Dongyue Organosilicon Material Co. Ltd. ("Dongyue Organic Silicone"), and (iv) Dongyue Organic Silicone acquired 45% equity interests in Shandong Dongyue Silicone Rubber Co., Ltd. ("Dongyue Silicone Rubber").

Prior to the acquisitions, Dongyue F&S owned 20% equity interests in Dongying Macrolink Salt, which owned 75% equity interests in Macrolink Precision Chemicals, while the Company owned 84% equity interests in Dongyue Organic Silicone, which owned 55% equity interests in Dongyue Silicone Rubber.

Save as disclosed above, there has been no material change in the structure of the Group during the year ended 31 December 2010.

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 31 December 2010, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB840,126,000 (31 December 2009: RMB1,027,628,000), and bank deposits of RMB15,938,000 (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 and Emolument Policy

The Group employed 4,696 employees in total (31 December 2009: 3,829) as at 31 December 2010. 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.

In addition, the Group had also adopted share options schemes as a long term incentive to the Directors and eligible employees. The emolument policy for the Directors and senior management of the Group is set up by the Company's Remuneration Committee, having regard to the Group's performance, individual performance and comparable market conditions.

Directors' and Senior Management's Profile

Directors

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

Executive Directors

Mr. ZHANG Jianhong, aged 51, was appointed as the chairman, chief executive officer and executive director of the Company in July 2006. He has been with the Company and its subsidiaries (collectively the "Group") and its predecessors since October 1986 and has over 20 years of experience in the chemical industry. He is also the chairman of Dongyue Chemicals, Dongyue Polymers and Dongyue Organic Silicone, and a director of Dongyue F&S, Dongying Macrolink Salt and Macrolink Precision Chemicals, all of which are the Company's subsidiaries. Mr. Zhang is a senior officer of political affairs with a postgraduate degree in economics. He had served the People's Liberation Army Navy from 1978 to 1982. He has obtained the honorary titles of National Youth Spark Leader and Model, Powerful Figure of China Petroleum and Chemical Industry (First Session), Top 10 Outstanding Figures of Chinese Brands in the International Market, the Shandong Labour Model, Top 10 News Figures of Shandong Province in 2006 and the most outstanding CEO of the Year chosen by a Hong Kong magazine "資本才俊 Capital CEO". Mr. Zhang had also been the vice standing member of executive board of China Association of Organic Fluorine and Silicone Material Industry (中國氟硅有機材料工業協會) until September 2010.

Mr. FU Kwan, aged 54, was appointed as the executive director of the Company in July 2006. He has been with the Group since December 1996 and is formerly a director of Dongyue Chemicals, Dongyue Polymers, Dongyue Organic Silicone and Dongyue F&S. Mr. Fu is the chairman of the board of directors and the president of Macro-Link Group Limited and is a director of Macro-Link Sdn. Bhd.. Through his various investments in a variety of businesses, Mr. Fu has over 25 years of experience in corporate management and business strategy planning. Mr. Fu was the deputy director of the Economic Committee of Liling City, Hunan Province, head of the Foreign Trade Bureau of Liling City, Hunan Province, deputy general manager of Hunan Arts & Crafts Import & Export Corporation, and is a committee member of the Chinese People Political & Consultative Conference ("CPPCC"), the vice chairman of the China Federation of Industry & Commerce, and the chairman of Chamber of Commerce of Beijing and Hunan Enterprises (北京湖南企業商會). Mr. Fu has also been awarded the "Top 10 Outstanding Entrepreneurs in China Certificate" in 2003 by the China Professional Managers Association, "Top 10 Excellent Leaders of Chinese Private Enterprises Certificate" in 2003 by 21st Century Economic News Association, and was defined as "Outstanding Builder for Socialism Task with Chinese Characteristics" (中國特色社會主義事業優秀建設者) by the nation. Mr. Fu is a non-executive director of Wang-Zheng Sdn. Bhd., a company listed on the Kuala Lumpur Stock Exchange. Mr. Fu owns a 40% interest in Macro-Link Sdn. Bhd., which wholly owns Macro-Link International Investment Co., Ltd. ("Macro-Link International"). Macro-Link International is a substantial shareholder of JLF Investment Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (the "HKSE").

Mr. LIU Chuanqi, aged 61, was appointed as the executive director of the Company in July 2006. He has been with the Group and its predecessors since October 1986. Mr. Liu has over 20 years of experience in the chemical industry and is a director of Dongyue Chemicals, Dongyue Polymers, Dongyue F&S, Dongyue Organic Silicone, Dongying Macrolink Salt and Macrolink Precision Chemicals and was a director of Zibo Dongyue Lvyuan, all of which are the Company's subsidiaries. He is also formerly the general manager of Dongyue Chemicals and currently the president of the Group. He is a senior officer of political affairs, and was awarded "Medal for Enhancing the Labour Force of Zibo City" in 2002 by the Zibo City Labour Union.

Mr. CUI Tongzheng, aged 49, was appointed as the executive director, vice president and chief financial officer of the Company in July 2006. He has been with the Group and its predecessors since November 1988. Mr. Cui has over 20 years of experience in the chemical industry and is a director of Dongyue Chemicals, Dongyue Polymers and Dongyue F&S. Mr. Cui is also the vice president of the Group and is formerly the deputy general manager of Dongyue Chemicals. Mr. Cui holds a bachelor degree from China Statistics Cadre College as well as a MBA diploma from Shanghai Jiao Tong University.

Mr. YAN Jianhua, aged 55, was appointed as the executive director of the Company in April 2010 and has been with the Group since January 2004. Mr. Yan is primarily responsible for the internal auditing of the Group and has over 30 years of experience in corporate management and financial auditing. Mr. Yan is currently a director of Dongyue Chemicals, Dongyue Organic Silicone, Dongyue F&S and Dongying Macrolink Salt and formerly a director of Dongyue Peak and Dongyue Polymers, all of which are the Company subsidiaries. Mr. Yan obtained a bachelor's degree in economics from Zhongnan University of Economics in 1986 and obtained the AACTP Chief Finance Officer Certification accredited by The American Association for the Certification of Training Program through Tsinghua University in 2006. He has been a qualified senior accountant recognized by the Hunan Provincial People's Government since 2000. Mr. Yan joined the Group as the financial controller of Dongyue F&S in January 2004. Prior to joining the Group, Mr. Yan held the positions of financial manager, head of auditing department, chief accountant and financial controller in various corporations.

Mr. ZHANG Jian, aged 38, was appointed as the executive director of the Company in July 2006 and has been with the Group since February 2006. Mr. Zhang has more than 10 years of experience in the investment banking and corporate finance. Mr. Zhang holds a bachelor degree in Economics and Law from Jiangxi University of Finance and Economics and a Master degree in Business Administration from The Chinese University of Hong Kong. He is also an executive director of JLF Investment Company Limited.

Independent non-executive Directors

Mr. YUE Run Dong, aged 71, was appointed as an independent non-executive director of the Company in November 2007 and has been with the Group since then. Mr. Yue has more than 40 years of experience in the chemical industry. He was the dean and a technician of Shen Yang Chemical Research Institute, the dean of Chen Guang Chemical Research Institute and the dean of Chengdu Silicone Research Centre. Recently, he has taken the post of the manager of the technology department of China National Bluestar Group and the dean as well as the chairman of Bluestar Institute of Chemical Technology. Mr Yue is also the chairman of China Association of Organic Fluorine and Silicone Material Industry (中國氟硅有機材料工業協會). Mr. Yue is currently an independent director of Chengdu Guibao Science and Technology Co., Ltd., (成都硅寶科技股份有限公司), a company listed on the Growth Enterprises Board of the Shenzhen Stock Exchange.

Mr. LIU Yi, aged 65, was appointed as an independent non-executive director of the Company in November 2007 and has been with the Group since then. Mr. Liu had previously worked in the Chinese Research Academy of Environmental Sciences as a department head and in the State Environment Protection Administration as a standing member where he retired in January 2006. He has many years of experience in handling environmental protection issues. Mr. Liu does not have any other directorships in listed companies.

Mr. TING Leung Huel, Stephen *MH, FCCA, FCPA (PRACTISING), ACA, CTA (HK), FHKIoD*, aged 57, was appointed as an independent non-executive director of the Company in November 2007. Mr. Ting is a certified public accountant and has been the managing partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants (Practising) since 1987. Mr. Ting is a member of the 9th and 10th CPPCC, Fujian Province. Mr. Ting is currently a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of seven companies listed on the HKSE, namely Tong Ren Tang Technologies Company Limited, Tongda Group Holdings Limited, Minmetals Resources Limited, JLF Investment Company Limited, Computer and Technologies Holdings Limited, Texhong Textile Group Limited and China SCE Property Holdings Limited. Save for the aforesaid, Mr. Ting does not have any other directorships in listed companies during the past 3 years.

Senior Management

Mr. ZHOU Guangsheng, aged 55, is the deputy president of the Group. He has been serving the Group since March 1988 and is responsible for production, safety and environmental protection. He served as a deputy head of production plant and deputy production general manager from April 1989 to March 2004. He served as the deputy general manager of Dongyue Chemicals from March 2004 to March 2006. He has been serving as the vice president of the Group since March 2006 until now.

Mr. ZHANG Heng, aged 43, is an engineer and had obtained an undergraduate degree in economics from the China Petroleum University. He has been serving the Group since November 1988 and is formerly the general manager of Dongyue Polymers and the deputy general manager of Dongyue Chemicals. Mr. Zhang is currently the vice president of the Group and a director of Dongyue Polymers. He has pioneered several research projects which had twice been awarded the Shandong Science and Technology Spark Award, and had several times been awarded the Zibo City Science and Technology Improvement Award and the Zibo City Spark Award.

Mr. WANG Weidong, aged 47, has worked for the Group since September 1996 and is responsible for technical matters and projects. He is currently the general manager and a director of Dongyue Organic Silicone, and the chairman of Dongyue F&S. In 2005, he was awarded the title of Outstanding Scientific Researcher of National Chemical Industry and in 2006, he obtained the award for "Outstanding Worker of National Chlor-alkali Industry". Mr. Wang holds a bachelor degree in Chinese Literature.

Mr. YU Xiuyuan, aged 45, is the chief engineer and the head of the technology department of the Group. He had been working with the Group since February 1987. He is also a committee member of the China Association of Organic Fluorine and Silicone Material Industry (中國氟硅有機材料工業協會) and a committee member of the organic chemical technology committee of China National Standardization Technology Committee. He is an engineer and obtained professional qualifications in chemistry. In 1994, he was awarded the Provincial Science and Technology Advance Prize (Third Prize) and in 1999, he was awarded the Provincial Spark Science and Technology Prize (Second Prize).

Company Secretary

Mr. NG Kwok Choi, aged 39, is a full time company secretary and financial controller of the Company. He joined the Group on 3 July 2009. Mr. Ng is primarily responsible for the overall financial reporting and company secretarial matters of the Company. Mr. Ng has over 15 years of experience in the fields of finance, auditing and accounting. Prior to joining the Group, he had been the group financial controller of two companies listed on the Main Board of the HKSE from July 2000 to September 2008, and had worked for more than five years in an international accounting firm in Hong Kong. Mr. Ng graduated from the Hong Kong University of Science and Technology majoring in Accounting in 1994. Mr. Ng is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The Directors present their report together with the audited financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

Principal Activities

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 30.

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

The Directors now recommend the payment of a final dividend of HK$0.135 per share (approximately equivalent to RMB0.114 per share) (2009: HK$0.035 per share, approximately equivalent to RMB0.031 per share), in respect of the year 2010, to the shareholders whose name appear on the register of members of the Company on 11 May 2011.

According to the dividend declaration of the Company's subsidiaries, Shandong Dongyue Fluco-Silicon Materials Co. Ltd. ("Dongyue F&S") and Shandong Dongyue Polymers Co. Ltd. ("Dongyue Polymers"), Dongyue F&S will distribute dividend of RMB128,750,000 out of the realized profits before 31 December 2007. Dongyue Polymers will distribute dividend of RMB175,000,000 in respect of the year 2010. Based on the Company's direct equity interests in Dongyue F&S and Dongyue Polymers, the Company will receive cash dividends of RMB89,854,625 and RMB175,000,000, respectively.

Closure of Register of Members

The register of members of the Company will be closed from 4 May 2011 to 11 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 3 May 2011.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of change in equity on page 32.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the financial statements.

Share Capital

Details of the movements in the share capital of the Company are set out in note 28 to the financial statements.

Distributable Reserves

As at 31 December 2010, the Company's reserves available for distribution to shareholders as computed in accordance with the Companies Law (2003 Revision) of the Cayman Islands amounted to RMB1,350,049,000, of which HK$283,426,000 (approximately equivalent to RMB238,965,000) has been proposed as a final dividend for the year.

Pre-emptive Right

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

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

Share Options

(a) Pre-Initial Public Offering ("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 Stock Exchange of Hong Kong Limited (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.

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 31 December 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:

	Number of options								
Name or Category of participant	Balance as at 1 January 2010	Lapsed during the year	Reclassified during the year	Exercised during the year	Outstanding as at 31 December 2010	Exercise price HK$	Date of Grant	Exercisable from	Exercisable until
Directors:									
Mr. Zhang Jianhong	7,147,636	–	–	(3,063,273)	4,084,363	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Liu Chuanqi	6,353,454	–	–	(2,722,909)	3,630,545	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Cui Tongzheng	5,162,180	–	–	(2,212,363)	2,949,817	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	(170,182)	226,909	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Zhang Jian	397,091	–	–	(170,182)	226,909	2.16	16 November 2007	10 December 2008	10 December 2011
Employees:									
In aggregate	18,623,567	(754,473)	(397,091)	(7,488,012)	9,983,991	2.16	16 November 2007	10 December 2008	10 December 2011
	38,875,200	(1,945,745)	–	(15,826,921)	21,102,534				

Valuation of the share options granted under the Pre-IPO Share Option Scheme and its related accounting policy are set out in notes 29 and 3 to the financial statements, respectively. The fair values of the share options were determined using the Binomial Option Pricing Model. 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%. 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 of Directors (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 the 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 to 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.

Report of the Directors

Directors

The Directors during the year ended 31 December 2010 and up to the 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 (the "INEDs")

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

Pursuant to Article 87(1) of the Company's articles of association, at each of the annual general meeting, one third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every 3 years. Mr. Liu Chuanqi, Mr. Cui Tongzheng and Mr. Liu Yi will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

None of the Directors proposal for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contract of significance, to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Director's Rights to Acquire Shares

Other than as disclosed in the section headed "Share Options" in this report, at no time during the year 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.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors of the Company and senior management of the Group are set out on pages 9 to 11.

Disclosure of Interests

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

As at 31 December 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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which 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 taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the HKSE 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)	7.93 (L)
	Beneficial interest	7,147,636 (L)	0.34 (L)
Mr. Fu Kwan	Corporate interest[(2)]	731,781,818 (L)	34.86 (L)
Mr. Liu Chuanqi	Corporate interest[(3)]	87,360,000 (L)	4.16 (L)
	Beneficial interest	6,353,454 (L)	0.30 (L)
Mr. Cui Tongzheng	Corporate interest[(4)]	148,852,363 (L)	7.09 (L)
	Beneficial interest	5,162,180 (L)	0.25 (L)
Mr. Yan Jianhua	Beneficial interest	397,091 (L)	0.02 (L)
Mr. Zhang Jian	Beneficial interest	397,091 (L)	0.02 (L)

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. ("Macrolink International") which in turn is wholly owned by Macro-Link Sdn. Bhd., a company in which Mr. Fu Kwan owns a 40% interest.

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

(4) Pursuant to the SFO, as Mr. Cui Tongzhen 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) L: Long Position

Save as disclosed above, as at 31 December 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 corporations (within the meaning of Part XV of the SFO) which 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 taken under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the HKSE.

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

As at 31 December 2010, so far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of shares or underlying Shares	% of issued share capital
Macrolink International	Beneficial interest[(1)]	731,781,818 (L)	34.86 (L)
Macro-Link Sdn. Bhd.	Corporate interest[(1)]	731,781,818 (L)	34.86 (L)
Dongyue Team Limited	Beneficial interest[(2)]	166,551,273 (L)	7.93 (L)
Dongyue Initiator Limited	Beneficial interest[(3)]	148,852,363 (L)	7.09 (L)
Bank of China Group Investment Limited	Corporate interest[(4)]	108,000,000 (L)	5.14 (L)
Bank of China Limited	Corporate interest[(4)]	108,000,000 (L)	5.14 (L)
Central Huijin Investment Limited (formerly known as Central SAFE Investments Limited)	Corporate interest[(4)]	108,000,000 (L)	5.14 (L)
Fulland Enterprises Corp.	Beneficial interest[(4)]	108,000,000 (L)	5.14 (L)

Notes:

(1) These Shares are directly held by Macrolink International which in turn is owned by Macro-Link Sdn. Bhd., a company in which Mr. Fu Kwan owns a 40% interest.

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

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

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

(5) L: Long Position

(c) Interests in other members of the Group as at 31 December 2010

The following persons (not being members of the Group) are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company's subsidiaries:

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of Interest	% of issued share capital/registered capital of such subsidiaries
Dongyue F&S	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78%
Zibo Dongyue Lvyuan Co., Ltd	Shandong Hi Tech Investment Co., Ltd. (Note)		
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd ("Dongyue Peak")	Chifeng Peak Copper Co., Ltd. ("CPC")	Corporate	49%
Guangdong Dongyue Fluorine Chemicals Co., Ltd	Xiamen Hui Guong Yuan	Corporate	40%
Dongying Macrolink Salt Co., Ltd. ("Dongying Macrolink Salt")	Macro-Link Asset Investment Co., Ltd.	Corporate	40%
Chifeng HuaSheng Mining Co., Ltd	CPC	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 Lvyuan Co., Ltd.. Consequently, Shandong Hi Tech Investment Co., Ltd. indirectly owns more than 10% of Zibo Dongyue Lvyuan Co., Ltd.

Saved as disclosed above, the Directors and the chief executive of the Company are not aware of any person who, as at 31 December 2010, had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Directors' Interests in Competing Business

During the year ended 31 December 2010, none of the Directors of the Company was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Major Suppliers and Customers

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

Purchases	
— the largest supplier	7.46%
— five largest suppliers combined	23.17%
Sales	
— the largest customer	2.27%
— five largest customers combined	8.94%

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

Connected Transactions

Details of the connected transactions entered into by the Group during the year ended 31 December 2010 that are subject to be reported pursuant to Rule 14A.45 of the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules") are set out as follows:

(i) On 29 June 2010, Dongyue F&S entered into the agreement (the "40% Agreement") with Macro-Link Holding Co. Ltd. ("Macrolink Holdings"), to acquire 40% equity interests in Dongying Macrolink Salt from Macrolink Holdings at the consideration of RMB32,200,000 (the "40% Consideration"), which shall be payable in cash within 30 days after the completion of all transfer procedures with the relevant authorities. The 40% Consideration was arrived at after arm's length negotiations and on normal commercial terms, taking into account the financial position and prospects of Dongying Macrolink Salt. Macrolink Holdings is a company which is held as to 42.5% by Mr. Fu Kwan, an executive Director of the Company and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The transaction under the 40% Agreement constitutes a connected transaction of the Group.

Immediately prior to the entering into the 40% Agreement, Dongyue F&S owned 20% equity interests in Dongying Macrolink Salt. Following the completion of the transaction under the 40% Agreement, Dongyue F&S directly owned 60% equity interests in Dongying Macrolink Salt.

The Group is principally engaged in manufacture and sale of refrigerants, fluoropolymers and other chemical products such as dichloromethane and liquid alkali whilst Dongying Macrolink Salt is principally engaged in the production and sale of industrial salt, which are essential raw materials for the production of liquid alkali and chlorine and the Group's refrigerant and silicone products. The Directors are of the view that it is a good opportunity for the Group to increase its interests in Dongying Macrolink Salt and thus, enable the Group to have larger share of return in Dongying Macrolink Salt and sufficient and stable supply of industrial salt for the Group's production.

(ii) On 29 June 2010, the Company entered into the agreement (the "25% Agreement") with Cheung Shek Investment Limited ("Cheung Shek Investment"), to acquire 25% equity interests in Dongying Macro-Link Precision Chemical Co., Ltd. ("Macrolink Precision Chemical") from Cheung Shek Investment at the consideration of RMB3,000,000 (the "25% Consideration"), which shall be payable in cash within 30 days after the completion of all transfer procedures with the relevant authorities. The 25% Consideration was arrived at after arm's length negotiations and on normal commercial terms, taking into account the financial position and prospects of Macrolink Precision Chemical. Cheung Shek Investment is a company which is held as to 38.5% by Mr. Fu Kwan, an executive Director of the Company and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The transaction under the 25% Agreement constitutes a connected transaction of the Group.

Following the completion of the transaction under the 25% Agreement, the Company directly owned 25% equity interests in Macrolink Precision Chemical and indirectly owned the remaining 75% equity interests through its interest in Dongying Macrolink Salt.

Macrolink Precision Chemical is principally engaged in the production of bromine from the salt water in the course of production of industrial salt by Dongying Macrolink Salt and sale of bromine. The Directors are of the view that it is a good opportunity for the Group to increase its interests in Macrolink Precision Chemical and thus, enable the Group to have larger share of return in Macrolink Precision Chemical and advance the realization of potential operational synergies of the Group.

(iii) On 29 June 2010, Shandong Dongyue Chemicals Co. Ltd, ("Dongyue Chemcials"), a subsidiary of the Company, entered into the agreement (the "16% Agreement") with Zibo Hong Da Mining Industry Co., Ltd. ("Hong Da Mining Industry"), to acquire 16% equity interests in Shandong Dongyue Organosilicon Material Co., Ltd. ("Dongyue Organic Silicone") from Hong Da Mining Industry at the consideration of RMB148,000,000 (the "16% Consideration"), which shall be payable in cash within 30 days after the completion of all transfer procedures with the relevant authorities. The 16% Consideration was arrived at after arm's length negotiations and on normal commercial terms, taking into account the financial position and prospects of Dongyue Organic Silicone. Hong Da Mining Industry owned 16% equity interests in Dongyue Organic Silicone and is therefore a substantial shareholder and connected person of Dongyue Organic Silicone under the Listing Rules. The transaction under the 16% Agreement constitutes a connected transaction of the Group.

Following the completion of the transaction under the 16% Agreement, the Company directly owned 84% equity interests and Dongyue Chemicals directly owned the remaining 16% equity interests in Dongyue Organic Silicone.

Dongyue Organic Silicone is engaged in the manufacture and sale of organosilicon materials. The Directors are of the view that it is a good opportunity for the Group to increase its interests in Dongyue Organic Silicone by acquiring the remaining 16% equity interests in Dongyue Organic Silicone and thus enable the Group to exercise absolute and more effective control over the business and operations of Dongyue Organic Silicone.

As at 31 December 2010, the transactions under the 40% Agreement, the 25% Agreement and the 16% Agreement were completed.

Details of the continuing connected transactions entered into by the Group during the year ended 31 December 2010 are set out below:

Continuing connected transactions for the year 2010		*Notes*	**Annual Cap** (RMB million)	**Actual** (RMB million)
(i)	Framework agreement for the purchase of sulphuric acid, electricity and steam from CPC ("CPC Agreement")	*(a)*	330	29
(ii)	Framework agreement for the purchase of industrial salt from Dongying Macrolink Salt ("DMS Agreement")	*(b)*	46	30
(iii)	Framework agreement for the supply of organic silicone intermediate and organic silicone rubber to Calt Silicone Rubber Products (Nanjing) Co., Ltd. ("Calt Silicone")	*(c)*	357	—

Notes:

(a) The purpose of CPC Agreement is for the purpose of production of AHF, a main raw material used to provide fluorine for the Group's production of refrigerants and fluoropolymer materials. CPC is a connected person by virtue of it being a substantial shareholder of one of the Company's subsidiaries, Dongyue Peak. CPC entered into the Revised CPC Agreement dated 3 May 2008 with Dongyue Peak pursuant to which CPC has agreed to supply sulphuric acid, electricity and steam to the Group for a period up to 31 December 2010.

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

(b) The purpose of DMS Agreement is for the purpose of the Group's production of liquid alkali. Dongying Macrolink Salt is a connected person by virtue of it being an associate of one of the Company's executive Directors, Mr. Fu Kwan and an associate of the Company's controlling shareholder, Macrolink International. Dongying Macrolink Salt entered into the Revised DMS Agreement dated 3 May 2008 with Dongyue F&S, pursuant to which Dongying Macrolink Salt has agreed to supply industrial salt to the Group for a period up to 31 December 2010. On 31 December 2010, Dongyue F&S entered into the Renewed DMS Agreement with Dongying Macrolink Salt for three years to 31 December 2013. Details of the Renewed DMS Agreement are set out in the Company's announcement dated 31 December 2010.

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

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

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

The aforesaid continuing connected transactions have been reviewed by the INEDs. The INEDs confirmed that the aforesaid continuing connected transaction were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board of Directors (the "Board") engaged the auditor of the Company in respect of the aforesaid continuing connected transactions. The auditor has reported to the Board in accordance with Rule 14A.38 of the Listing Rules.

Sufficiency of Public Float

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

Subsequent Events

Details of significant events occurring after the reporting period are set out in note 38 to the financial statements.

Auditors

Since the incorporation of the Company, its financial statements were audited by PricewaterhouseCoopers until its retirement with effect from 29 May 2009. Effective from the same date, Deloitte Touche Tohmatsu has been appointed as the new auditor of the Company. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhang Jianhong
Chairman

The People's Republic of China, 16 March 2011

Report on Corporate Governance Practices

The Board of Directors (the "Board") of Dongyue Group Limited (the "Company") recognizes their mission of creating values and maximizing returns to the Shareholders, while at the same time fulfilling their corporate responsibilities. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Stock Exchange of Hong Kong Limited (the "HKSE") has promulgated the Hong Kong Code on Corporate Governance Practices (the "Code") which came into effect for listed issuers' first financial year commencing on or after 1 January 2005. The Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has adopted and complied with the code provisions of the Code during the year ended 31 December 2010, except for deviations regarding the roles of chairman and chief executive officer and the attendance of the Company's annual general meeting held on 26 May 2010, the details of which have been disclosed in the relevant paragraphs below in this report.

The Board

The Board is responsible for leadership and control of the Company and its subsidiaries (together the "Group"), and oversees the Group's businesses, strategic direction and performance. The Board delegates the authority and responsibility to the Group's management for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board's Committees.

During the year ended 31 December 2010, except that Mr. Yang Erning resigned from his office as the Company's Executive Director with effect from 16 April 2010 and that Mr. Yan Jianhua was appointed as the Company's Executive Director with effect from the same date, there was no change in the structure of the Board, which currently comprises nine Directors and its composition is set out as follows:

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 ("INEDs"):
Mr. Ting Leung Huel, Stephen
Mr. Yue Run Dong
Mr. Liu Yi

The brief biographical details of the Directors are set out in the "Directors' and Senior Management's Profile" section on pages 9 to 11 of this annual report.

The Company has three INEDs representing one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Rules Governing the Listing of Securities on the HKSE (the Listing Rules). The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results, as well as significant mergers and acquisition, financial and capital matters. During the year under review, four Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/held
Executive Directors:	
Mr. Zhang Jianhong *(Chairman)*	4/4
Mr. Fu Kwan	1/4
Mr. Liu Chuanqi	2/4
Mr. Cui Tongzheng	4/4
Mr. Yang Erning	0/4
Mr. Yan Jianhua	2/4
Mr. Zhang Jian	3/4
INEDs:	
Mr. Ting Leung Huel, Stephen	4/4
Mr. Yue Run Dong	3/4
Mr. Liu Yi	4/4

During the year ended 31 December 2010, the Board has dealt with matters covering mainly the Group's overall strategy, annual and interim results, internal control, dividend policies, mergers and acquisition, capital and financial matters. The Board has delegated the day-to-day operations of the Group to the senior management under the supervision of the Board.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of regular Board meetings (or reasonable notice for all other meetings) is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 1 day before the intended date of a Board meeting. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the code of conduct regarding securities transactions by Directors adopted by the Company.

Roles of Chairman and Chief Executive Officer

Code A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Jianhong is both the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning. Further, the Board considers that this structure will not impair the balance of power, which has been closely monitored by the Board, which comprises experienced and high caliber individuals. The Board has full confidence in Mr. Zhang and believes that the current arrangement is beneficial to the business prospect of the Group.

Appointment and Re-election of Directors

The Board does not establish a nomination committee at present. The appointment of new Director(s) is therefore a matter for consideration and decision by the full Board. The Board considers that the new Director(s) is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company.

There are fixed terms of appointment for the Directors. Each of the Executive Directors entered into a service contract with the Company for a term of approximately three years ended on 31 December 2010. Each of the INEDs signed a letter of appointment with the Company for a term of approximately two years commencing from 1 January 2010.

Pursuant to the Company's articles of association (the "Articles"), one-third of the Directors for the time being (or if the number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each general meeting in accordance with the provisions of the Articles. Accordingly, all Directors shall be subject to retirement by rotation and re-election at annual general meetings under the Articles.

Board Committees

The Board has established a Remuneration Committee and an Audit Committee, each of which has its specific written terms of reference and is chaired by INEDs. To further enhance independence, both committees include a majority of INEDs.

Remuneration Committee

The Remuneration Committee comprises the Company's two INEDs and one Executive Director, namely, Mr. Liu Yi (being the Chairman of the Committee), Mr. Ting Leung Huel, Stephen and Mr. Zhang Jianhong. The written terms of reference of the Remuneration Committee cover, among other things, the review of the Group's policy and structure for the remuneration for all the Directors and senior management of the Group, the approval of the remuneration for all the Executive Directors and senior management of the Group, including the granting of share options to the Group's employees and the Executive Directors under the Company's Share Option Schemes, and the recommendation to the Board for the remuneration for the INEDs.

During the year ended 31 December 2010, a meeting of the Remuneration Committee was held. The attendance of each member is set out as follows:

	Number of Committee meeting attended/held
Committee member:	
Mr. Liu Yi	1/1
Mr. Ting Leung Huel, Stephen	1/1
Mr. Zhang Jianhong	1/1

During the meeting, the remuneration of the Executive Directors and the Group's senior management for the financial year ended 31 December 2009 was approved. In addition, the members discussed and reviewed the remuneration for the Directors and the Group's senior management, as well as the Group's remuneration related matters.

Audit Committee

The Audit Committee comprises the Company's three INEDs, namely, Mr. Ting Leung Huel, Stephen (being the Chairman of the Committee with appropriate professional qualification or accounting or related financial management expertise), Mr. Liu Yi and Mr. Yue Run Dong.

The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-yearly reports and accounts and to provide advice and comments thereon to the Board, to make recommendation to the Board on the appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors. The Audit Committee is also responsible for reviewing the financial reporting process and internal control system of the Group and to give suggestions in these regards.

The Audit Committee held five meetings during the year ended 31 December 2010 and the attendance of each member is set out as follows:

	Number of Committee meeting attended/held
Committee member:	
Mr. Ting Leung Huel, Stephen	5/5
Mr. Liu Yi	5/5
Mr. Yue Run Dong	5/5

The external auditors of the Company and the related representatives of the Group also attended these meetings.

During the meetings held in the financial year ended 31 December 2010, the Audit Committee has performed the works which are set out as follows:

- discuss and review auditing, internal controls, risk management and financial reporting matters including the review of the annual/interim reports, accounts and the related results announcements, before recommending them to the Board for approval;

- approve the remuneration for the audit services provided by the external auditor and its relevant terms of engagement in respect of the financial year ended 31 December 2009;

- review the external audit findings, the accounting principles and practices adopted by the Group, the Listing Rules and statutory compliance in relation to the financial reporting; and

- conduct pre-audit meeting with the external auditor in respect of the audit of the financial statements of the Group for the financial year ended 31 December 2010.

The Audit Committee met with the management and external auditor on 16 March 2011 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 annual results for the year ended 31 December 2010 before proposing to the Board for approval.

Respective Responsibilities of Directors and External Auditors

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Group and of the Group's results and cash flows. The external auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the members of the Company as a body and for no other purpose.

Internal Control

The Board has overall responsibility for maintaining the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting a management structure and its terms of reference to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal and ensuring an appropriate maintenance of according records and the availability of reliable financial information for internal use or external release.

The Audit Committee assisted the Board in discharging its responsibilities for maintaining an effective system of internal controls on the Group's business operations. The Audit Committee completed the annual review of the Group's internal control evaluations in respect of the financial year ended 31 December 2010 through a professional accounting firm, which mainly covered certain of the Group's operations and followed up the Group's major control weaknesses in respect of the previous year. No major issues but areas of improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable period to time.

External Auditor's Remuneration

For the year ended 31 December 2010, the total remuneration for the audit services provided by the external auditor amounted to approximately HK$1,978,000 (approximately RMB1,668,000).

For the year ended 31 December 2010, the total remuneration for the permissible non-audit services provided by the external auditor amounted to HK$400,000 (approximately RMB337,000) for the review of the interim financial report of the Group.

The re-appointment of Deloitte Touche Tohmatsu as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

Attendance of the Company's Annual General Meeting

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.

On behalf of the Board

Zhang Jianhong
Chairman

The People's Republic of China, 16 March 2011

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 81, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	6	**5,964,322**	3,544,447
Cost of sales		**(4,320,670)**	(3,024,006)
Gross profit		**1,643,652**	520,441
Other income	7	**35,859**	32,347
Distribution and selling expenses		**(171,279)**	(154,742)
Administrative expenses		**(329,592)**	(154,442)
Finance costs	8	**(113,923)**	(113,447)
Share of result of an associate		**1,192**	1,016
Profit before tax		**1,065,909**	131,173
Income tax (expense) credit	9	**(284,412)**	22,796
Profit for the year and total comprehensive income for the year	10	**781,497**	153,969
Profit and total comprehensive income attributable to:			
Owners of the Company		**733,869**	165,303
Non-controlling shareholders		**47,628**	(11,334)
		781,497	153,969
Earnings per share	13		
Basic (RMB)		**0.35**	0.08
Diluted (RMB)		**0.35**	0.08

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,822,394**	3,243,681
Prepayment for purchase of property, plant and equipment		**79,198**	130,366
Prepayment for land lease		**6,154**	9,716
Deposit for auction of leasehold land	16	**411,900**	—
Prepaid lease payments	17	**220,201**	207,786
Intangible assets	18	**3,352**	6,533
Interest in an associate	19	—	14,874
Available-for-sale investments	20	**37,727**	21,593
Deferred tax assets	21	**91,252**	75,293
Goodwill	32	**1,354**	—
		4,673,532	3,709,842
Current assets			
Inventories	22	**493,623**	430,015
Prepaid lease payments	17	**6,214**	6,182
Trade and other receivables	23	**1,114,187**	659,384
Tax recoverable		**—**	12,033
Pledged bank deposits	24	**15,938**	213,309
Bank balances and cash	24	**594,621**	853,509
		2,224,583	2,174,432
Current liabilities			
Trade and other payables	25	**971,944**	1,213,278
Borrowings	26	**1,323,266**	1,601,360
Tax liabilities		**101,522**	9,851
Deferred income	27	**9,160**	7,535
		2,405,892	2,832,024
Net current liabilities		**(181,309)**	(657,592)
Total assets less current liabilities		**4,492,223**	3,052,250
Capital and reserves			
Share capital	28	**199,356**	197,854
Reserves		**2,474,910**	1,816,792
Equity attributable to the owners of the Company		**2,674,266**	2,014,646
Non-controlling shareholders		**192,322**	230,627
Total equity		**2,866,588**	2,245,273
Non-current liabilities			
Deferred income	27	**175,408**	173,013
Deferred tax liabilities	21	**40,549**	7,744
Borrowings	26	**1,409,678**	626,220
		1,625,635	806,977
		4,492,223	3,052,250

The consolidated financial statements on pages 30 to 81 were approved and authorised for issue by the Board of Directors on 16 March 2011 and are signed on its behalf by:

ZHANG Jianhong
DIRECTOR

CUI Tongzheng
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	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	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2009	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 year	—	—	—	—	—	—	165,303	165,303	(11,334)	153,969
Transfer	—	—	—	—	—	28,329	(28,329)	—	—	—
Acquisition of additional interests in a subsidiary	—	—	—	—	(12,941)	—	—	(12,941)	(13,059)	(26,000)
Capital refunded to non-controlling shareholders	—	—	—	—	—	—	—	—	(3,080)	(3,080)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(6,851)	(6,851)
Dividends paid	—	—	—	—	—	—	(45,923)	(45,923)	—	(45,923)
Recognition of equity-settled shared-based payments	—	—	9,301	—	—	—	—	9,301	—	9,301
Balance at 31 December 2009	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 year	**—**	**—**	**—**	**—**	**—**	**—**	**733,869**	**733,869**	**47,628**	**781,497**
Shares issued	**1,502**	**27,586**	**(10,347)**	**—**	**—**	**—**	**10,347**	**29,088**	**—**	**29,088**
Transfer	**—**	**—**	**—**	**—**	**—**	**81,833**	**(81,833)**	**—**	**—**	**—**
Acquisition of additional interests in subsidiaries	**—**	**—**	**—**	**—**	**(43,309)**	**—**	**—**	**(43,309)**	**(113,691)**	**(157,000)**
Non-controlling interests arising on the acquisition of subsidiaries *(note 32)*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**32,131**	**32,131**
Dividends paid to non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,373)**	**(4,373)**
Dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(64,110)**	**(64,110)**	**—**	**(64,110)**
Recognition of equity-settled shared-based payments	**—**	**—**	**4,082**	**—**	**—**	**—**	**—**	**4,082**	**—**	**4,082**
Balance at 31 December 2010	**199,356**	**1,202,695**	**24,746**	**(32,210)**	**101,098**	**221,822**	**956,759**	**2,674,266**	**192,322**	**2,866,588**

Consolidated Statement of Changes in Equity

For the year ended 31 December 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 non-controlling shareholders of subsidiaries were recognised as transactions with non-controlling shareholders and the corresponding discount/premium were credited/debited directly against capital reserve.

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**1,065,909**	131,173
Adjustments for:			
Finance costs		**113,923**	113,447
Interest income		**(11,705)**	(7,920)
Realisation of deferred income		**(9,160)**	(8,042)
Impairment losses recognised (recovery of impairment losses recognised) on receivables		**2,409**	(6,139)
Depreciation and amortisation		**449,270**	389,565
Release of prepaid lease payments		**9,555**	5,909
Equity-settled share-based payment expenses		**4,082**	9,301
Reversal of write down of inventories		**(124)**	(2,144)
Impairment losses recognised on property, plant and equipment		**853**	—
Share of result of an associate		**(1,192)**	(1,016)
Gain on fair value of interest in an associate	*19*	**(2,634)**	—
Loss on disposals of property, plant and equipment		**16,269**	1,759
Operating cash flows before movements in working capital		**1,637,455**	625,893
(Increase) decrease in inventories		**(60,225)**	59,386
Increase in trade and other receivables		**(350,185)**	(56,804)
(Decrease) increase in trade and other payables		**(412,233)**	324,874
Increase in deferred income		**13,179**	8,309
Cash from operations		**827,991**	961,658
Interest paid		**(164,987)**	(119,900)
Refund of tax arising from Clean Development Mechanism ("CDM") project	*9*	**—**	55,794
Income tax paid		**(113,923)**	(16,880)
NET CASH FROM OPERATING ACTIVITIES		**549,081**	880,672
INVESTING ACTIVITIES			
Net cash outflow from acquisition of subsidiaries	*32*	**(30,589)**	—
Deposit for auction of leasehold land		**(411,900)**	—
(Prepayment) repayment of prepayment for land lease		**(561)**	36,953
Purchase of property, plant and equipment		**(825,058)**	(368,656)
Purchase of intangible assets		**(15)**	(880)
Purchase of available-for-sale investments		**(16,134)**	(15,593)
Proceeds from disposal of property, plant and equipment		**42,744**	630
Interest received		**11,705**	7,920
Increase in pledged bank deposits		**(213,309)**	(661,095)
Decrease in pledged bank deposits		**410,680**	530,724
Dividend received from an associate		**—**	200
Entrusted loans to third parties		**(135,000)**	—
Repayment of entrusted loans from third parties		**60,000**	—
Interest bearing loan advances to third parties		**(543,745)**	(342,150)
Repayment of interest bearing loan advances to third parties		**544,245**	341,650
NET CASH USED IN INVESTING ACTIVITIES		**(1,106,937)**	(470,297)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES			
Acquisition of additional interests in subsidiaries	36	**(157,000)**	(26,000)
Net proceeds from issuance of shares		**29,088**	—
Proceeds from borrowings		**2,580,354**	2,143,882
Repayment of borrowings		**(2,084,991)**	(2,186,094)
Dividend paid		**(64,110)**	(45,923)
Dividend paid to non-controlling shareholders of subsidiaries		**(4,373)**	(6,851)
Capital refunded to non-controlling shareholders of subsidiaries		**—**	(3,080)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**298,968**	(124,066)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(258,888)**	286,309
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**853,509**	567,200
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
represented by:			
Bank balances and cash		**594,621**	853,509

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL

Dongyue Group Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2006 as an exempted company with limited liability. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 December 2007.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the manufacture, distribution and sale of refrigerants, polymers, organic silicone and others. In addition, the Group has also established Shandong Dongyue HFC — 23 Decomposition Project ("Dongyue CDM Project") to decompose certain greenhouse gases generated from the Group's production process in order to reduce greenhouse gases emission.

The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The Group has net current liabilities of approximately RMB181,309,000 as at 31 December 2010 (31 December 2009: RMB657,592,000). The consolidated financial statements have 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 the internally generated resources and the availability of its undrawn banking facilities of approximately RMB3,415,470,000 (31 December 2009: RMB1,996,550,000) (see note 26).

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB").

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC-Int 17	Distributions of Non-cash Assets to Owners

The application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and / or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(continued)*

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC-Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 *Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.*
2 *Effective for annual periods beginning on or after 1 July 2010.*
3 *Effective for annual periods beginning on or after 1 July 2011.*
4 *Effective for annual periods beginning on or after 1 January 2013.*
5 *Effective for annual periods beginning on or after 1 January 2012.*
6 *Effective for annual periods beginning on or after 1 January 2011.*
7 *Effective for annual periods beginning on or after 1 February 2010.*

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Specifically, under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013. The directors are in the process of assessing the impact of the adoption of IFRS 9.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

- Changes in the Group's ownership interests in existing subsidiaries with no change in control

  Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries (continued)

- Loss of control of subsidiaries on or after 1 January 2010

  When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination *(continued)*

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in associates *(continued)*

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sale of refrigerants, polymers and organic silicone is recognised when the goods are delivered and title has passed.

Dongyue CDM Project involve the sale of Carbon Emission Reductions ("CERs") certificates to industrialised countries. Sales of CERs are recognised when the Group concludes a valid sales contract with the buyer, the risks and rewards of the CERs are properly transferred to the accounts of the buyer registered with United Nations Framework Convention on Climate Change and that the collectability of the related receivables is reasonably assured.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants of which primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a straight line basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Prepaid lease payments represent payment for leasehold interest in land under operating lease arrangements and are released to profit or loss in the consolidated statement of comprehensive income over the term of relevant land leases.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— the intention to complete the intangible asset and use or sell it;

— the ability to use or sell the intangible asset;

— how the intangible asset will generate probable future economic benefits;

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, tax recoverable, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carring amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Share based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to retained profits. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concurring the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for bad and doubtful debts and other receivables

The Group's management assesses the recoverability and determines the provision for impairment of trade and other receivables in accordance with the accounting policy stated in note 3. Such an estimation is based on the credit history of its customers and the current market conditions. Management reviews the debtor settlement status periodically and reassesses the sufficiency of provision accordingly.

Useful lives of property, plant and equipment

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

Deferred tax

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

5. CAPITAL RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings disclosed in note 26, pledged bank deposits, bank balances and cash and equity attributable to owners of the Company, comprising share capital, share premium, reserves and retained earnings.

The directors review the capital structure on a semi-annual basis. As a part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including pledged bank deposits, bank balances and cash)	**1,531,167**	1,679,326
Available-for-sale investments	**37,727**	21,593
	1,568,894	1,700,919
Financial liabilities		
Amortised cost	**3,569,367**	3,376,692

(c) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Foreign currency risk management

The functional currencies of the PRC subsidiaries are RMB with most of the transactions settled in RMB. However, foreign currency (mainly the United States dollar "US$") were received 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
US$	**155,220**	298,453	**333,898**	437,215

At 31 December 2010, if RMB had strengthened/weakened by 10% against US$ with all other variables held constant, post-tax profit for the year would have been RMB 17,868,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US$ denominated trade and other receivables and US$ denominated borrowings.

At 31 December 2009, if RMB had strengthened/weakened by 10% against US$ with all other variables held constant, post-tax profit for the year would have been RMB13,876,000 higher/lower, mainly as a result of foreign exchange losses/gains on translation of US$ denominated trade and other receivables and US$ denominated borrowings.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Financial risk management objectives and policies *(continued)*

(ii) Interest rate risk management

The Group's fair value interest-rate risk primarily arises from its fixed-rate borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. At 31 December 2010, 39% (2009: 70%) of the Group's borrowings bear fixed interest rates.

The weighted average effective interest rates on floating rate borrowings at 31 December 2010 were 4.90% (2009: 5.33%) per annum. At 31 December 2010, if interest rates on floating rate borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB4,168,000 (2009: RMB1,597,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

(iii) Credit risk management

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

The Group also has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Generally, customers are granted with credit periods less than 90 days and the Group usually does not require collaterals nor any credit enhancement from its customers. An ageing analysis of trade and other receivables is set out in note 23 to the consolidated financial statements. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the customers and whether there are any trade disputes with them.

The Group has policies to ensure the entrusted loans are made to entities with an appropriate credit history and the Group assesses the credit worthiness and financial strength of them as well as considering prior dealing history with them. Generally, the entities are granted with loan periods ranging from 60 days to one year.

(iv) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available undrawn borrowing facilities of approximately RMB3,415,470,000 (31 December 2009: RMB1,996,550,000). Details of which are set out in note 26.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Financial risk management objectives and policies *(continued)*

(iv) Liquidity risk management (continued)

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	4 months to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2010 RMB'000
31 December 2010								
Trade and other payables	—	386,011	246,702	203,710	—	—	836,423	836,423
Borrowings								
— fixed rates	5.38	234,516	78,483	586,850	207,842	—	1,107,691	1,065,516
— variable rates	4.90	4,346	64,215	422,870	1,267,964	58,191	1,817,586	1,667,428
		624,873	389,400	1,213,430	1,475,806	58,191	3,761,700	3,569,367

	Weighted average interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	4 months to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2009 RMB'000
31 December 2009								
Non-controlling shareholder	—	5,105	—	—	—	—	5,105	5,105
Trade and other payables	—	583,692	232,241	328,074	—	—	1,144,007	1,144,007
Borrowings								
— fixed rates	5.76	91,372	203,971	1,122,312	177,518	—	1,595,173	1,550,859
— variable rates	5.19	170,028	18,718	73,481	388,225	105,563	756,015	676,721
		850,197	454,930	1,523,867	565,743	105,563	3,500,300	3,376,692

6. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods.

The Group's operations are organised based on different types of goods sold. Specifically, information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

2010

	Refrigerants (note) RMB'000	Polymers RMB'000	Organic silicone RMB'000	Other operations RMB'000	Eliminations RMB'000	Consolidated RMB'000
External sales	3,823,095	1,413,337	544,803	183,087	—	5,964,322
Inter-segment sales	748,099	—	2,968	166,641	(917,708)	—
Total revenue — segment revenue	4,571,194	1,413,337	547,771	349,728	(917,708)	5,964,322
SEGMENT RESULTS	902,015	244,559	7,652	34,530	—	1,188,756
Reconciliation of segment results to consolidated profit before taxation and consolidated profit for the year:						
Unallocated corporate expenses (net)						(10,116)
Finance costs						(113,923)
Share of results of an associate						1,192
Profit before taxation						1,065,909
Income tax expense						(284,412)
Profit and total comprehensive income for the year						781,497

Note: Include the Dongyue CDM Project

6. REVENUE AND SEGMENT INFORMATION *(continued)*

2009

	Refrigerants (note) RMB'000	Polymers RMB'000	Organic silicone RMB'000	Other operations RMB'000	Eliminations RMB'000	Consolidated RMB'000
External sales	2,390,550	666,793	419,107	67,997	—	3,544,447
Inter-segment sales	403,627	—	—	—	(403,627)	—
Total revenue — segment revenue	2,794,177	666,793	419,107	67,997	(403,627)	3,544,447
SEGMENT RESULTS	189,262	62,770	2,791	814	—	255,637

Reconciliation of segment results to consolidated profit before taxation and consolidated profit for the year:

Unallocated corporate expenses (net)	(12,033)
Finance costs	(113,447)
Share of results of an associate	1,016
Profit before taxation	131,173
Income tax credit	22,796
Profit and total comprehensive income for the year	153,969

Note: Include the Dongyue CDM Project

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in note 3. 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. No segment information on assets and liabilities is presented as such information is not reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

6. REVENUE AND SEGMENT INFORMATION *(continued)*

Entity-wide disclosures:

Information about revenue from refrigerants segment from external customers

	2010 RMB'000	2009 RMB'000
Monochlorodifluoromethan (HCFC-22)	**1,257,642**	782,226
Polyvinyl chloride (PVC)	**765,616**	526,295
1,1,1,2-Tetrafluoroethane	**335,902**	111,364
Sodium hydroxide	**315,917**	275,982
1,1,1,2,2-pentafluoroethane	**192,027**	80,044
R439A	**177,355**	6,016
Dichloromethane	**142,731**	145,371
Dongyue CDM Project	**38,188**	193,323
Others	**597,717**	269,929
	3,823,095	2,390,550

Information about major customers

There was no revenue from a single customer that contributed over 10% of the total sales of the Group during each of the two years ended 31 December 2010.

6. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

The Group's revenue from external customers by geographical location of customers is detailed below:

	2010 RMB'000	2009 RMB'000
PRC	**4,343,872**	2,513,341
Asia (except PRC)		
— Japan	**301,122**	287,069
— South Korea	**199,691**	113,824
— India	**56,477**	70,288
— Singapore	**51,490**	44,282
— Thailand	**46,765**	19,344
— Pakistan	**24,118**	13,580
— Malaysia	**18,612**	17,003
— other countries	**49,829**	52,365
Subtotal	**748,104**	617,755
America		
— United States of America	**279,620**	125,679
— Bazil	**88,310**	46,868
— Chile	**15,406**	—
— other countries	**13,086**	16,276
Subtotal	**396,422**	188,823
Europe		
— Italy	**134,618**	48,640
— Spain	**22,378**	8,757
— German	**14,004**	7,488
— France	**11,019**	3,655
— other countries	**68,738**	51,574
Subtotal	**250,757**	120,114
Africa		
— South Africa	**41,141**	11,304
— Egypt	**15,198**	2,898
— Nigeria	**13,514**	10,506
— other countries	**10,946**	8,161
Subtotal	**80,799**	32,869
Other countries/regions	**144,368**	71,545
	5,964,322	3,544,447

All non-current assets of the Group are located in the PRC.

6. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

2010

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	310,498	66,821	49,386	19,369	446,074
Amortisation of intangible assets	2,482	—	673	41	3,196
Impairment losses recognised on receivables	2,351	—	—	58	2,409
Research and development costs recognised as an expense	2,028	8,816	673	—	11,517
(Reversals of) write-down of inventories	(859)	—	735	—	(124)
Loss on disposals of property, plant and equipment	11,369	4,900	—	—	16,269
Release of prepaid lease payments	5,449	290	2,008	1,808	9,555
Impairment losses recognised on property, plant and equipment	—	—	—	853	853

2009

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	270,861	66,480	45,455	3,633	386,429
Amortisation of intangible assets	2,476	—	616	44	3,136
Recovery of impairment losses recognised on receivables	(5,947)	—	—	(192)	(6,139)
Research and development costs recognised as an expense	621	4,614	572	—	5,807
(Reversals of) write-down of inventories	(804)	(1,379)	—	39	(2,144)
Loss (gain) on disposals of property, plant and equipment	3,402	(1,609)	—	(34)	1,759
Release of prepaid lease payments	3,233	629	2,008	39	5,909

7. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Government grants		
— related to expense items *(Note)*	**7,541**	11,129
— related to assets *(Note 27)*	**9,160**	8,042
Interest income	**11,705**	7,920
Net foreign exchange gain	**—**	1,082
Gain on fair value of interest in an associate *(note 19)*	**2,634**	–
Others	**4,819**	4,174
	35,859	32,347

Note: The government grants are mainly for the expenditures on research activities which are recognised as expenses in the period in which they are incurred.

8. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	**117,573**	114,884
Other borrowings	**8,718**	5,016
Total borrowing costs	**126,291**	119,900
Less: amounts capitalised	**(12,368)**	(6,453)
	113,923	113,447

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 5.80% (2009: 5.52%) per annum to expenditure on qualifying assets.

9. INCOME TAX (EXPENSE) CREDIT

	2010 RMB'000	2009 RMB'000
PRC enterprise income tax ("EIT")		
— Current year	**(260,416)**	(17,457)
— (Under)overprovision in prior years	**(7,150)**	10,004
— Refund of tax arising from EIT exemption on profit from CDM project *(Note)*	**—**	55,794
	(267,566)	48,341
Deferred tax charge *(Note 21)*	**(16,846)**	(25,545)
	(284,412)	22,796

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 since its first profit making year 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 had a retrospective effect from 1 January 2007. The amount represents the EIT paid in respect of the profit earned from CDM project for the years ended 31 December 2007 and 2008 and was refunded to the Group during 2009. According to the EIT Exemption, the profit earned from CDM project is exempted from EIT in 2009 and entitles 50% reduction of EIT in 2010.

The Company was incorporated in the Cayman Islands and is exempted from income tax and it is not subject to tax in any other jurisdictions.

The tax (expense) credit for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2010 RMB'000	2009 RMB'000
Profit before tax	**1,065,909**	131,173
Tax charge at enterprise income tax rate *(Note a)*	**(266,477)**	(32,793)
Tax effect of income not taxable for tax purpose	**625**	1,736
Tax effect of share of result of an associate	**298**	254
Tax effect of expenses not deductible for tax purpose	**(5,270)**	(22,842)
Tax effect of tax concessions *(Note b)*	**110**	11,694
Tax effect of EIT Exemption	**3,951**	27,106
Tax effect of tax credits previously not recognised *(Note c)*	**5,748**	—
Tax effect of tax losses not recognised	**(2,068)**	(29,467)
Utilisation of tax losses previously not recognised	**18,686**	7,310
Refund of tax arising from EIT exemption on profit from CDM project	**—**	55,794
(Under) overprovision in respect of prior years	**(7,150)**	10,004
Deferred tax on distributable earnings of PRC subsidiaries *(Note d)*	**(33,199)**	(6,000)
Others	**334**	—
Tax (expense) credit for the year	**(284,412)**	22,796

9. INCOME TAX (EXPENSE) CREDIT—continued

Notes:

(a) *Applicable enterprise income tax rate of 25% represents the relevant income tax rate of Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals"), Shandong Dongyue Polymers Co., Ltd. ("Dongyue Polymers") and Zibo Dongyue Lvyuan Co., Ltd. which are the major subsidiaries of the Company.*

(b) *Shandong Dongyue Fluo-Silicon Materials Co., Ltd. and Shandong Dongyue Organosilicon Material Co., Ltd., subsidiaries of the Company, are incorporated as foreign investment enterprises in the PRC. Approvals from the relevant tax authorities were obtained in prior years for their entitlement to exemption from EIT for the two years commencing from their respective first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax of 25% for the next three years. Accordingly, the effective tax rate of Shandong Dongyue Fluo-Silicon Materials Co., Ltd. and Shandong Dongyue Organosilicon Material Co., Ltd. is 25% (2009: 12.5%) and 12.5% (2009: 12.5%) respectively.*

(c) *Pursuant to the relevant tax rules and regulations, PRC subsidiaries can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC.*

(d) *According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No.1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax liability of RMB39,199,000 (2009: RMB6,000,000) on the undistributed earnings of subsidiaries has been charged to profit or loss in the consolidated statement of comprehensive income for the year.*

10. PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

Profit and total comprehensive income for the year has been arrived at after charging (crediting) the following items:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**174,775**	97,570
Discretionary bonus (a)	**125,817**	37,312
Post-employment benefits	**43,350**	28,025
Equity-settled share-based payment expenses	**4,082**	9,301
Other staff welfare	**12,995**	8,426
Total staff costs (b)	**361,019**	180,634
Cost of inventories recognised as expenses	**3,967,724**	2,667,983
Depreciation of property, plant and equipment	**446,074**	386,429
Amortisation of intangible assets (included in cost of sales)	**3,196**	3,136
Auditor's remuneration	**1,876**	2,354
Net foreign exchange losses (gains)	**3,148**	(1,082)
Impairment losses (recovery of impairment losses) recognised on receivables	**2,409**	(6,139)
Research and development costs recognised as an expense	**11,517**	5,807
Reversals of write-down of inventories	**(124)**	(2,144)
Release of prepaid lease payments	**9,555**	5,909
Impairment losses recognised on property, plant and equipment	**853**	–
Loss on disposal of property, plant and equipment	**16,269**	1,759

Note a: *Discretionary bonus is determined based on the individual performance of the individuals.*
b: *Directors' emoluments are included in the above staff costs.*

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2009:10) directors were as follows:

	2010						
	Fees RMB'000	Salary RMB'000	Discretionary bonus (Note) RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment expenses RMB'000	Other benefits RMB'000	Total RMB'000
Executive Directors							
Mr. Zhang Jian Hong	114	186	5,400	—	790	—	6,490
Mr. Liu Chuan Qi	114	186	5,400	—	702	—	6,402
Mr. Cui Tong Zheng	114	146	1,900	2	571	—	2,733
Mr. Yan Jian Hua	114	246	640	—	44	—	1,044
Mr. Fu Kwan	114	—	—	—	—	—	114
Mr. Zhang Jian	114	—	—	—	44	—	158
Independent Non-executive Directors							
Mr. Ting Leung Huel	204	—	—	—	—	—	204
Mr. Yue Run Dong	114	—	—	—	—	—	114
Mr. Liu Yi	114	—	—	—	—	—	114
	1,116	764	13,340	2	2,151	—	17,373

	2009						
	Fees RMB'000	Salary RMB'000	Discretionary bonus (Note) RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment expenses RMB'000	Other benefits RMB'000	Total RMB'000
Executive Directors							
Mr. Zhang Jian Hong	96	204	2,700	20	1,739	—	4,759
Mr. Liu Chuan Qi	96	204	2,700	24	1,546	—	4,570
Mr. Cui Tong Zheng	96	154	950	12	1,256	5	2,473
Mr. Yang Er Ning	96	184	—	—	285	—	565
Mr. Fu Kwan	96	—	—	—	—	—	96
Mr. Zhang Jian	96	—	—	—	95	—	191
Non-executive director							
Mr. Shaw Sun Kan	77	—	—	—	—	—	77
Independent Non-executive Directors							
Mr. Ting Leung Huel	211	—	—	—	—	—	211
Mr. Yue Run Dong	96	—	—	—	—	—	96
Mr. Liu Yi	96	—	—	—	—	—	96
	1,056	746	6,350	56	4,921	5	13,134

Note: Discretionary bonus is determined based on the individual performance of the directors.

11. DIRECTORS' EMOLUMENTS *(continued)*

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the two years ended 31 December 2010.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: three) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2009: two) individuals were as follows:

	2010 RMB'000	2009 RMB'000
Salary	**200**	500
Discretionary bonus	**800**	1,300
Pension scheme contributions	**3**	17
Equity-settled share-based payment expenses	**219**	950
Other benefits	**—**	9
	1,222	2,776

Their emoluments were within the following bands:

	2010 No. of employees	2009 No. of employees
RMB1,000,000 to RMB1,500,000	**1**	2

13. EARNINGS PER SHARE

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

	2010 RMB'000	2009 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**733,869**	165,303
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,084,534**	2,083,623
Effect of dilutive potential ordinary shares:		
Share options	**1,785**	–
Weighted average number of ordinary shares for purpose of diluted earnings per share	**2,086,319**	2,083,623

The computation of diluted earnings per share for the year ended 31 December 2009 does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares for 2009.

14. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends paid during the year:		
2009 final dividend HK$ 0.035 (2009: 2008 final dividend HK$0.025) per share	**64,110**	45,923

A final dividend of approximately HK$283,426,000 (HK$0.135 per share) in respect of the year ended 31 December 2010 (2009: final dividend of HK$72,927,000 (HK$0.035 per share) in respect of the year ended 31 December 2009) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. PROPERTY, PLANT AND EQUIPMENT

	Note	**Buildings** RMB'000	**Plant and machinery** RMB'000	**Motor vehicles** RMB'000	**Furniture and fittings** RMB'000	**Construction in progress** RMB'000	**Total** RMB'000
COST							
At 1 January 2009		703,691	3,195,787	24,913	140,580	173,335	4,238,306
Additions		16,810	40,617	3	716	152,377	210,523
Transfer		52,134	203,262	158	1,227	(256,781)	—
Eliminated on disposals		—	(1,819)	(190)	(2,269)	—	(4,278)
At 31 December 2009		772,635	3,437,847	24,884	140,254	68,931	4,444,551
Additions		11,194	220,522	6,049	14,026	763,487	1,015,278
Acquired on acquisition of subsidiaries	32	55,215	9,102	142	98	4,818	69,375
Transfer		34,871	293,996	67	34,200	(363,134)	—
Eliminated on disposals		(6,417)	(90,306)	(5,372)	(637)	—	(102,732)
At 31 December 2010		867,498	3,871,161	25,770	187,941	474,102	5,426,472
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2009		89,914	646,655	11,392	68,369	—	816,330
Charge for the year		31,127	332,469	2,654	20,179	—	386,429
Eliminated on disposals		—	(1,017)	(180)	(692)	—	(1,889)
At 31 December 2009		121,041	978,107	13,866	87,856	—	1,200,870
Charge for the year		38,100	385,340	3,033	19,601	—	446,074
Impairment loss for the year		—	853	—	—	—	853
Eliminated on disposals		(658)	(38,469)	(4,438)	(154)	—	(43,719)
At 31 December 2010		158,483	1,325,831	12,461	107,303	—	1,604,078
NET BOOK VALUES							
At 31 December 2010		709,015	2,545,330	13,309	80,638	474,102	3,822,394
At 31 December 2009		651,594	2,459,740	11,018	52,398	68,931	3,243,681

As at 31 December 2010, the Company has not obtained the building ownership certificates for certain buildings with net book value of approximately RMB32,910,000 (31 December 2009: RMB76,191,000).

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

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

The Group has pledged buildings and plant and machinery with carrying amount of approximately RMB70,533,000 (31 December 2009: RMB82,159,000) and RMB752,214,000 (31 December 2009: RMB927,632,000), respectively, to secure bank loans and other loans of the Group.

The buildings are situated on land held under medium-term lease.

16. DEPOSIT FOR AUCTION OF LEASEHOLD LAND

In December 2010, the Group paid RMB411,900,000 as a deposit for an auction of two parcels of land located in the PRC with a total site area of approximately 189,381 square meters. The balance represents the full consideration of the two parcels of land. Subsequent to 31 December 2010, the Group enters into land use rights transfer agreements with Zibo City Bureau of Land and Resources for the two parcels of land granted.

17. PREPAID LEASE PAYMENTS

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

	2010 **RMB'000**	2009 RMB'000
Analysed for reporting purpose as:		
Current portion	**6,214**	6,182
Non-current portion	**220,201**	207,786
	226,415	213,968

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

Other than prepaid lease payment of RMB2,509,000 (31 December 2009: RMB14,095,000) which the Group is in the process of obtaining the land use right certificate for the medium-term leasehold land, land use right certificate have already been secured.

The Group has pledged prepaid lease payment with the aggregate carrying amount of approximately RMB17,379,000 (31 December 2009: RMB17,837,000) to secure bank loans of the Group.

18. INTANGIBLE ASSETS

	Proprietary technologies RMB'000	Software RMB'000	Total RMB'000
COST			
At 1 January 2009	19,119	77	19,196
Additions	880	—	880
At 31 December 2009	19,999	77	20,076
Additions	—	15	15
At 31 December 2010	19,999	92	20,091
AMORTISATION			
At 1 January 2009	10,391	16	10,407
Charge for the year	3,133	3	3,136
At 31 December 2009	13,524	19	13,543
Charge for the year	3,189	7	3,196
At 31 December 2010	16,713	26	16,739
CARRYING VALUES			
At 31 December 2010	3,286	66	3,352
At 31 December 2009	6,475	58	6,533

All of the Group's intangible assets were acquired from third parties. The above intangible assets have definite useful lives and are amortised on a straight-line basis over 5 to 10 years and 3 to 5 years for proprietary technologies and computer software licences respectively.

19. INTEREST IN AN ASSOCIATE

	2009 RMB'000
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
	14,874

19. INTEREST IN AN ASSOCIATE *(continued)*

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

Name of entity	Form of business structure	Country of establishment	Principal place of operation	Class of share held	Registered capital held by the Group %	Proportion of voting power held %	Principal activity
Dongying Macro-Link Salt Co., Ltd. ("Macro-Link Salt")	Limited liability company	PRC	PRC	Registered capital	20	20	Production and sales of salt

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, Macro-Link Salt. After the acquisition, the Company indirectly holds 60% equity interest of Macro-Link Salt (note 32) and Macro-Link Salt has been accounted for as a subsidiary since the further acquisition. The difference between the previous carrying amount of the associate and the corresponding fair value on 29 June 2010 amounting to RMB2,634,000 is recorded as other income (note 7).

The summarised financial information prepared under International Financial Reporting Standards in respect of the Group's associate is set out below:

	2009 RMB'000
Total assets	105,865
Total liabilities	27,221
Net assets	78,644
Net assets attributable to owners of the associate	74,370
Revenue	31,910
Profit for the year attributable to owners of the associate	5,078
Group's share of profit	1,016

20. AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted equity securities, at cost	37,727	21,593

The above unlisted investments represent equity investments in private entities that are financial institutions incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purpose:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	**91,252**	75,293
Deferred tax liabilities	**(40,549)**	(7,744)
	50,703	67,549

The following are the major deferred tax assets (liabilities) recognised and movements thereon for the year:

	Distributable profits of PRC subsidiaries	**Deprecation allowance**	**Accrual for employee benefits**	**Government grants on prepaid lease payments**	**Tax credits on acquisition of qualified property, plant, and equipment and tax losses**	**Capitalised interests**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax asset (liability)								
At 1 January 2009	(3,629)	13,830	10,273	37,179	40,495	(13,398)	8,344	93,094
Withholding tax paid	3,629	—	—	—	—	—	—	3,629
(Charge) credit recognised in profit or loss *(note 9)*	(6,000)	(6,903)	(247)	(777)	(10,036)	1,277	(6,488)	(29,174)
At 31 December 2009	(6,000)	6,927	10,026	36,402	30,459	(12,121)	1,856	67,549
(Charge) credit recognised in profit or loss *(note 9)*	(33,199)	885	27,737	(877)	(20,557)	1,437	7,728	(16,846)
At 31 December 2010	(39,199)	7,812	37,763	35,525	9,902	(10,684)	9,584	50,703

At 31 December 2010, the Group has unused tax losses of approximately RMB55,948,000 (31 December 2009: RMB122,421,000) available for offset against future profits. No deferred tax asset has been recognised in relation to such unused tax losses as it is uncertain whether taxable profit of the corresponding group entities will be available against which the unused tax losses can be utilised. Included in unrecognised tax losses are losses of approximately RMB nil (31 December 2009: RMB4,553,000) and RMB55,948,000 (31 December 2009: 117,868,000) that will expire in 2014 and 2015 respectively.

At 31 December 2009, the Group has unused tax credits on acquisition of qualified property, plant and equipment of approximately RMB5,748,000 available for offset against future profits which will expire in 2012. No deferred tax asset has been recognised in relation to such unused tax credits as it is uncertain whether taxable profit of the corresponding group entities will be available against which the unused tax credits can be utilised. There is no unrecognised deferred tax asset of tax credits on acquisition of qualified property, plant and equipment as at 31 December 2010.

21. DEFERRED TAXATION *(continued)*

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries approximately amounting to RMB497,985,000 (31 December 2009: RMB92,158,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Group has no other significant deferred tax asset and liability.

22. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials and consumables	**316,777**	231,071
Work in progress	**56,086**	63,956
Finished goods	**120,760**	134,988
Total	**493,623**	430,015

23. TRADE AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**847,780**	607,857
Less: allowance for doubtful debts	**(3,416)**	(4,744)
	844,364	603,113
Prepayment for raw materials	**104,994**	31,699
Value added tax receivables	**48,073**	5,980
Entrusted loan *(Note)*	**75,000**	—
Deposits, prepayments and other receivables	**41,756**	18,592
	1,114,187	659,384

Note: The balance represents an entrusted loan to a third party amounting to RMB75,000,000 at 31 December 2010 (31 December 2009: nil) and bears interest at 8.45% per annum with maturity of one year.

23. TRADE AND OTHER RECEIVABLES *(continued)*

Included in the trade receivables are bills receivables amounting to RMB682,830,000 at 31 December 2010 (31 December 2009: RMB329,827,000).

Customers are generally granted with credit period less than 90 days. Bill receivables are generally due in 90 days or 180 days. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2010 RMB'000	2009 RMB'000
Within 90 days	**358,593**	508,423
91–180 days	**485,782**	91,250
181–365 days	**185**	3,869
1 to 2 years	**953**	743
2 to 3 years	**55**	63
More than 3 years	**2,212**	3,509
	847,780	607,857

Before accepting any new customer, the Group conducts research on the creditworthiness of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 99% (2009: 97%) of the trade receivables that are neither past due nor impaired have the high ranking record attributable under the research on the creditworthiness. The Group offers various settlement terms which vary depending on the size of contract, creditability and reputation of the customers.

Included in the Group's trade receivable balance are debtors with the aggregate carrying amount of RMB2,579,000 (31 December 2009: RMB12,733,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral or credit enhancements over these balances.

	2010 RMB'000	2009 RMB'000
91–180 days	**2,403**	9,075
181–365 days	**176**	3,658
	2,579	12,733

Allowance of the above amount has not been made by the Group as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The directors of the Company consider they are in good credit quality.

23. TRADE AND OTHER RECEIVABLES *(continued)*

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
Balance at beginning of the year	**4,744**	14,361
Impairment losses recognised on receivables	**2,409**	—
Amounts recovered during the year	**—**	(6,139)
Amounts written off as uncollectible	**(3,737)**	(3,478)
Balance at end of the year	**3,416**	4,744

The above allowance represents full impairment for trade receivables which are considered not recoverable.

Included in the trade receivables is a trade receivable from an associate amounting to approximately RMB nil (31 December 2009: RMB15,890,000) which is aged within 90 days.

The Group's account receivables that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	US$ $'000
As at 31 December 2010	8,828
As at 31 December 2009	20,788

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits amounting to approximately RMB15,938,000 (31 December 2009: RMB213,309,000) have been pledged to secure the bills payables and are therefore classified as current assets.

Pledged bank deposits and bank balances and cash carry variable interest rate. The weighted average effective interest rates on pledged bank deposits and bank balances and cash as at 31 December 2010 were 1.98% (2009: 1.98%) and 0.36% (2009: 0.36%) respectively.

The Group's bank balances that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	US$ $'000
As at 31 December 2010	14,610
As at 31 December 2009	22,921

25. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**386,011**	827,023
Receipt in advance	**63,465**	54,855
Payroll payable *(Note a)*	**209,438**	96,776
Payable for CDM project *(Note b)*	**—**	115,131
Payable for property, plant and equipment *(Note c)*	**203,710**	65,619
Other tax payables	**38,555**	9,445
Other payables and accruals	**70,765**	44,429
Total	**971,944**	1,213,278

Notes:

(a) As at 31 December 2010, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to approximately RMB68,739,000 (31 December 2009: RMB40,499,000). The amount of the provision represents the Group's entire obligation for social insurance fund for employees of PRC subsidiaries and is determined based on the relevant national regulations on social insurance and calculated based on the basic counting unit multiplied by the social insurance rate. The basic counting unit for social insurance shall be the average wages of an employee in the preceding year and shall not be less than the minimum limit promulgated by the local social insurance bureau each year.

(b) 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.

(c) The payable for acquisition of property, plant and equipment will settle three months after the complete installation of the plant and machinery which is recorded in construction in progress at the end of the reporting period.

Included in the trade payables are bills payables amounting to RMB28,500,000 at 31 December 2010 (31 December 2009: RMB451,600,000).

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

	2010 RMB'000	2009 RMB'000
Within 30 days	**269,366**	240,163
31–90 days	**67,872**	101,785
91–180 days	**19,866**	415,791
181–365 days	**5,792**	15,279
1–2 years	**15,399**	54,005
More than 2 years	**7,716**	—
	386,011	827,023

Included in the trade payables is a trade payable to a non-controlling shareholder of a subsidiary amounting to approximately RMB3,166,000 (31 December 2009: RMB5,105,000) which are aged within 30 days. The general credit period given by them is three to six months.

26. BORROWINGS

	2010 RMB'000	2009 RMB'000
Unsecured bank loans	**1,808,400**	1,449,356
Secured bank loans	**520,196**	417,526
Unsecured other loans	**106,000**	5,000
Secured other loan	**298,348**	355,698
	2,732,944	2,227,580
Carrying amount repayable:		
Within one year	**1,323,266**	1,601,360
More than one year, but not exceeding two years	**860,670**	331,163
More than two years, but not more than five years	**399,670**	192,635
More than five years	**149,338**	102,422
	2,732,944	2,227,580
Less: Amount due within one year shown under current liabilities	**1,323,266**	1,601,360
Amount due after one year	**1,409,678**	626,220

As at 31 December 2010, secured bank borrowings of RMB520,196,000 (31 December 2009: RMB417,526,000) were secured by the Group's building and plant and equipment with the aggregate carrying amount of approximately RMB593,463,000 (31 December 2009: RMB752,138,000) and prepaid lease payments with the aggregate carrying amount of approximately RMB17,379,000 (31 December 2009: RMB17,837,000).

As at 31 December 2010, secured other loan represents borrowings of US$45,000,000 (equivalent RMB298,348,000) (31 December 2009: US$50,000,000 (equivalent RMB341,410,000)), which was secured by the Group's building and plant and equipment with the aggregate carrying amount of approximately RMB229,284,000 (31 December 2009: RMB257,653,000). The loan carries interest at LIBOR+2%. The loan is from a shareholder of the Company who held 6.81% equity interests of the Company as at 31 December 2009. On 29 April 2010, the shareholder disposed of its equity interests of the Company and held less than 5% equity interests of the Company thereafter. During the year, interest expense approximately RMB8,649,000 (2009: RMB13,294,000) is paid and payable by the Group in relation to the loan.

The exposures of the Group's fixed-rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	2010 RMB'000	2009 RMB'000
Fixed-rate borrowing		
Within one year	**914,516**	1,381,959
In more than one year but not more than two years	**151,000**	168,900
	1,065,516	1,550,859

In addition, the Group has variable-rate borrowings which will be repriced when there is a change in the borrowing rate promulgated by the People's Bank of China and LIBOR from time to time. Interest is repriced every 3 to 12 months.

26. BORROWINGS *(continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) are as follows:

	2010	2009
Effective interest rate:		
Fixed-rate borrowings	**4.37% to 5.81%**	2.59% to 8.51%
Variable-rate borrowings	**2.46% to 7.65%**	2.45% to 6.91%

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	US$ $'000
As at 31 December 2010	49,457
As at 31 December 2009	63,020

During the year, the Group obtained new loans in the amount of RMB2,580,354,000 (31 December 2009: RMB2,143,882,000). The proceeds were mainly for the operations of the Group and the acquisition of property, plant and equipment.

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2010 RMB'000	2009 RMB'000
Expiring within one year	**3,235,470**	1,435,550
Expiring beyond one year	**180,000**	561,000
	3,415,470	1,996,550

27. DEFERRED INCOME

Deferred income represents government grants relating to development costs which are recognised as internally-generated intangible assets and leasehold land prepayment.

The government grants are transferred to profit or loss over the expected useful lives of the relevant assets. Movements of deferred income during the year are as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	**180,548**	180,281
Additions	**13,180**	8,309
Release to profit or loss	**(9,160)**	(8,042)
At 31 December	**184,568**	180,548

27. DEFERRED INCOME *(continued)*

Analysed for reporting purposes as:

	2010 RMB'000	2009 RMB'000
Current portion	**9,160**	7,535
Non-current portion	**175,408**	173,013
	184,568	180,548

28. SHARE CAPITAL

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2009 and 2010 and 31 December 2010	4,000,000	382,200
Issued and fully paid:		
At 1 January 2009 and 2010	2,083,623	197,854
Issue of shares on subscription *(Note)*	15,827	1,502
At 31 December 2010	2,099,450	199,356

Note: During the year, approximately 15,827,000 share options were exercised and as a result approximately 15,827,000 ordinary shares were issued. Net proceeds of approximately RMB29,088,000 were raised, of which RMB1,502,000 and RMB27,586,000 is recorded as share capital and share premium respectively.

29. SHARE-BASED PAYMENTS TRANSACTIONS

The Company's Pre-IPO Share Option Scheme was adopted pursuant to a resolution passed on 16 November 2007 for the primary purpose of providing incentives to directors and eligible employees and would expire on 10 December 2011. Under the Pre-IPO Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 21,102,534 (31 December 2009: 38,875,200), representing 1.01% (31 December 2009: 1.87%) of the shares of the Company in issue at that date.

30% of options are exercisable in a period of twelve months commencing on the first anniversary date of the listing date, 30% of options are exercisable in a period of twelve months commencing on the second anniversary date of the listing date, 40% of options are exercisable in a period of twelve months commencing on the third anniversary date of the listing date . The exercise price is HK2.16 per share.

The board of directors also approved the Company's Share Option Scheme on 16 November 2007 and no option under such scheme has been granted up to the end of the reporting period.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price	Fair value at grant date
Option to major directors					
Option A	16/11/2007	16/11/2007 to 10/12/2008	10/12/2008 to 10/12/2009	HK$2.16	HK$0.740
Option B	16/11/2007	16/11/2007 to 10/12/2009	10/12/2009 to 10/12/2010	HK$2.16	HK$0.748
Option C	16/11/2007	16/11/2007 to 10/12/2010	10/12/2010 to 10/12/2011	HK$2.16	HK$0.756
Option to other employees					
Option D	16/11/2007	16/11/2007 to 10/12/2008	10/12/2008 to 10/12/2009	HK$2.16	HK$0.620
Option E	16/11/2007	16/11/2007 to 10/12/2009	10/12/2009 to 10/12/2010	HK$2.16	HK$0.658
Option F	16/11/2007	16/11/2007 to 10/12/2010	10/12/2010 to 10/12/2011	HK$2.16	HK$0.687

29. SHARE-BASED PAYMENTS TRANSACTIONS *(continued)*

The following table discloses the movement of the share options during 2010:

Option type	**Outstanding at 1.1.2010 '000**	**Granted during year '000**	**Exercised during year '000**	**Forfeited during year '000**	**Expired during year '000**	**Outstanding at 31.12.2010 '000**
Option B	**7,999**	**—**	**7,999**	**—**	**—**	**—**
Option C	**10,664**	**—**	**—**	**—**	**—**	**10,664**
Option E	**8,662**	**—**	**7,828**	**834**	**—**	**—**
Option F	**11,550**	**—**	**—**	**1,112**	**—**	**10,438**
	38,875	**—**	**15,827**	**1,946**	**—**	**21,102**
Exercisable at the end of the year 2011						**21,102**
Weighted average exercise price	**HK$2.16**					**HK$2.16**

The following table discloses the movement of the share options during 2009:

Option type	Outstanding at 1.1.2009 '000	Granted during year '000	Exercised during year '000	Forfeited during year '000	Expired during year '000	Outstanding at 31.12.2009 '000
Option A	7,999	—	—	—	7,999	—
Option B	7,999	—	—	—	—	7,999
Option C	10,664	—	—	—	—	10,664
Option D	8,662	—	—	—	8,662	—
Option E	8,662	—	—	—	—	8,662
Option F	11,550	—	—	—	—	11,550
	55,536	—	—	—	16,661	38,875
Exercisable at the end of the year 2010						16,661
Weighted average exercise price	HK$2.16					HK$2.16

The Group recognised the expense of RMB4,083,000 for the year ended 31 December 2010 (2009: RMB9,301,000) in relation to share options granted by the Company.

30. CAPITAL COMMITMENTS

At 31 December 2010, the Group had outstanding capital commitments as follows:

	2010 RMB'000	2009 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**68,536**	116,155

31. LEASE COMMITMENTS

The Group as lessee

	2010 RMB'000	2009 RMB'000
Minimum lease payments paid under operating leases during the year:		
Property, plant and equipment	**404**	1,681
Leasehold land	**4,962**	2,728
	5,366	4,409

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:

	2010 RMB'000	2009 RMB'000
Within one year	**1,742**	3,148
In the second to fifth years inclusive	**22,785**	10,977
Over five years	**78,378**	40,073
	102,905	54,198

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

32. ACQUISITION OF SUBSIDIARIES

On 29 June 2010:

(i) Dongyue Fluorine Silicone, 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 Precision Chemical, a subsidiary of Macro-link Salt. 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.

The consideration of the acquisition was RMB35,200,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately RMB1,354,000.

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 Company obtained control over both these entities as a result of these transactions and the directors of the Company consider Dongyue Fluorine Silicone 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.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	69,375
Prepayment for purchase of property, plant and equipment	961
Prepaid lease payments shown under non-current assets	17,160
Deferred tax assets	213
Inventories	3,259
Prepaid lease payments shown under current assets	719
Trade and other receivables *(Note a)*	32,528
Bank balances and cash	4,611
Trade and other payables	(32,810)
Borrowings	(10,000)
Tax liabilities	(1,339)
	84,677

Notes:

(a) The fair value and the gross contractual amounts of trade and other receivables at the date of acquisition amounted to RMB32,528,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB nil.

32. ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	35,200
Plus: non-controlling interests (determined based on 40% of recognised identifiable net assets of Macro-link Salt)	32,131
fair value of previously held 20% equity interest	18,700
Less: 100% of net identifiable assets acquired	(84,677)
Goodwill arising on acquisition	1,354

Goodwill arose in the acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Macro-link Salt and Precision Chemical. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition:

	RMB'000
Cash consideration paid	(35,200)
Bank balances and cash acquired	4,611
	(30,589)

Included in the profit for the year is approximately RMB6,250,000 attributable to the additional business generated by Macro-link Salt and Precision Chemical. Revenue for the year includes approximately RMB29,145,000 generated from Macro-link Salt and Precision Chemical.

Had the acquisition been completed on 1 January 2010, total group revenue for the year would have been approximately RMB5,974,193,000, and profit for the year would have been approximately RMB808,154,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Macro-link Salt and Precision Chemical been acquired at the beginning of the current year, the directors have:

— calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the preacquisition financial statements.

33. RELATED PARTY TRANSACTIONS

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

(a) Purchase of raw materials

	2010 RMB'000	2009 RMB'000
Non-controlling shareholder of a subsidiary	**29,269**	24,503
Associate	**15,987**	16,272
	45,256	40,775

(b) Sales of goods

	2010 RMB'000	2009 RMB'000
Non-controlling shareholder of a subsidiary	**—**	26,291

(c) Borrowings raised

	2010 RMB'000	2009 RMB'000
Non-controlling shareholder of a subsidiary	**5,000**	—

(d) Compensation of key management personnel

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

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**15,788**	9,153
Post-employment benefits	**3**	65
Share options granted to directors and employees	**2,371**	5,397
Other staff welfare	**—**	8
	18,162	14,623

34. NON-CASH TRANSACTIONS

During the year, the Group purchased property, plant and equipment amounting to approximately RMB1,015,278,000 (2009: RMB210,523,000) of which RMB203,710,000 (31 December 2009: RMB65,619,000) had not been paid in cash at the end of the reporting period and was included in trade and other payables (see note 25).

35. RETIREMENT BENEFITS PLANS

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local governments in the PRC. The Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place/country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital '000	Proportion ownership interest held by the Company Directly %		Indirectly %		Proportion of voting power held by the Company		Principal activities
				2010	2009	2010	2009	2010	2009	
Dongyue Polymers	PRC	Registered capital	RMB641,360	100.00	100.00	–	–	100.00	100.00	Manufacture and sale of polytetrafluoro-ethylene
Dongyue Chemicals	PRC	Registered capital	RMB340,000	–	–	100.00	100.00	100.00	100.00 *(Note a)*	Manufacture and sale of refrigerant
Marco-Link Salt	PRC	Registered capital	RMB70,000	–	–	60.00	–	60.00	–	Production and sales of salt
Precision Chemicals	PRC	Registered capital	RMB10,000	25.00	–	75.00	–	100.00	–	Production and sales of bromine
Shandong Dongyue Fluo-Silicon Materials Co., Ltd.	PRC	Registered capital	RMB400,000	69.79	69.79	13.43	13.43	83.22	83.22	Manufacture and sales of methane chloride
Zibo Dongyue Lvyuan Co., Ltd.	PRC	Registered capital	RMB200,000	–	–	100.00	100.00	100.00	100.00	Manufacture and sale of liquid chlorine and alkali
Shandong Dongyue Organosilicon Material Co., Ltd.	PRC	Registered capital	RMB650,000	84.00	84.00	16.00	–	100.00 *(Note b)*	84.00	Manufacture and sale of organosilicon material
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	PRC	Registered capital	RMB50,000	–	–	51.00	51.00	51.00	51.00	Manufacture and sale of anhydrous fluoride
Guangdong Dongyue Fluorine Chemicals Co., Ltd.	PRC	Registered capital	RMB18,620	–	–	60.00	60.00	60.00	60.00	Manufacture and sale of anhydrous fluoride
Shandong Dongyue Silicone rubber Co., Ltd.	PRC	Registered capital	RMB20,000	–	–	100.00	55.00	100.00 *(Note c)*	55.00	Manufacture and sale of silicone rubber
Chifeng HuaSheng Mining Co., Ltd.	PRC	Registered capital	RMB2,000	–	–	80.00	80.00	80.00	80.00	Manufacture and sale of fluorite

None of the subsidiaries had issued any debt securities at the end of the year. All the PRC subsidiaries are domestic enterprises.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

Notes:

(a) During 2009, the Group acquired additional 3.18% equity interests in Dongyue Chemicals by cash consideration of RMB26,000,000.

(b) During 2010, the Group acquired additional 16% equity interests in Shandong Dongyue Organosilicon Material Co., Ltd. by cash consideration of RMB148,000,000.

(c) During 2010, the Group acquired additional 45% equity interests in Shandong Dongyue Silicone Rubber Co., Ltd. by cash consideration of RMB9,000,000.

The above changes in the Group's ownership interest in Dongyue Chemicals, Shandong Dongyue Organosilicon Material Co., Ltd. and Shandong Dongyue Silicone Rubber Co., Ltd. do not result in changes in control of those subsidiaries. Accordingly, the transactions are accounted for as equity transactions.

37. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 RMB'000	2009 RMB'000
Property, plant and equipment	**7**	8
Investments in subsidiaries	**1,523,873**	1,518,884
Other current assets	**65,116**	43,712
Other current liabilities	**(392)**	(266)
Deferred tax liabilities	**(39,199)**	(6,000)
	1,549,405	1,556,338
Share capital	**199,356**	197,854
Reserves	**1,350,049**	1,358,484
	1,549,405	1,556,338

38. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2010, the Group enters into land use rights transfer agreements with Zibo City Bureau of Land and Resources for two parcels of land. The aggregate consideration of the transaction is RMB411,900,000 which was paid prior to the reporting period. It is intended that a research and development centre with focus on research and development of, among other things, ionic membrane and functional membrane, will be developed on the two parcels of land granted.

Five-Year Financial Summary

Assets and Liabilities

	As at 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010 RMB'000**
Total Assets	2,815,568	6,536,552	5,594,937	5,884,274	**6,898,115**
Total Liabilities	(2,290,505)	(4,455,555)	(3,431,080)	(3,639,001)	**(4,031,527)**
	525,063	2,080,997	2,163,857	2,245,273	**2,866,588**
Equity attributable to Owners of the Company	311,416	1,845,560	1,898,906	2,014,646	**2,674,266**
Non-controlling Shareholders	213,647	235,437	264,951	230,627	**192,322**
	525,063	2,080,997	2,163,857	2,245,273	**2,866,588**

Financial Results

	Year ended 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010 RMB'000**
Revenue	2,005,932	2,684,721	3,962,159	3,544,447	**5,964,322**
Cost of sales	(1,577,483)	(2,050,044)	(3,286,355)	(3,024,006)	**(4,320,670)**
Gross profit	428,449	634,677	675,804	520,441	**1,643,652**
Other income	15,924	43,248	46,188	32,347	**35,859**
Distribution and selling expenses	(94,450)	(120,356)	(162,946)	(154,742)	**(171,279)**
Administrative expenses	(123,327)	(158,539)	(247,923)	(154,442)	**(329,592)**
Finance costs	(68,021)	(107,675)	(179,959)	(113,447)	**(113,923)**
Share of result of an associate	18	(214)	425	1,016	**1,192**
Profit before tax	158,593	291,141	131,589	131,173	**1,065,909**
Income tax credit/(expense)	(17,336)	(42,311)	6,789	22,796	**(284,412)**
Profit and total comprehensive income for the year	141,257	248,830	138,378	153,969	**781,497**
Profit and total comprehensive income attributable to:					
Owners of the Company	82,702	208,306	120,747	165,303	**733,869**
Non-controlling shareholders	58,555	40,524	17,631	(11,334)	**47,628**
	141,257	248,830	138,378	153,969	**781,497**

Five-Year Financial Summary

Note:

(1) Dongyue Group Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2006 as an exempted company with limited liability. Pursuant to group reorganization which was completed on 7 September 2006 (the "Reorganization"), the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganization are set out in the prospectus of the Company dated 26 November 2007.

The Group resulting from the Reorganization is regarded as a continuing entity under common control of the controlling shareholders. Accordingly, the financial information as contained in this section of the Annual Report had been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group for each of the relevant years, rather than from 7 September 2006. Accordingly, the results of the Group for the financial year ended 31 December 2006 include the results of the Company and its subsidiaries with effect from 1 January 2006 or since their respective dates of incorporation/establishment or from the effective dates of acquisition, whichever is the shorter period.

Corporate Inforamtion

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

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262 Gloucester Road
Causeway Bay
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Website Address

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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

Principal Bankers

China Construction Bank Corporation
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48 Heng Road
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Industrial and Commercial Bank of China Limited
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Zhangbei Road
Zibo Huantai
Shandong Province, PRC

Bank of China Limited
Huantai Branch
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Shandong Province, PRC

Legal Adviser

D.S. Cheung & Co.

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Stock Code

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