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

年報 2011
Annual Report

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Chairman's Statement

ZHANG JIANHONG
Chairman

In 2011, global economic outlook remained uncertain as the U.S. economic recovery process was vulnerable and turbulent, while the dark cloud of Europe's debt crisis still lingered and emerging economies saw a weakened momentum of growth. Though affected by the weak external demand and the tightening monetary policy, the PRC advanced the adjustment of the economic structure and turned the direction of the macro-economic policy to be more active and healthy, thus maintaining a steady growth momentum.

Chairman's Statement (Continued)

Dongyue Group Limited (the "Company" or "Dongyue") and its subsidiaries (collectively the "Group") captured the opportunities afforded by the adjustment of the economic structure to actively expand the domestic and foreign market shares, and fully leveraged our technological innovations, brand recognition, strength in business scale and our integrated operations to ensure product quality. The Group also encouraged technological advancement and innovations. Shared with our common goal, members of Dongyue worked together to bring five firsts to the Group since its establishment 24 years ago:

1. **A year with historical all-time high income and profit.** 2011 annual results were excellent with total production exceeding 2 million tonnes, representing a year-on-year growth of 28.45%. Revenue amounted to over RMB10 billion, representing a year-on-year increase of 70.43%, and making the Group the first enterprise with turnover of over RMB10 billion in the fluorosilica industry of China. The Group also recorded profit and total comprehensive income attributable to the Company's owners of RMB2,189,861,000, representing a year-on-year increase of 198.40%. Exports amounted to RMB3 billion, representing a year-on-year increase of 88.32%, making the Group the enterprise with the largest export volume in the industry.

2. **A significant year with commercialization of technological achievements and improvement of efficiency in technological revamps.** The new refrigerant developed by the Group has been widely used by various air-conditioner manufacturers across the country, and the ionic membrane of Dongyue has been used on six 10,000-tonnes chloralkali production devices, which laid a solid foundation for the industrialization, commercialization and efficiency enhancement of the technological achievements. In 2011, the research institute of Dongyue and its subsidiaries were granted 30 patents for the research and inventions, and applied for 22 patents. There were also breakthroughs in the research and development and application tests for fuel and battery membrane, solar cell packaging membrane, fluorine monomer synthesis, fluorochemical synthesis, amino silicone oil synthesis and perfluoroalkyl iodine compounds. In 2011, the Group carried out a total of 44 projects in relation to the technological revamp and comprehensive environmental protection. The technology upgrades have improved the production techniques, lowered the production cost as well as significantly increased the market competitiveness.

3. **A year with significant progress for our integration of upstream and downstream production chain and the adjustment of the product mix.** In 2011, the Group recorded revenue from exports of RMB3,051,663,000 and cooperated with large enterprises and distributors to achieve maximum market coverage, and built a strategic alliance for upstream and downstream industry chains to build up a strategic cooperation partnership. With the increasing efforts to the integration of upstream and downstream production chain, the Group is able to further increase its self-supply ratio of raw materials in our production process. In October 2011, the Group signed agreements to acquire exploration right of a nickel mine and an iron and fluorspar mine ("the Mines") in Inner Mongolia, the PRC at a total consideration of RMB80 million. Subject to fulfillment of certain conditions including approval by the relevant government authorities, completion of the acquisition is expected to take place in or around April 2012. The acquisition of the Mines, which occupy a total

Chairman's Statement (Continued)

area of approximately 67.90 square kilometers, enables the Group to explore fluorspar and other relevant mineral resources that represent the Group's major raw materials supply. The acquisition is in line with the Group's strategy to strengthen its vertical integration by expanding into upstream production value chain of the Group. The acquisition can provide the Group with an opportunity to ensure reliable supply of fluorspar with good quality, which leads to lower production cost and higher operating margin. In 2011, the Group strived to expand the production capacity of new environmental-friendly refrigerants, and increased its capability of research and development and relevant marketing efforts. For the polymer business, the Group achieved the market share of more than 40% by stabilization and improvement of the product quality of polymer products, expansion into oversea markets, and active development of specialized material during the year. The business scale of new environment-friendly refrigerant and polymer products thus increased significantly. After the commencement of production of the Phase 2 of organic silicone production facilities and the enhancement of the production capacity through technological advancement, and with more effort put by the sales department on expanding the market for the Group's organic silicone business, the revenue recorded significant increase. As the internal production chain enterprise, the fluorosilica business of the Group recorded significant growth in revenues and selling price of liquid alkali, while ensuring the supply of raw material to the Group.

4. **A year with highest brand recognition and most awards and honors.** Chloralkali ionic membrane, the greatest technological achievement of the Group, was awarded the National Technological Invention Award and was selected as one of the "Eleventh Five-Year" national key scientific and technological achievements in "The Collection of Eleventh Five-Year" National Key Scientific and Technological Achievements" ("十一五"國家重大科技成果匯編). Dongyue's engineering and technology research team for the perfluorinated ionic membrane was awarded by the Ministry of Science and Technology the "Outstanding Team Award for the implementation of National Science and Technology Program of the Eleventh Five-Year" ("十一五"國家科技計劃執行優秀團隊獎). I was awarded the "Outstanding Private Entrepreneur Award for Outstanding Contribution in Petroleum and Chemicals in China of the Eleventh Five-Year"("十一五"中國石油和化工優秀民營企業家傑出貢獻獎).

Chairman's Statement (Continued)

5. **A year with greatest improvements in benefits, and working and living conditions of the employees.** "Improved efficiency for the value, and financial reward for talents". The salary level of employees was substantially increased, and Phase 1 of the public rental building invested by the Group, with facilities for staff training, recreation and entertainment, and canteen, was officially completed for occupation and more than 800 employees moved into this new staff dormitory. The Group provided free meals with door-to-door delivery service in the convenience of the staff, which represents a fundamental solution for the safety concerns caused by the absence of staff who leave their working places for meals. The Group also holds a "Shandong University MBA program" for its senior and middle management personnel, and the "New Motivation Plan ("新動力運動") for the cadre pool, so that all managers and employees, especially the young ones, have opportunities for self-improvement.

The coming year, being the 25th anniversary of the Group, will be a year of opportunities and challenges. The Group will maintain a stable operation, put effort on its scientific innovation and technological advancement, and focus on breakthroughs in key technologies, the development of new products, and growing and attracting high-end talents. In order to increase the market shares in the industry, the Group will take the following measures:

To Continue Promoting the Adjustment of the Product Mix and Accelerate the Commercial Production of New Products and the Addition of New Production Capacity

The Group will continue to accelerate the addition of new production capacity for new environmental-friendly refrigerants, such as R22, R125, R439a, and the polymer business, and widen the range of application of chloralkali ionic membrane and accelerate its large scale commercial production so as to continue increasing the proportion of relevant products in our operating business .

To Expand New Market by Working on the Development of New Product and Quality Innovation in 2012

The Group will carry out thorough market research and analysis to identify new demands in the market and expand the new markets and new businesses. For the refrigerant business, we will concentrate on alternative products and the development of such new usages as vesicant, aerosol and extinguishing agent. For the polymer business, we will focus on the development of new varieties, new qualities, specialized material and fine chemicals. For the organic silicone business, we will focus on the processing of downstream products and the development of product chain, development of more industry-leading new technologies and products and increase its investment in technologies.

Chairman's Statement (Continued)

To Reduce Costs by Working on Improvement in Process and Technology and Management Innovation in 2012

The Group will continue to focus on technological innovation, energy saving and environmental protection projects. Efforts will be put on creating the most advanced technologies and the lowest consumption of energy in the industry, promoting management innovation, in particular the implementation of a comprehensive budget management, and developing a new model of procurement management.

To Increase Market Shares by Working on Marketing and Brand Innovation in 2012

In 2012, the Company will continue to implement the concept of "expanding the market with product quality and retaining the clients with marketing services". We will establish strategic alliances with large and quality customers, providing them with better products and services, to be the best supplier in the industry. At the same time, we will focus on identifying to-be developed markets and the exploration of the potential in the secondary and tertiary markets. We will continue to value the growth of Dongyue's brand and work on coordination of the industry to achieve a healthy and sustainable industry development.

To Meet our Goal in the Integration of the Resources by External Cooperation

The Group will integrate all resources for brand building to cater for the market. With external cooperation, especially the ancillary raw materials outside the industry chain as well as the deep processing of the products in the industrial park, we will maximize the growth while minimizing the investment. The Group will continue to facilitate the integration of the upstream and downstream production chain and strive to bring the Mines into commercial production as soon as possible in order to obtain economic benefits.

I, on behalf of our Board of Directors, express my gratitude from the depth of my heart to our shareholders, investors and business partners for their trust and support, and also the management and staff for their contribution to the Group.

Zhang Jianhong
Chairman
PRC, 18 March 2012

Management Discussion and Analysis

Financial Review

Results Highlights

For the year ended 31 December 2011, the Company and its subsidiaries (together the "Group") recorded revenue of approximately RMB10,165,200,000, representing an increase of 70.43% over RMB5,964,322,000 of last year. The gross profit margin increased to 39.73% (2010: 27.56%) and the consolidated segment results margin* was 33.61% (2010: 19.93%). The operating results margin was 32.38% (2010: 19.76%). Should the Certified Emission Reduction ("CER") segment and expenses on share options granted to the employees and the Directors be excluded, the operating results margin of the Group was 32.07% (2010: 19.46%). During the year under review, the Group recorded profit before tax of approximately RMB3,141,431,000, representing a substantial increase of 194.72% compared to RMB1,065,909,000 recorded last year, and consolidated profit attributable to the Company's owners was approximately RMB2,189,861,000 (2010: RMB733,869,000), representing a significant increase of 198.40% compared to that of last year. Basic earnings per share were RMB1.04 (2010: RMB0.35). The board of Directors of the Company recommended the payment of a final dividend for 2011 of HK$0.400 (2010: HK$0.135) per share to the shareholders whose names appear on the register of members of the Company on 23 May 2012.

* Consolidated Segment Results ÷ Revenue x 100%

Management Discussion and Analysis (Continued)

Segment Revenue and Operating Results

Set out below is the comparison, by reportable and operating segments, of the Group's revenue and results for the year ended 31 December 2011 and the year ended 31 December 2010:

Reportable and Operating Segments	For the year ended 31 December 2011 Revenue (RMB'000)	Results (RMB'000)	Segment Results Margin (%)	For the year ended 31 December 2010 (Note) Revenue (RMB'000)	Results (RMB'000)	Segment Results Margin (%)
Refrigerants	5,557,191	1,703,481	30.65	3,251,213	783,864	24.11
Polymers	3,183,248	1,305,819	41.02	1,413,337	245,379	17.36
Organic silicone	1,066,329	(75,667)	(7.10)	547,771	7,295	1.33
CER	319,557	250,706	78.45	38,188	29,649	77.64
Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid alkali	1,518,927	191,887	12.63	1,433,209	94,597	6.60
Others	596,483	39,812	6.67	341,188	27,972	8.20
	12,241,735	3,416,038	27.90	7,024,906	1,188,756	16.92
Less: Inter-segment sales	(2,076,535)	—	—	(1,060,584)	—	—
Consolidated	10,165,200	3,416,038	33.61	5,964,322	1,188,756	19.93

Note: Certain comparative figures have been re-presented in order to conform with the current year's new segmental reporting.

Management Discussion and Analysis (Continued)

Analysis of Revenue and Segment Results

With the strong domestic and international demand for the Group's products coupling with and the rise in their prices and the improvement on marginal profit, the revenue and the segment results of the Group saw a year-on-year increase with the double-digital growth in all reportable and operating segments except the segment results of the organic silicone. During the year ended 31 December 2011, capitalizing on our low-cost raw material and its fully vertically-integrated production chain, we believe that our core competitive edge will provide a strong support for the Group's future development, further reinforcing our leading position in fluorosilica chemical industry.

Refrigerants

During the year under review, the refrigerants segment remained to be the largest contributor to the revenue of the Group, the revenue of which increased by 70.93% to RMB5,557,191,000 compared to that for the corresponding period of last year, accounting for approximately 38.30% of the Group's revenue (excluding inter-segment sales) (2010: 40.19%). The segment mainly includes the revenue from the production and sales of traditional and environmental-friendly refrigerant products (R22, R439a, R134a, R32, R152a, R142b, R125 and so forth). As compared to the corresponding period of 2010, there showed a generally significant increase in both sales volume and selling price of the Group's refrigerants products, thanks to the favourable industry environment and the expansion of the Group's refrigerants products (50,000 tonnes per annum R22 new capacity and 5,000 tonnes per annum R125 new capacity commencing operations during 2011). Being the largest refrigerants products of the Group, R22 is the most widely used refrigerant in the PRC and is generally used for air-conditioning and refrigeration purposes. In addition, it has been one of the key raw materials for the production of fluoropolymers and other environmental-friendly refrigerants. Its keen domestic and international demand as refrigerants and raw materials and the supply storage have been driving up its prices very significantly. R134a is a type of refrigerant which is mainly used in automobile air conditioning systems in the PRC. As a result of its booming demand, its price was increased on a year-on-year basis which led to the increase in the revenue arising from its sales.

Management Discussion and Analysis (Continued)

In the world to date, the principal replacements for the refrigerant R22 are R439a (independently developed by the Group) and R410a and their Ozone Depletion Potential (ODP) are both 0, which have already seen them being widely applied and used on many occasions in the PRC. For this reason, many household equipment producers tended to strongly demand R439a from the Group for their new environmental-friendly household appliances. As for R125, it is one of the key ingredients of the above-mentioned environmental-friendly refrigerants. With the on-going global awareness of environmental protection, the demand for the green refrigerants become more and more immense, leading to robust demand growth for R125, which the Group can be able to capture by increasing new capacity of 5,000 tonnes per annum during the year.

The results of the refrigerants segment contributed 49.87% (2010: 65.94%) of the total segment results of the Group, while its segment results margin was 30.65%, compared with 24.11% of last year. In 2011, as a result of the continued market recovery, the average prices of all the Group's refrigerants products rose significantly on a year-to-year basis. Notwithstanding the fact that the raw materials (fluorite, anhydrous fluoride, methane chloride, sulfuric acid, methanol, trichloroethylene, etc.) cost increased substantially, with the Group's fully vertically-integrated production value chain and high self-sufficiency ratio for the key raw materials, the Group can be able to improve its operating results margins substantially.

Polymers

The revenue of the polymers segment increased by 125.23% to RMB3,183,248,000, accounting for approximately 31.32% (2010: 23.70%) of the total revenue of the Group for the year. The segment mainly includes the revenue from the production and sales of PTFE (a kind of fluoropolymer with high chemical stability, high and low temperature resistant, ageing resistant, chemical resistant, good insulation properties, which have been widely applied in the chemicals, construction, electrical and electronics and automotive industries), HFP (an organic fluorochemical monomer, which can be used to produce various fine chemicals) and downstream high performance PTFE chemicals (such as aqueous dispersion rubber and concentrates).The improvement and upgrade of the Group's technologies helped optimize the quality of our products. PTFE and polymer products demonstrated remarkable price and sales volume surges, leading to a substantial jump in the sales revenue of this business segment. Meanwhile, the surge in the revenue coming from the sales of HFP and the launch of the new PTFE products as well as downstream high-performance PTFE chemicals also contributed to the growth in revenue of this business segment.

The polymers segment contributed approximately 38.23% (2010: 20.64%) to the total segment results of the Group, while its segment results margin increased significantly to 41.02% from 17.36% of last year. With the surge of selling price of polymer products, the Group's maintenance on nearly 100% self-sufficiency ratios for the key raw materials in this business segment, and our stringent control over the operating costs and the production and recycling processes, we saw a substantial enhancement of the operating efficiency and minimization of the wastage ratios.

Organic Silicone

The revenue coming from the organic silicone business segment increased by 94.67% to RMB1,066,329,000, accounting for 10.36% of the revenue of the Group for the year under review (2010: 9.13%) (excluding inter-segment sales). The segment mainly includes the revenue from the production and sales of DMC (organic silicone intermediates that are used as raw materials to produce further proceeded silicone products), and further proceeded silicone products (silicone oils, silicone rubber, silicone resins). Organic silicone is widely used in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals, stabilizers, lubricants and sealants and are an important ingredient in industrial processes. The Group's proactive efforts on expansion of the organic silicone business during the year, the completion of the expansion project regarding 100,000 tonnes per annum of organic silicone monomer, the associated technological upgrading project which led to an increase of total organic silicone monomer capacity to 180,000 tonnes per annum and the 20,000 tonnes per annum of the raw vulcanizate have all led to the substantial growth in the revenue of this business segment.

Management Discussion and Analysis (Continued)

Notwithstanding the operation of this segment becoming much more scalable and the increase in the selling prices of DMC during the year, the positive impact arising therefrom has been more than offset by the negative impact arising from the soaring material and operating costs. In addition, the issues such as the excessive supply, and the technology bottleneck and constraint in the domestic organic silicone industry has not been solved during the year under review, resulting in operating loss for the organic silicone business segment recorded for the year under review.

CER

The segment includes the revenue from the Clean Development Mechanism (the "CER revenue") project registered under United Nations Framework Convention on Climate Change ("UNFCCC"), whereby the Group decomposes HFC23 (greenhouse gas) generated from the Group's production process of refrigerants in order to reduce HFC23 emission and to obtain tradable carbon units endorsed by UNFCCC.

In 2010, there appeared political obstacles over the approval of the CER revenue by UNFCCC. However, such obstacles have been cleared off and the related verification, submission and approval processes and procedures have returned to normal status. During the current year under review, a total amount of RMB319,557,000 (2010: RMB38,188,000) was recorded by the Group as the CER revenue in respect of the Group's reduction in HFC23 emission for the whole year of 2010 and the first quarter of 2011, which have been confirmed and endorsed by UNFCCC.

Dichloromethane, PVC and Liquid Alkali

The segment includes the revenue from the production and sales of the side products of the refrigerants segment (dichloromethane, PVC and liquid alkali). During the year under review, the revenue for this segment recorded a year-on-year increase by 5.98% to RMB1,518,927,000, accounting for approximately 14.40% (excluding inter-segment sale) of the Group's revenue for the whole year in 2011. Thanks to the continued recovery of the domestic economy in the PRC, the sales of dichloromethane (colorless liquid mainly used as reaction media in the pharmaceutical industry) and liquid alkali (a fundamental chemical raw material widely used in the textile, agriculture, construction materials, power generation, electronics and metallurgical industries) all recorded substantial growth in amount and volume. The 60,000-tonne annual production capacity methane chloride expansion project also contributed to such revenues.

The segment results of the dichloromethane, PVC and liquid alkali contributed 5.62% (2010: 7.96%) of the total segment results of the Group, while its segment results margin was 12.63% (2010: 6.60%). In 2011, despite the increase in the raw material costs, the rise in selling prices of these products sufficiently mitigated the negative impact therefrom, and thus there showed improved segment results margin for this segment.

Management Discussion and Analysis (Continued)

Distribution and Selling Expenses

During the year, the distribution and selling expenses increased by 23.69% to RMB211,849,000 from RMB171,279,000 for last year. The increase was mainly attributable to the increase in the transportation expenses as a result of the increase in the sales revenue.

Administrative Expenses

During the year, the administrative expenses increased by 82.22% to RMB600,587,000 from RMB329,592,000 for last year. The increase was mainly attributable to the increase in the payroll expenses, including the expenses on share options granted to the employees and the Directors.

Finance Costs

During the year, the finance costs increased by 31.91% to RMB150,277,000 from RMB113,923,000 for last year. This was mainly due to the increase in the borrowing interest rates in the PRC.

Capital Expenditure

For the year ended 31 December 2011, the Group's capital expenditure was approximately RMB1,246,411,000 (for the year ended 31 December 2010: RMB1,019,416,000), which was mainly used in the acquisition of fixed assets including equipment and facilities for the Group's expansion projects in the segments of refrigerants, polymers and organic silicone.

Management Discussion and Analysis (Continued)

Liquidity And Financial Resources

The Group's financial position is sound with healthy working capital management and strong operating cash flow. As at 31 December 2011, the Group's total equity amounted to RMB5,075,296,000, representing an increase of 77.05% compared with that as at 31 December 2010. As at 31 December 2011, the Group's bank balances and cash totaled RMB1,509,280,000 (31 December 2010: RMB594,621,000). During the year under review, the Group generated a total of RMB2,789,954,000 (for the year ended 31 December 2010: RMB549,081,000) cash inflow from its operating activities. The current ratio(1) of the Group as at 31 December 2011 was 1.70 (31 December 2010: 0.92).

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 strong 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 24 June and 26 October 2011, the Company issued and allotted 20,875,625 and 226,909 new shares respectively 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 2011, the number of issued shares of the Company increased to 2,120,552,455.

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 2011, the borrowings of the Group totaled RMB2,271,086,000 (31 December 2010: RMB2,732,944,000).

The gearing ratio(2) of the Group was 13.05% (31 December 2010: 42.72%).

The Group had no particular seasonal pattern of borrowing. As at 31 December 2011, the Group's borrowings comprised non-current portion (over 1 year) and current portion (within 1 year). The non-current portion of borrowings amounted to approximately RMB1,376,508,000, which are wholly repayable after one year but not exceeding five years. The current portion of borrowings amounted approximately to RMB894,578,000. 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 for the year ended 31 December 2011 were 5.94% (2010: 4.90%) and 6.50% (2010: 5.38%) per annum, respectively. As at 31 December 2011, 5% (31 December 2010: 39%) of the Group's borrowings bear fixed interest rates.

As at 31 December 2011, the Group's borrowings were denominated in Renminbi and US dollars, amounting to approximately RMB2,092,860,000 and approximately US$28,125,000 (equivalent to approximately RMB178,226,000) respectively.

Group Structure

During the year under review, Shandong Dongyue Chemicals Co. Ltd. ("Dongyue Chemicals"), a wholly-owned subsidiary of the Company, established Shandong Dongyue Union Property Co., Ltd. ("Dongyue Property"). Dongyue Property, in which Dongyue Chemicals owned 100% equity interests, is a company established in the PRC for the establishment of a research and development centre with focus on research and development of, among other things, ionic membrane and functional membrane. Furthermore, Donygue Chemicals established Shandong Dongyue Wen He Fluorine Materials Co., Ltd. ("Dongyue Wen He"), a 51% owned company and Inner Mongolia Dongyue Fluorine Materials Co., Ltd. ("Inner Mongolia Dongyue"), an

Management Discussion and Analysis (Continued)

100% owned company in the PRC. The principal activity of Dongyue Wen He is to manufacture anhydrous fluoride for internal consumption with an annual production capacity of 15,000 tonnes. Dongyue Wen He commenced operations in June 2011. The principal activities of Inner Mongolia Dongyue are to manufacture such fluoride products as anhydrous fluoride and hydrofluoric acid, mine and process fluorspar, silica and other mineral products. During the year under review, Inner Mongolia Dongyue has not commenced production.

In addition, two subsidiaries of the Company, Guangdong Dongyue Fluorine Chemicals Co., Ltd. and Shandong Dongyue Silicone Rubber Co. Ltd., were dissolved into liquidation.

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

Charge on Assets

As at 31 December 2011, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,540,769,000 (31 December 2010: RMB840,126,000), and bank deposits of RMB4,340,000 (31 December 2010: RMB15,938,000), which were pledged to secure the Group's borrowings and the bills 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 enters into forward contracts with a commercial bank for managing certain risks 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 5,495 employees in total (31 December 2010: 4,696) as at 31 December 2011. 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.

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

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 52, 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 Dongyue Salt and Dongyue 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, Outstanding Private Entrepreneur Award for Outstanding Contribution in Petroleum and Chemicals in China of the Eleventh Five-Year 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 55, was appointed as the executive director of the Company in July 2006. He has been with the Group and its predecessors 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, 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. and the chairman of the board of directors of Macro-Link Property Joint Stock Company Limited (新華聯不動產股份有限公司), companies listed on the Kuala Lumpur Stock Exchange and the Shenzhen Stock Exchange, respectively. Mr. Fu owns a 45% 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 62, 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 Dongyue Salt and Dongyue 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.

Directors' and Senior Management's Profile (Continued)

Mr. CUI Tongzheng, aged 50, 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 56, 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 Dongyue 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 39, 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 and Macro-Link Property Joint Stock Company Limited (新華聯不動產股份有限公司).

Independent non-executive Directors

Mr. YUE Run Dong, aged 72, 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 technical officer of research department 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 66, 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 58, 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 Chinese People Political Consultative Conference, Fujian Province. Mr. Ting is currently a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of six companies listed on the HKSE, namely Tong Ren Tang Technologies Company Limited, Tongda Group Holdings Limited, JLF Investment Company Limited, Computer and Technologies Holdings Limited, Texhong Textile Group Limited and China SCE Property Holdings Limited. Mr. Ting was an independent non-executive director of Minmetals Resources Limited until 30 November 2011. Save for the aforesaid, Mr. Ting does not have any other directorships in listed companies during the past 3 years.

Directors' and Senior Management's Profile (Continued)

SENIOR MANAGEMENT

Mr. ZHOU Guangsheng, aged 56, 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 44, 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 48, 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. PANG Feng, aged 46, had obtained a MBA diploma from Shanghai Jiao Tong University. He has been serving the Group since March 1988 and is formerly the deputy production manager and the deputy general manager of Dongyue Chemicals. He is currently the general manager of Dongyue Chemicals.

Mr. ZENG Hongzhi, aged 48, has been serving the Group since October 2003 and is formerly a chief officer of the Group's safety and environment protection department and the Group's corporate administration department, as well as the deputy general manager of Dongyue Polymers. He has been serving as the general manager of Dongyue Polymers since February 2009 until now.

COMPANY SECRETARY

Mr. NG Kwok Choi, aged 40, is a full time company secretary 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 17 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 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 37 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 36.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

The Directors now recommend the payment of a final dividend of HK$0.400 per share (the "Final Dividend") (approximately equivalent to RMB0.324 per share) (2010: HK$0.135 per share, approximately equivalent to RMB0.114 per share), in respect of the year 2011, to the shareholders whose names appear on the register of members of the Company (the "Register") on 23 May 2012. The Final Dividend is subject to the approval of the members of the Company at the forthcoming annual general meeting (the "AGM") to be held on 18 May 2012.

CLOSURE OF THE REGISTER

The Register will be closed to ascertain the qualification for attending and voting at the AGM and for the entitlement to the Final Dividend.

The Register will be closed from 16 May 2012 to 18 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, 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 15 May 2012.

The Register will be closed from 24 May to 28 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the Final Dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 23 May 2012.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of change in equity on page 39.

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.

Report of the Directors (Continued)

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, 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 RMB1,339,890,000, of which HK$848,221,000 (approximately equivalent to RMB687,653,000) has been proposed as the Find Dividend.

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 2011.

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 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.

Report of the Directors (Continued)

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

Period of exercise of the relevant percentage of the option	Maximum percentage of options exercisable
A period of twelve months commencing on the first anniversary date of the date on which dealings in the Shares first commence on the HKSE (the "Listing Date")	30% of the total number of options granted
A period of twelve months commencing on the second anniversary date of the Listing Date	30% of the total number of options granted
A period of twelve months commencing on the third anniversary date of the Listing Date	40% of the total number of options granted

As at 31 December 2011, 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 2011	Lapsed during the year	Exercised on 24 June 2011 (Note)	Exercised on 26 October 2011 (Note)	Outstanding as at 31 December 2011	Exercise price HK$	Date of Grant	Exercisable from	Exercisable until
Directors:									
Mr. Zhang Jianhong	4,084,363	–	(4,084,363)	–	–	2.16	16 November 2007	10 December 2010	10 December 2011
Mr. Liu Chuanqi	3,630,545	–	(3,630,545)	–	–	2.16	16 November 2007	10 December 2010	10 December 2011
Mr. Cui Tongzheng	2,949,817	–	(2,949,817)	–	–	2.16	16 November 2007	10 December 2010	10 December 2011
Mr. Yan Jianhua	226,909	–	(226,909)	–	–	2.16	16 November 2007	10 December 2010	10 December 2011
Mr. Zhang Jian	226,909	–	–	(226,909)	–	2.16	16 November 2007	10 December 2010	10 December 2011
Employees:									
In aggregate	9,983,991	–	(9,983,991)	–	–	2.16	16 November 2007	10 December 2010	10 December 2011
	21,102,534	–	(20,875,625)	(226,909)	–				

Note: The closing prices of the Company's Shares immediately before the dates on which the options were exercised on 24 June and 26 October 2011 were HK$7.47 per Share and HK$5.30 per Share, respectively.

Report of the Directors (Continued)

(b) Share Option Scheme

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 16 November 2007 (the "Scheme"), the Company may grant to, among others, the Directors of the Company and employees of the Group, for the recognition of their contribution of the Group, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for Shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the Listing Date unless further shareholders' approval had been obtained pursuant to the conditions set out in the Scheme. The total number of Shares in issue and to be issued upon exercise of all option under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

The offer for the grant of options (the "Offer") must be taken up within 28 days from the date of Offer, with a payment of HK$1.00 as consideration. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the HKSE's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate, exceed 208,000,000 which represents 10% of the total issued share capital as at the Listing Date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

On 1 June 2011, the Company granted share options under the Scheme to subscribe for an aggregate of 150,000,000 Shares. The details of such grant of share options are set out as follows:

Total number of share options granted: 150,000,000, which has been equally divided into 4 tranches: Tranche 1, Tranche 2, Tranche 3 and Tranche 4

Exercise price of share options granted: HK$8.13 per Share

Closing price of the Shares immediately before the date on which the options were granted: HK$7.98 per Share

Validity period of the share options:

(i) Tranche 1 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2012 and expiring on 1 June 2016.

(ii) Tranche 2 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2013 and expiring on 1 June 2016.

(iii) Tranche 3 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2014 and expiring on 1 June 2016.

(iv) Tranche 4 — a total of 37,500,000 share options shall be exercisable for the period commencing on 1 June 2015 and expiring on 1 June 2016.

Report of the Directors (Continued)

Among the 150,000,000 share options granted, 34,000,000 of which were granted to the following Directors as follows:

Name of Director	Position held with the Company	Number of share options granted				
		Tranche 1	Tranche 2	Tranche 3	Tranche 4	Total
Mr. Zhang Jianhong	Chairman and Executive Director	3,325,000	3,325,000	3,325,000	3,325,000	13,300,000
Mr. Liu Chuanqi	Executive Director	3,375,000	3,375,000	3,375,000	3,375,000	13,500,000
Mr. Cui Tongzheng	Executive Director	1,250,000	1,250,000	1,250,000	1,250,000	5,000,000
Mr. Yan Jianhua	Executive Director	500,000	500,000	500,000	500,000	2,000,000
Mr. Zhang Jian	Executive Director	50,000	50,000	50,000	50,000	200,000
		8,500,000	8,500,000	8,500,000	8,500,000	34,000,000

During the current year, the share options granted had not been exercised and 2,200,000 of the share options granted lapsed.

The fair value of the share options granted on 1 June 2011 under the Scheme at the date of grant were determined and measured using the Black-Scholes Option Pricing Model. The significant inputs into the model were the exercise price shown above, volatility of 64.65%, dividend yield of 3.68%, an expected option life of 3.5 to 5 years and on annual interest-free interest rates of 1.00%, 1.18%, 1.34% and 1.49%. As any changes in subjective input assumptions can materially affect the fair value estimates, in the opinion of professional appraiser, the valuation model for the share options granted does not necessarily provide a reliable single measure of the fair value of the share options. Other details of the valuation are set out in note 30 to the financial statements.

The related accounting policy for the fair value of the share options are set out in note 3 to the financial statements.

Save as disclosed above, no option had been granted or agreed to be granted to any person under the Scheme since its adoption.

Report of the Directors (Continued)

DIRECTORS

The Directors during the year ended 31 December 2011 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. Yan Jianhua
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. Fu Kwan, Mr Zhang Jian and Mr. Yue Run Dong will retire by rotation at the AGM 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.

Report of the Directors (Continued)

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 15 to 17.

DISCLOSURE OF INTERESTS

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

As at 31 December 2011, 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)	7.85 (L)
	Beneficial interest	20,447,636 (L)	0.96 (L)
Mr. Fu Kwan	Corporate interest[2]	709,646,818 (L)	33.47 (L)
Mr. Liu Chuanqi	Corporate interest[3]	87,360,000 (L)	4.12 (L)
	Beneficial interest	19,853,454 (L)	0.94 (L)
Mr. Cui Tongzheng	Corporate interest[4]	156,852,363 (L)	7.40 (L)
	Beneficial interest	10,162,180 (L)	0.48 (L)
Mr. Yan Jianhua	Beneficial interest	2,487,091 (L)	0.12 (L)
Mr. Zhang Jian	Beneficial interest	597,091 (L)	0.03 (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 45% 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 156,852,363 Shares(L) held by Dongyue Initiator Limited.

(5) L: Long Position

Report of the Directors (Continued)

Save as disclosed above, as at 31 December 2011, 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 2011, 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)]	709,646,818 (L)	33.47 (L)
Macro-Link Sdn. Bhd.	Corporate interest[(1)]	709,646,818 (L)	33.47 (L)
Dongyue Team Limited	Beneficial interest[(2)]	166,551,273 (L)	7.85 (L)
Dongyue Initiator Limited	Beneficial interest[(3)]	156,852,363 (L)	7.40 (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 45% 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 156,852,363 Shares(L) held by Dongyue Initiator Limited.

(4) L: Long Position

Report of the Directors (Continued)

(c) Interests in other members of the Group as at 31 December 2011

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of interest	% of issued share capital/registered capital of such subsidiary
Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue F&S")	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78%
Zibo Dongyue Lvyuan Co., Ltd	Shandong Hi Tech Investment Co., Ltd.[1]		
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd	Chifeng Peak Copper Co., Ltd.	Corporate	49%
Chifeng HuaSheng Mining Co., Ltd	Chifeng Peak Copper Co., Ltd.	Corporate	20%
Dongying Dongyue Salt Co., Ltd. ("Dongying Dongyue Salt")	Macro-Link Asset Investment Co., Ltd.	Corporate	40%
Dongying Dongyue Precision Chemical Co., Ltd.	Macro-Link Asset Investment Co., Ltd.[2]		
Shandong Dongyue Wen He Fluorine Materials Co., Ltd.	Shandong Lai Wu Wen He Chemicals Co., Ltd.	Corporate	49%

Notes:

(1) 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.

(2) Macro-Link Asset Investment Co., Ltd. is a 40% equity holder in Dongying Dongyue Salt which, in turn, owns 75% of Dongying Dongyue Precision Chemicals Co., Ltd., with the remaining 25% owned by the Company. Consequently, Macro-Link Asset Investment Co. Ltd. indirectly owns more than 10% of Dongying Dongyue Precision Chemicals Co., Ltd.

Saved as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at 31 December 2011, no other person (other than the Directors or the chief executive of the Company) had any interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all at general meetings of any other member of the Group.

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2011, 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	5.73%
— five largest suppliers combined	16.83%
Sales	
— the largest customer	2.73%
— five largest customers combined	8.52%

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

During the year, the Group had not entered into connected transactions 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").

Details of the continuing connected transactions entered into by the Group during the year ended 31 December 2011 not falling under Rule 14A.33 of the Listing Rules are set out below:

Continuing connected transactions for the year 2011	**Annual Cap** (RMB million)	**Actual** (RMB million)
Framework agreement for the purchase of industrial salt from Dongying Dongyue Salt (previously named Dongying Macrolink Salt Co., Ltd.) (the "DDS Agreement") (Note)	64	38

Report of the Directors (Continued)

Note: The purpose of the DDS Agreement is for the purpose of the Group's production of liquid alkali. Dongying Dongyue 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. On 31 December 2010, Dongyue F&S entered into the DDS Agreement with Dongying Dongyue Salt for three years to 31 December 2013 for purchase of industrial salt by the Group from Dongying Dongyue Salt. Details of the DDS 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 DDS Agreement requiring the Group to exclusively source industrial salt from Dongying Dongyue Salt.

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.

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 AGM.

On behalf of the Board

Zhang Jianhong
Chairman

The People's Republic of China, 18 March 2012

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 2011, except for deviation regarding the roles of chairman and chief executive officer, the details of which have been disclosed in the relevant paragraph below in this report.

During the year ended 31 December 2011, the HKSE has made revision to the Code ("the Revised Code") which becomes effective from 1 April 2012. The Board has completed the review of the Revised Code. In order to continue to maintain high standard of corporate governance, the Board ensures that, taking into account the prevailing standards adopted by the Company and its own circumstances, the Company would comply with the requirements as stipulated under the Revised Code starting from the next financial year ending 31 December 2012, by making the necessary disclosure, modification to the various procedures and documentation.

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 2011, 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 15 to 17 of this annual report.

Report on Corporate Governance Practices (Continued)

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, capital and remuneration 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	4/4
Mr. Cui Tongzheng	4/4
Mr. Yan Jianhua	3/4
Mr. Zhang Jian	3/4
INEDs:	
Mr. Ting Leung Huel, Stephen	4/4
Mr. Yue Run Dong	2/4
Mr. Liu Yi	3/4

During the year ended 31 December 2011, the Board has dealt with matters covering mainly the Group's overall strategy, annual and interim results, internal control, dividend policies, capital, financial and remuneration 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 3 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.

Report on Corporate Governance Practices (Continued)

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

During the year ended 31 December 2011, the Board did not establish a nomination committee. However, the appointment of new Director(s) and other related matters have been delegated to the Company's Remuneration Committee, which would make recommendations to the Board on relevant matters including the appointment or reappointment of the Directors of the Company. 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.

In order to comply with the Revised Code, a nomination committee of the Company (the "Nomination Committee") was established by the Board with written terms of reference with effect from 18 March 2012. Mr. Zhang Jianhong was appointed as the chairman of the Nomination Committee and Mr. Liu Yi and Mr. Ting Leung Huel, Stephen were appointed as the members of the Nomination Committee.

The Executive Directors of the Company did not enter into service contracts with the Company. However, each of the INEDs signed a letter of appointment with the Company for a term of approximately two years ended on 31 December 2011. Upon the expiry of the appointment letters on 31 December 2011, all the INEDs signed new letters of appointment with the Company for a term of two years commencing from 1 January 2012.

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.

Report on Corporate Governance Practices (Continued)

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 2011, 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 2010 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.

In addition, certain matters relating to the remuneration of the Executive Directors and the Group's senior management were approved by written resolutions signed by all members of the Remuneration Committee.

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.

Report on Corporate Governance Practices (Continued)

The Audit Committee held two meetings during the year ended 31 December 2011 and the attendance of each member is set out as follows:

	Number of Committee meeting attended/held
Committee member:	
Mr. Ting Leung Huel, Stephen	2/2
Mr. Liu Yi	2/2
Mr. Yue Run Dong	1/2

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 2011, 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 2010; and

- 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.

In addition, on 4 January 2012, the Audit Committee conducted 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 2011. The Audit Committee also met with the management on 18 March 2012 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 2011 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.

Report on Corporate Governance Practices (Continued)

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 2011 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 2011, the total remuneration for the audit services provided by the external auditor amounted to approximately HK$1,610,000 (approximately RMB1,305,000).

For the year ended 31 December 2011, the total remuneration for the permissible non-audit services provided by the external auditor amounted to HK$475,000 (approximately RMB385,000) 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.

On behalf of the Board

Zhang Jianhong
Chairman

The People's Republic of China, 18 March 2012

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 36 to 103, which comprise the consolidated statement of financial position as at 31 December 2011, 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 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 2011, 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

18 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	6	10,165,200	5,964,322
Cost of sales		(6,126,913)	(4,320,670)
Gross profit		4,038,287	1,643,652
Other income	7	66,058	35,859
Distribution and selling expenses		(211,849)	(171,279)
Administrative expenses		(600,587)	(329,592)
Finance costs	8	(150,277)	(113,923)
Share of result of an associate		(201)	1,192
Profit before tax		3,141,431	1,065,909
Income tax expense	9	(880,550)	(284,412)
Profit and total comprehensive income for the year	10	2,260,881	781,497
Profit and total comprehensive income attributable to:			
Owners of the Company		2,189,861	733,869
Non-controlling interests		71,020	47,628
		2,260,881	781,497
Earnings per share	13		
Basic (RMB)		1.04	0.35
Diluted (RMB)		1.03	0.35

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	4,093,261	3,822,394
Prepayment for purchase of property, plant and equipment		75,959	79,198
Prepayment for land lease		5,501	6,154
Deposit for auction of leasehold land	16	—	411,900
Prepaid lease payments	17	638,597	220,201
Intangible assets	18	1,253	3,352
Interest in an associate	19	779	—
Available-for-sale investments	20	80,506	37,727
Deferred tax assets	21	132,308	91,252
Goodwill		1,354	1,354
		5,029,518	4,673,532
Current assets			
Inventories	22	648,656	493,623
Prepaid lease payments	17	17,404	6,214
Trade and other receivables	23	1,516,734	1,039,187
Entrusted loans	24	403,000	75,000
Pledged bank deposits	25	4,340	15,938
Bank balances and cash	25	1,509,280	594,621
		4,099,414	2,224,583
Current liabilities			
Trade and other payables	26	1,310,803	971,944
Borrowings	27	894,578	1,323,266
Tax liabilities		196,638	101,522
Deferred income	28	7,215	9,160
		2,409,234	2,405,892
Net current assets (liabilities)		1,690,180	(181,309)
Total assets less current liabilities		6,719,698	4,492,223

Consolidated Statement of Financial Position (Continued)

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	29	**201,111**	199,356
Reserves		**4,581,977**	2,474,910
Equity attributable to the owners of the Company		**4,783,088**	2,674,266
Non-controlling shareholders		**292,208**	192,322
Total equity		**5,075,296**	2,866,588
Non-current liabilities			
Deferred income	28	**168,029**	175,408
Deferred tax liabilities	21	**99,865**	40,549
Borrowings	27	**1,376,508**	1,409,678
		1,644,402	1,625,635
		6,719,698	4,492,223

The consolidated financial statements on pages 36 to 103 were approved and authorised for issue by the Board of Directors on 18 March 2012 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 2011

	Attributable to owners of the Company									
	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	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2010	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 upon exercise of share options	1,502	27,586	(10,347)	—	—	—	10,347	29,088	—	29,088
Transfer	—	—	—	—	—	81,833	(81,833)	—	—	—
Non-controlling interests arising on the acquisition of subsidiaries	—	—	—	—	—	—	—	—	32,131	32,131
Acquisition of additional interests in a subsidiary	—	—	—	—	(43,309)	—	—	(43,309)	(113,691)	(157,000)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(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
Profit and total comprehensive income for the year	—	—	—	—	—	—	2,189,861	2,189,861	71,020	2,260,881
Shares issued upon exercise of share options	1,755	36,143	(13,728)	—	—	—	13,728	37,898	—	37,898
Transfer	—	—	—	—	—	275,224	(275,224)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	52,821	52,821
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(23,955)	(23,955)
Dividends paid	—	—	—	—	—	—	(235,697)	(235,697)	—	(235,697)
Recognition of equity-settled shared-based payments	—	—	116,760	—	—	—	—	116,760	—	116,760
Balance at 31 December 2011	201,111	1,238,838	127,778	(32,210)	101,098	497,046	2,649,427	4,783,088	292,208	5,075,296

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2011

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 2011

	Notes	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES			
Profit before tax		3,141,431	1,065,909
Adjustments for:			
Finance costs		150,277	113,923
Interest income		(26,779)	(11,705)
Realisation of deferred income		(13,814)	(9,160)
(Reversal) recognition of impairment on trade receivables		(492)	2,409
Depreciation and amortisation		508,517	449,270
Release of prepaid lease payments		7,875	9,555
Equity-settled share-based payment expenses		116,760	4,082
Write down (reversal) of inventories		16,285	(124)
Impairment losses recognised on property, plant and equipment		—	853
Share of result of an associate		201	(1,192)
Gain on liquidation of subsidiary		(1,842)	—
Gain on fair value of interest in an associate		—	(2,634)
Loss on disposals of property, plant and equipment		56,024	16,269
Operating cash flows before movements in working capital		3,954,443	1,637,455
Increase in inventories		(171,516)	(60,225)
Increase in trade and other receivables		(488,505)	(350,185)
Increase (decrease) in trade and other payables		404,555	(412,233)
Increase in deferred income		4,490	13,179
Cash from operations		3,703,467	827,991
Interest paid		(146,339)	(164,987)
Income tax paid		(767,174)	(113,923)
NET CASH FROM OPERATING ACTIVITIES		2,789,954	549,081

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Net cash outflow from acquisition of an associate	19	(980)	—
Net cash outflow from acquisition of subsidiaries		—	(30,589)
Deposit for auction of leasehold land		—	(411,900)
Prepayment for land lease		(24,908)	(561)
Purchase of property, plant and equipment		(859,566)	(825,058)
Purchase of intangible asset		—	(15)
Purchase of available-for sale investments		(42,779)	(16,134)
Proceeds from disposal of property, plant and equipment		11,741	42,744
Interest received		26,779	11,705
Increase in pledged bank deposits		(12,786)	(213,309)
Decrease in pledged bank deposits		24,384	410,680
Entrusted loans to third parties		(328,000)	(135,000)
Repayment of entrusted loans from third parties		—	60,000
Interest bearing loan advances to third parties		—	(543,745)
Repayment of interest bearing loan advances to third parties		—	544,245
NET CASH USED IN INVESTING ACTIVITIES		(1,206,115)	(1,106,937)
FINANCING ACTIVITIES			
Acquisition of additional interests in subsidiaries	37	—	(157,000)
Capital contribution from non-controlling interests		14,432	—
Net proceeds from issuance of shares through exercise of share options		37,898	29,088
Proceeds from borrowings		1,270,500	2,580,354
Repayment of borrowings		(1,732,358)	(2,084,991)
Dividend paid		(235,697)	(64,110)
Dividend paid to non-controlling interests		(23,955)	(4,373)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(669,180)	298,968
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		914,659	(258,888)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		594,621	853,509
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
represented by:			
Bank balances and cash		1,509,280	594,621

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 are listed on the Main Board of The Stock Exchange of Hong Kong Limited since 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 dichloromethane, polyvinyl chloride ("PVC") and liquid alkali and others. In addition, the Group has also established Shandong Dongyue HFC-23 Decomposition Project ("CDM Project") to decompose certain greenhouse gases generated from the Group's production process in order to reduce greenhouse gas emissions.

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 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").

Amendments to IFRSs	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRIC-Int 14	Prepayments of a Minimum Funding Requirement
IFRIC-Int 19	Extinguishing Financial Liabilities with Equity Instruments

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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:

IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
IFRS 1 (Amendments)	Government Loans[2]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

IFRS 9 Financial Instruments

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (Continued)

IFRS 9 Financial Instruments (Continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015. The directors are in the process of assessing the impact of the adoption of IFRS 9.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC12 *Consolidation — Special Purpose Entities*. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios including scenarios.

The directors anticipate that the application of these five standards may not have significant impact on amounts reported in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may not have material impact on the amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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 (effective from 1 January 2010 onwards).

Changes in the Group's ownership interests in existing subsidiaries

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group 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 combinations

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 arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group 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 included 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 made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at 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 acquire 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 acquire 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.

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.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

An associate is an entity over which the Group 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.

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's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and dichloromethane, PVC and liquid alkali is recognised when the goods are delivered and title has passed.

CDM Project involves 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.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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 recognised 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 in the consolidated statement of financial position 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.

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 classified as operating lease and are released to profit or loss in the consolidated statement of comprehensive income over the term of relevant land leases.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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, entrusted loans, 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).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 considered to be 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 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
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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 through profit or loss in subsequent periods.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets (Continued)

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 options 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 such that the cumulative expense reflects the revised estimate, 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 Share Premium. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

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.

Collectability of entrusted loans

When there is objective evidence of impairment loss on entrusted loans, the Group estimates the future cash flows of entrusted loans for impairment testing purpose. The amount of the impairment loss is measured as the difference between the entrusted loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise in future financial periods.

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.

Recognition of share-based compensation expenses

As mentioned in note 30, the Group has granted share options to its directors and employees. The directors have used the Black-Scholes Model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the Black-Scholes Model. Any changes in the assumptions and the selection of data inputs can significantly affect the estimate of the fair value of the equity instruments.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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 27, 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.

(b) Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including pledged bank deposits, bank balances and cash)	3,233,308	1,531,167
Available-for-sale investments	80,506	37,727
	3,313,814	1,568,894
Financial liabilities		
Amortised cost	3,428,567	3,569,367

(c) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, entrusted loans, 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Financial risk management objectives and policies (Continued)

(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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**231,224**	155,220	**189,792**	333,898

At 31 December 2011, if RMB had strengthened/weakened by 10% against US$ with all other variables held constant, post-tax profit for the year would have been RMB4,143,000 (2010: RMB17,876,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US$ denominated trade and other receivables and US$ denominated borrowings.

(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 2011, 5% (2010: 39%) of the Group's borrowings bear fixed interest rates.

The weighted average effective interest rates on floating rate borrowings at 31 December 2011 were 5.94% (2010: 4.90%) per annum. At 31 December 2011, 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 RMB5,415,000 (2010: RMB4,168,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Financial risk management objectives and policies (Continued)

(iii) Credit risk management

The carrying amounts of pledged bank deposits, bank balances and cash, entrusted loans, 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 aging analysis of trade and other receivables is set out in note 23 to the consolidated financial statements. Management makes 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 maturity of one year. The Group continuously monitors collections and payments from its customers and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise (please see note 24 for details). In addition, before accepting any new debtor, the Group conducts research on the creditworthiness of the new debtor and assesses the potential debtor's credit quality and defines credit limits by debtor. The Group offers various settlement terms which vary depending on the size of contract, credibility and reputation of the debtor. Loans balances are not past due or impaired at the end of reporting period. The directors of the Company continuously evaluate the creditworthiness of the independent third parties and may, on a case by case basis, extend the repayment date on mutual agreement.

The balances of entrusted loans represents loans to several independent third parties. Included in the entrusted loan of RMB75,000,000 which maturity date was on 21 October 2011 had been extended one more year during the year 2011 after evaluation of the payment history and the credit-worthiness of the debtor. Management closely monitors the credit quality of entrusted loans and considers the entrusted loans that are neither past due nor impaired to be of a good credit quality.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Financial risk management objectives and policies (Continued)

(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 2011, the Group has available undrawn borrowing facilities of approximately RMB3,953,540,000 (31 December 2010: RMB3,415,470,000). Details of which are set out in note 27.

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 2011 RMB'000
31 December 2011								
Trade and other payables	—	485,137	513,372	158,972	—	—	1,157,481	1,157,481
Borrowings								
— fixed rates	6.50	428	75,555	246	31,339	—	107,568	105,000
— variable rates	5.94	167,371	230,579	470,610	1,559,434	—	2,427,994	2,166,086
		652,936	819,506	629,828	1,590,773	—	3,693,043	3,428,567

	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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

6. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods.

The Group's operations are organised based on the 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. This is the basis upon which the Group is organised.

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review. During the current period, two new operating segments are identified as, "Certified Emission Reduction ("CER")" and "dichloromethane, polyvinyl chloride ("PVC") and liquid alkali", which were previously included in the operating segment of "refrigerants". They are now reported separately to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The corresponding items of segment information for the comparative period have been re-presented to conform with the current period presentation.

Segment revenues and results

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

2011

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	CER RMB'000	Dichloromethane PVC and liquid alkali RMB'000	Reportable and operating segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
External sales	3,893,456	3,183,248	1,053,580	319,557	1,463,884	9,913,725	251,475	—	10,165,200
Inter-segment sales	1,663,735	—	12,749	—	55,043	1,731,527	345,008	(2,076,535)	—
Total revenue — segment revenue	5,557,191	3,183,248	1,066,329	319,557	1,518,927	11,645,252	596,483	(2,076,535)	10,165,200
SEGMENT RESULTS	1,703,481	1,305,819	(75,667)	250,706	191,887	3,376,226	39,812	—	3,416,038
Reconciliation of segment results to consolidated profit before tax for the year:									
Unallocated corporate expenses (net)									(124,129)
Finance costs									(150,277)
Share of result of an associate									(201)
Profit before tax									3,141,431

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

6. REVENUE AND SEGMENT INFORMATION (Continued)

2010

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	CER RMB'000	Dichloromethane PVC and liquid alkali RMB'000	Reportable and operating segments' total RMB'000	Other operations RMB'000	Eliminations RMB'000	Total RMB'000
External sales	2,396,941	1,413,337	544,803	38,188	1,387,966	5,781,235	183,087	—	5,964,322
Inter-segment sales	854,272	—	2,968	—	45,243	902,483	158,101	(1,060,584)	—
Total revenue — segment revenue	3,251,213	1,413,337	547,771	38,188	1,433,209	6,683,718	341,188	(1,060,584)	5,964,322
SEGMENT RESULTS	783,864	245,379	7,295	29,649	94,597	1,160,784	27,972	—	1,188,756

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

Unallocated corporate expenses (net)	(10,116)
Finance costs	(113,923)
Share of result of an associate	1,192
Profit before tax	1,065,909

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 result 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

6. REVENUE AND SEGMENT INFORMATION (Continued)

Entity-wide disclosures

Information about revenue from refrigerants segment by products from external customers

	2011 RMB'000	2010 RMB'000
Monochlorodifluoromethan (HCFC-22)	1,781,785	1,257,642
Tetrafluoroethane (R134a)	570,141	335,902
Pentafluoroethane (R125)	407,731	192,027
R439A	509,074	177,355
R413A	117,560	80,792
R142b	108,927	68,731
R152a	80,561	48,823
Others	317,677	235,669
	3,893,456	2,396,941

Information about revenue from polymers segment by products from external customers

	2011 RMB'000	2010 RMB'000
Polytetrafluoroethylene (PTFE)	2,264,578	1,017,063
Hexafluoropropylene (HFP)	866,802	319,045
Perfuoropropane	38,382	13,007
Tetrafluoroethylene (TFE)	4,273	44,823
Others	9,213	—
	3,183,248	1,413,337

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

6. REVENUE AND SEGMENT INFORMATION (Continued)

Entity-wide disclosures (Continued)

Information about revenue from organic silicone segment by products from external customers

	2011 RMB'000	2010 RMB'000
DMC (Dimethylcyclosiloxane)	467,119	245,598
107 Silicone Rubber	264,961	110,895
Raw Vulcanizate	133,858	80,625
D3 (Hexamethylcyclotrisiloxane)	12,012	9,035
DMC Hydrolysate	16,154	6,354
Trimethylchlorosilane	45,565	13,684
Methyldichlorosilane	18,034	4,433
Dimethyldichlorosilane	16,103	11,288
Others	79,774	62,891
	1,053,580	544,803

Information about revenue from Dichloromethane, PVC and liquid alkali by products segment from external customers

	2011 RMB'000	2010 RMB'000
PVC	632,670	765,616
Dichloromethane	372,750	306,432
Liquid alkali	458,464	315,918
	1,463,884	1,387,966

Information about revenue from other operations segment by products from external customers

	2011 RMB'000	2010 RMB'000
AHF (Anhydrous Fluoride)	46,707	66,703
Ammonium Bifluoride	109,200	79,288
Hydrofluoric Acid	30,747	19,142
Bromine	23,249	—
Others	41,572	17,954
	251,475	183,087

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

6. REVENUE AND SEGMENT INFORMATION (Continued)

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 2011.

Geographical information

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

	2011 RMB'000	2010 RMB'000
PRC	**7,113,537**	4,343,872
Asia (except PRC)		
— Japan	**615,710**	301,122
— South Korea	**392,353**	199,691
— India	**29,131**	56,477
— Singapore	**50,197**	51,490
— Thailand	**61,510**	46,765
— Pakistan	**26,626**	24,118
— Malaysia	**41,219**	18,612
— other countries	**278,777**	49,829
Subtotal	**1,495,523**	748,104
America		
— United States of America	**516,518**	279,620
— Bazil	**129,913**	88,310
— Chile	**31,973**	15,406
— other countries	**23,581**	13,086
Subtotal	**701,985**	396,422
Europe		
— Italy	**333,667**	134,618
— Spain	**25,155**	22,378
— Germany	**64,435**	14,004
— France	**56,579**	11,019
— other countries	**248,600**	68,738
Subtotal	**728,436**	250,757
Africa		
— South Africa	**38,856**	41,141
— Egypt	**31,929**	15,198
— Nigeria	**22,030**	13,514
— other countries	**4,125**	10,946
Subtotal	**96,940**	80,799
Other countries/regions	**28,779**	144,368
	10,165,200	5,964,322

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

2011

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	CER RMB'000	Dichloromethane, PVC and liquid alkali RMB'000	Reportable and operating segments' total RMB'000	Other operations RMB'000	Total RMB'000
Depreciation of property, plant and equipment	244,041	79,012	87,541	7,058	67,087	484,739	21,679	506,418
Amortisation of intangible assets	1,141	—	673	42	219	2,075	24	2,099
Reversal of impairment on trade receivables	(245)	—	—	(1)	(245)	(491)	(1)	(492)
Research and development costs recognised as an expense	1,528	6,083	1,791	—	—	9,402	201	9,603
Write-down of inventories	—	—	14,763	—	—	14,763	1,522	16,285
Loss on disposals of property, plant and equipment	27,752	21,977	—	1,143	4,311	55,183	841	56,024
Release of prepaid lease payments	2,956	282	2,008	77	512	5,835	2,040	7,875

2010

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	CER RMB'000	Dichloromethane, PVC and liquid alkali RMB'000	Reportable and operating segments' total RMB'000	Other operations RMB'000	Total RMB'000
Depreciation of property, plant and equipment	237,683	66,821	49,387	1,219	76,633	431,743	14,331	446,074
Amortisation of intangible assets	1,961	—	673	14	507	3,155	41	3,196
Recognition of impairment on trade receivables	1,749	—	—	19	583	2,351	58	2,409
Research and development costs recognized as an expense	2,024	8,816	673	—	4	11,517	—	11,517
Reversal of write-down inventories	(683)	—	735	—	(176)	(124)	—	(124)
Loss on disposals of property, plant and equipment	9,269	3,991	—	40	2,228	15,528	741	16,269
Release of prepaid lease payments	6,143	290	2,008	14	667	9,122	433	9,555
Impairment losses recognised on property, plant and equipment	—	—	—	—	—	—	853	853

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

7. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Government grants		
— related to expense items (Note)	12,731	7,541
— related to assets (Note 28)	13,814	9,160
Interest income	9,582	10,707
Interest income on entrusted loans	17,197	998
Gain on fair value of interest in an associate (Note 19)	—	2,634
Gain on liquidation of subsidiary	1,842	—
Others	10,892	4,819
	66,058	35,859

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

	2011 RMB'000	2010 RMB'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	140,986	117,573
Other borrowings	10,770	8,718
Total borrowing costs	151,756	126,291
Less: amounts capitalised	(1,479)	(12,368)
	150,277	113,923

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 6.08% (2010: 5.80%) per annum to expenditure on qualifying assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

9. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
PRC enterprise income tax ("EIT")		
— Current year	**(842,893)**	(260,416)
— Underprovision in prior years	**(1,822)**	(7,150)
	(844,715)	(267,566)
Deferred tax charge (Note 21)	**(35,835)**	(16,846)
	(880,550)	(284,412)

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 for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	**3,141,431**	1,065,909
Tax charge at enterprise income tax rate (Note a)	**(785,358)**	(266,477)
Tax effect of income not taxable for tax purpose	**580**	625
Tax effect of share of result of an associate	**(50)**	298
Tax effect of expenses not deductible for tax purpose	**(32,426)**	(5,270)
Tax effect of tax concessions (Note b)	**—**	110
Tax effect of EIT concession on profit from CDM project (Note c)	**33,031**	3,951
Tax effect of tax credits previously not recognised (Note d)	**—**	5,748
Tax effect of tax losses not recognised	**(33,978)**	(2,068)
Utilisation of tax losses previously not recognised	**10,279**	18,686
Underprovision in respect of prior years	**(1,822)**	(7,150)
Deferred tax on distributable earnings of PRC subsidiaries (Note e)	**(70,440)**	(33,199)
Others	**(366)**	334
Tax expense for the year	**(880,550)**	(284,412)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

9. INCOME TAX EXPENSE (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 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% (2010: 25%) and 12.5% (2010: 12.5%) respectively.

(c) 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 Concession"), commencing from the time when the project starts to earn the CDM revenue. This EIT Exemption had a retrospective effect from 1 January 2007. According to the EIT Concession, the profit earned from CDM project entitles 50% reduction of EIT in 2010 and 2011. The profit earned from CDM project is entitled 50% reduction of EIT until 31 December 2012.

(d) 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.

(e) 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 RMB70,440,000 (2010: RMB33,199,000) on the undistributed earnings of subsidiaries has been charged to profit or loss in the consolidated statement of comprehensive income for the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

10. PROFIT 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:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**269,799**	174,775
Discretionary bonus (a)	**169,346**	125,817
Post-employment benefits	**49,615**	43,350
Equity-settled share-based payment expenses	**116,760**	4,082
Other staff welfare	**25,328**	12,995
Total staff costs (b)	**630,848**	361,019
Cost of inventories recognised as expenses	**5,619,843**	3,967,724
Depreciation of property, plant and equipment	**506,418**	446,074
Amortisation of intangible assets (included in cost of sales)	**2,099**	3,196
Auditor's remuneration	**2,409**	1,876
Net foreign exchange losses	**15,070**	3,148
(Reversal) recognition of impairment on trade receivables	**(492)**	2,409
Research and development costs recognised as an expense	**9,603**	11,517
Write-down (reversal) of inventories	**16,285**	(124)
Release of prepaid lease payments	**7,875**	9,555
Impairment losses recognised on property, plant and equipment	**—**	853
Loss on disposals of property, plant and equipment	**56,024**	16,269

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

b: Directors' emoluments are included in the above staff costs.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2010: 9) directors were as follows:

2011

	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	138	6,000	6,385	–	10,507	–	23,030
Mr. Liu Chuan Qi	138	6,000	5,110	–	10,665	–	21,913
Mr. Cui Tong Zheng	138	2,400	1,059	3	3,950	–	7,550
Mr. Yan Jian Hua	138	1,000	162	–	1,580	–	2,880
Mr. Fu Kwan	138	–	–	–	–	–	138
Mr. Zhang Jian	138	–	–	–	158	–	296
Independent Non-executive Directors							
Mr. Ting Leung Huel, Stephen	224	–	–	–	–	–	224
Mr. Yue Run Dong	138	–	–	–	–	–	138
Mr. Liu Yi	138	–	–	–	–	–	138
	1,328	15,400	12,716	3	26,860	–	56,307

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, Stephen	204	–	–	–	–	–	204
Mr. Yue Run Dong	114	–	–	–	–	–	114
Mr. Liu Yi	114	–	–	–	–	–	114
	1,116	764	13,340	2	2,151	–	17,373

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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 2011.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2010: one) individuals were as follows:

	2011 **RMB'000**	2010 RMB'000
Salary	**400**	200
Discretionary bonus	**5,244**	800
Pension scheme contributions	**6**	3
Equity-settled share-based payment expenses	**4,740**	219
	10,390	1,222

Their emoluments were within the following bands:

	2011 **No. of** **employees**	2010 No. of employees
RMB1,000,000 to RMB1,500,000	**—**	1
RMB5,000,000 to RMB5,500,000	**2**	—

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

13. EARNINGS PER SHARE

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

	2011 RMB'000	2010 RMB'000
Earnings for the purposes of basic earnings and diluted earnings per share	**2,189,861**	733,869
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,110,240**	2,084,534
Effect of dilutive potential ordinary shares:		
Share options	**7,259**	1,785
Weighted average number of ordinary shares for purpose of diluted earnings per share	**2,117,499**	2,086,319

The computation of diluted earnings per share for the year ended 31 December 2011 does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are higher than the average market price of the shares for 2011.

14. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Dividends paid during the year:		
2010 final dividend: HK$0.135 (2010: 2009 final dividend: HK$0.035) per share	**235,697**	64,110

A final dividend of approximately HK$0.400 per share, amounting to approximately HK$848,221,000 in respect of the year ended 31 December 2011 (2010: final dividend of HK$283,426,000 (HK$0.135 per share) in respect of the year ended 31 December 2010) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

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 2010		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		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
Additions	35	67,473	261,958	15,216	13,873	488,819	847,339
Transfer		147,585	712,965	—	22,938	(883,488)	—
Eliminated on disposals		(10,541)	(146,130)	(1,259)	(1,926)	(171)	(160,027)
At 31 December 2011		1,072,015	4,699,954	39,727	222,826	79,262	6,113,784
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2010		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
Charge for the year		50,847	420,970	4,825	29,776	—	506,418
Eliminated on disposals		(3,401)	(85,192)	(681)	(699)	—	(89,973)
At 31 December 2011		205,929	1,661,609	16,605	136,380	—	2,020,523
NET BOOK VALUES							
At 31 December 2011		866,086	3,038,345	23,122	86,446	79,262	4,093,261
At 31 December 2010		709,015	2,545,330	13,309	80,638	474,102	3,822,394

As at 31 December 2011, the Group has not obtained the building ownership certificates for certain buildings with net book value of approximately RMB99,364,000 (31 December 2010: RMB32,910,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost less 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 RMB6,801,000 (31 December 2010: RMB70,533,000) and RMB1,531,027,000 (31 December 2010: RMB752,214,000), 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 represented the full consideration of the two parcels of land. In current year, the Group entered into land use rights transfer agreements with Zibo City Bureau of Land and Resources with regard to the two parcels of land and accordingly, the deposit was transferred to prepaid lease payments.

17. PREPAID LEASE PAYMENTS

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

	2011 RMB'000	2010 RMB'000
Analysed for reporting purpose as:		
Current portion	**17,404**	6,214
Non-current portion	**638,597**	220,201
	656,001	226,415

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 RMB432,565,000 (31 December 2010: RMB2,509,000) which the Group is in the process of obtaining the land use right certificate for the medium-term leasehold land, other land use right certificates have already been secured.

The Group has pledged prepaid lease payments with the aggregate carrying amount of approximately RMB2,941,000 (31 December 2010: RMB17,379,000) to secure bank loans of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

17. PREPAID LEASE PAYMENTS (Continued)

Included in the above balance, prepaid lease payment of RMB297,587,000 represents the land element of the Group's owned occupied properties. Prepaid lease payments of approximately RMB358,414,000 acquired during the year 2011 which the directors of the Company are still planning the future land use. The Group has not yet obtained land use right certificate for this land, which is still at land clearing stage. The detailed plan for development has not been submitted to Government in PRC for its approval.

18. INTANGIBLE ASSETS

	Proprietary technologies RMB'000	Software RMB'000	Total RMB'000
COST			
At 1 January 2010	21,308	63	21,371
Additions	—	15	15
At 31 December 2010 and 2011	21,308	78	21,386
AMORTISATION			
At 1 January 2010	14,833	5	14,838
Charge for the year	3,189	7	3,196
At 31 December 2010	18,022	12	18,034
Charge for the year	2,087	12	2,099
At 31 December 2011	20,109	24	20,133
CARRYING VALUES			
At 31 December 2011	1,199	54	1,253
At 31 December 2010	3,286	66	3,352

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

19. INTEREST IN AN ASSOCIATE

	2011 RMB'000
Cost of investment in an associate unlisted in the PRC	980
Share of post-acquisition losses and other comprehensive income, net of dividends received	(201)
	779

The details of the Group's associate at 31 December 2011 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
Chifeng North Dongyue New Material Development Co., Ltd. ("North Dongyue")	Limited liability company	PRC	PRC	Registered capital	49	49	Production and sales of salt

On 18 February 2011, Inner Mongolia Dongyue Peak Fluorine Chemicals Co. Ltd., a subsidiary of the Company, entered into an agreement with an independent third party to establish North Dongyue with a registered capital of RMB2,000,000. The Group holds 49% equity interest in North Dongyue and accounts for the investment as interest in an associate.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

19. INTEREST IN AN ASSOCIATE (Continued)

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

	2011 RMB'000
Total assets	4,780
Total liabilities	3,191
Net assets	1,589
Net assets attributable to the Group	779
Revenue	704
Loss for the year attributable to owner of the associate	(411)
Group's share of loss	(201)

On 29 June 2010, Shandong Dongyue Fluo-Silicon Materials Co., Ltd. ("Dongyue Fluo-Silicon"), a subsidiary of the Company, acquired additional 40% equity interest in its associate, Dongying Dongyue Salt Co., Ltd. ("Dongyue Salt"). After the acquisition, the Company indirectly holds 60% equity interest of Dongyue Salt and Dongyue 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 (Details refer to note 7).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

20. AVAILABLE-FOR-SALE INVESTMENTS

	2011 RMB'000	2010 RMB'000
Unlisted equity securities, at cost		
— Shandong Innovation Investment Co., Ltd. (Note a)	2,324	5,924
— Zibo ZhangDian Huitong Microfinance Co., Ltd. (Note a)	26,453	31,803
— Shandong Peninsula Ocean Blue Economic Investment Co., Ltd. (Note b)	51,729	—
	80,506	37,727

The above unlisted investments represent equity investments in private entities. 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.

Notes:

a. The entity is a private entity that was incorporated in the PRC. The Group holds 9.9% and 10.71% of the equity interests in Shandong Innovation Investment Co., Ltd. and Zibo ZhangDian Huitong Microfinance Co., Ltd., respectively.

b. The entity is a private entity that was incorporated in the Cayman Islands. During the year, the Company entered into a subscription agreement with Shandong Peninsula Ocean Blue Economic Investment Co., Ltd. ("SPOBE") to subscribe 20,000,000 shares in SPOBE. As at 31 December 2011, the Company has subscribed 8,000,000 shares for the consideration of US$8,000,000 (equivalent to approximately RMB51,729,000) which represents 18.18% equity interests in SPOBE. The acquisition of the remaining 12,000,000 shares will take place upon receipt of notice from the major shareholders of SPOBE. Details of the capital commitment referred to note 31.

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:

	2011 RMB'000	2010 RMB'000
Deferred tax assets	132,308	91,252
Deferred tax liabilities	(99,865)	(40,549)
	32,443	50,703

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

21. DEFERRED TAXATION (Continued)

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

	Distributable profits of PRC subsidiaries RMB'000	Deprecation allowance RMB'000	Accrual for employee benefits RMB'000	Government grants on prepaid lease payments RMB'000	Tax credits on acquisition of qualified property, plant, and equipment and tax losses RMB'000	Capitalised interests RMB'000	Others RMB'000	Total RMB'000
Deferred tax asset (liability)								
At 1 January 2010	(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
Withholding tax paid	17,575	—	—	—	—	—	—	17,575
(Charge) credit recognised in profit or loss (Note 9)	(70,440)	1,221	55,997	(16,114)	(9,503)	2,883	121	(35,835)
At 31 December 2011	(92,064)	9,033	93,760	19,411	399	(7,801)	9,705	32,443

At 31 December 2011, the Group has unused tax losses of approximately RMB150,744,000 (31 December 2010: RMB55,948,000) 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 RMB14,834,000 (31 December 2010: RMB55,948,000) and RMB135,910,000 (31 December 2010: nil) that will expire in 2015 and 2016 respectively.

There is no unrecognised deferred tax asset of tax credits on acquisition of qualified property, plant and equipment as at 31 December 2011.

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 RMB1,646,171,000 (31 December 2010: RMB497,985,000) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

22. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials and consumables	300,758	316,777
Work in progress	77,894	56,086
Finished goods	270,004	120,760
Total	648,656	493,623

23. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	1,316,164	847,780
Less: allowance for doubtful debts	(2,924)	(3,416)
	1,313,240	844,364
Prepayment for raw materials	123,813	104,994
Value added tax receivables	65,417	48,073
Deposits, prepayments and other receivables	14,264	41,756
	1,516,734	1,039,187

Included in the trade receivables are bills receivables amounting to RMB1,122,200,000 at 31 December 2011 (31 December 2010: RMB682,830,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	2011 RMB'000	2010 RMB'000
Within 90 days	816,100	773,899
91–180 days	491,342	70,476
181–365 days	6,272	185
1 to 2 years	2,450	3,220
	1,316,164	847,780

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% (2010: 99%) 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, credibility and reputation of the customers.

Included in the Group's trade receivable balance are debtors with the aggregate carrying amount of RMB6,545,000 (31 December 2010: RMB2,579,000) 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.

	2011 RMB'000	2010 RMB'000
91–180 days	6,102	2,403
181–365 days	405	176
1–2 years	38	—
	6,545	2,579

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

23. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts

	2011 RMB'000	2010 RMB'000
Balance at beginning of the year	3,416	4,744
(Recovered) impairment losses recognised on receivables	(492)	2,409
Amounts written off as uncollectible	—	(3,737)
Balance at end of the year	2,924	3,416

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

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 2011	15,508
As at 31 December 2010	8,828

24. ENTRUSTED LOANS

	2011 RMB'000	2010 RMB'000
Entrusted loans (Note)	403,000	75,000

Note: The balance represents entrusted loans to several independent third parties amounting to RMB403,000,000 at 31 December 2011 (31 December 2010: RMB75,000,000), which are unsecured and bears interest at 10.55% (2010: 8.45%) per annum with maturity of one year.

Before accepting any new debtor, the Group conducts research on the creditworthiness of the new debtor and assesses the potential debtor's credit quality and defines credit limits by debtor. The Group offers various settlement terms which vary depending on the size of contract, credibility and reputation of the debtor. Loans balances are not past due or impaired at the end of reporting period. The directors continuously evaluate the creditworthiness of the independent third parties and may, on a case by case basis, extend the repayment date on mutual agreement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits amounting to approximately RMB4,340,000 (31 December 2010: RMB15,938,000) 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 2011 were 3.30% (2010: 1.98%) and 0.50% (2010: 0.36%) respectively.

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

	US$ '000
As at 31 December 2011	21,249
As at 31 December 2010	14,610

26. TRADE AND OTHER PAYABLES

	2011 **RMB'000**	2010 RMB'000
Trade payables	**505,832**	386,011
Receipt in advance from customers	**71,147**	63,465
Payroll payable (Note a)	**368,613**	209,438
Payable for CDM project (Note b)	**102,219**	—
Payable for property, plant and equipment (Note c)	**149,855**	203,710
Other tax payables	**35,672**	38,555
Other payables and accruals	**77,465**	70,765
Total	**1,310,803**	971,944

Notes:

(a) As at 31 December 2011, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to approximately RMB68,259,000 (31 December 2010: RMB68,739,000). 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 be settled three months after the complete installation of the plant and machinery which is recorded in the addition of construction in progress during the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

26. TRADE AND OTHER PAYABLES (Continued)

Included in the trade payables are bill payables amounting to RMB9,700,000 at 31 December 2011 (31 December 2010: RMB28,500,000). Bill payables were secured by the Group's pledged bank deposits.

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

	2011 RMB'000	2010 RMB'000
Within 30 days	247,853	269,366
31–90 days	144,539	67,872
91–180 days	77,483	19,866
181–365 days	20,360	5,792
1–2 years	6,901	15,399
More than 2 years	8,696	7,716
	505,832	386,011

Included in the trade payables is a trade payable to a non-controlling shareholder of a subsidiary amounting to approximately RMB2,164,000 (31 December 2010: RMB3,166,000) which are aged within 30 days. The general credit period given by them is three to six months.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

27. BORROWINGS

	2011 RMB'000	2010 RMB'000
Unsecured bank loans	1,716,500	1,808,400
Secured bank loans	376,360	520,196
Unsecured other loans	—	106,000
Secured other loan	178,226	298,348
	2,271,086	2,732,944
Carrying amount repayable:		
Within one year	894,578	1,323,266
More than one year, but not exceeding two years	677,789	860,670
More than two years, but not more than five years	698,719	399,670
More than five years	—	149,338
	2,271,086	2,732,944
Less: Amount due within one year shown under current liabilities	894,578	1,323,266
Amount due after one year	1,376,508	1,409,678

As at 31 December 2011, secured bank borrowings of RMB376,360,000 (31 December 2010: RMB520,196,000) were secured by the Group's building and plant and equipment with the aggregate carrying amount of approximately RMB1,316,701,000 (31 December 2010: RMB593,463,000) and prepaid lease payments with the aggregate carrying amount of approximately RMB2,941,000 (31 December 2010: RMB17,379,000).

As at 31 December 2011, secured other loan represents borrowings of US$28,125,000 (equivalent RMB178,226,000) (31 December 2010: US$45,000,000 (equivalent RMB298,348,000)), which was secured by the Group's building and plant and equipment with the aggregate carrying amount of approximately RMB221,127,000 (31 December 2010: RMB229,284,000). The loan carries interest at LIBOR+2%. During the year, interest expense of approximately RMB4,885,000 (2010: RMB8,649,000) is paid and payable by the Group in relation to the loan.

The unsecured bank loans carry interest ranging from 5.4% to 7.59%.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

27. BORROWINGS (Continued)

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

	2011 RMB'000	2010 RMB'000
Fixed-rate borrowing		
Within one year	75,000	914,516
In more than one year but not more than two years	30,000	151,000
	105,000	1,065,516

In addition, the Group has following variable-rate borrowings:

Loan amount as at 31 December 2011	Interest rate
RMB1,987,860,000	Standard lending rate plus 0% to 10%
RMB 178,226,000	LIBOR plus 2%
RMB2,166,086,000	

Loan amount as at 31 December 2010	Interest rate
RMB1,446,301,000	Standard lending rate plus 0% to 10%
RMB 221,127,000	LIBOR plus 2%
RMB1,667,428,000	

The standard lending rate is promulgated by the People's Bank of China. Both the standard lending rate and LIBOR 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

27. BORROWINGS (Continued)

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

	2011	2010
Effective interest rate:		
Fixed-rate borrowings	6.41% to 6.65%	4.37% to 5.81%
Variable-rate borrowings	2.75% to 7.59%	2.46% to 7.65%

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

	US$ '000
As at 31 December 2011	28,125
As at 31 December 2010	63,020

During the year, the Group obtained new unsecured short-term loans in the amount of RMB270,500,000 (31 December 2010: RMB1,371,186,000), unsecured long-term loans in the amount of RMB820,000,000 (31 December 2010: RMB126,000,000) and secured long-term loans in the amount of RMB180,000,000 (31 December 2010: RMB1,083,168,000). 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:

	2011 RMB'000	2010 RMB'000
Expiring within one year	3,083,000	3,235,470
Expiring beyond one year	870,540	180,000
	3,953,540	3,415,470

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

28. DEFERRED INCOME

Deferred income represents government grants relating to costs incurred by the Group in relation to development activities which are recognised as internally-generated intangible assets and the prepaid lease payments for existing office and plant.

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:

	2011 RMB'000	2010 RMB'000
At 1 January	184,568	180,548
Additions	4,490	13,180
Release to profit or loss	(13,814)	(9,160)
At 31 December	175,244	184,568

Analysed for reporting purposes as:

	2011 RMB'000	2010 RMB'000
Current portion	7,215	9,160
Non-current portion	168,029	175,408
	175,244	184,568

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

29. SHARE CAPITAL

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2010 and 2011 and 31 December 2011	4,000,000	382,200
Issued and fully paid:		
At 1 January 2010	2,083,623	197,854
Exercise of share options (Note)	15,827	1,502
At 1 January 2011	2,099,450	199,356
Exercise of share options (Note)	21,102	1,755
At 31 December 2011	2,120,552	201,111

Note: During the year, approximately 21,102,000 (2010: 15,827,000) share options were exercised and as a result approximately 21,102,000 (2010: 15,827,000) ordinary shares were issued. Net proceeds of approximately RMB37,898,000 (2010: RMB29,088,000) were raised, of which RMB1,755,000 (2010: RMB1,502,000) and RMB36,143,000 (2010: RMB27,586,000) was recorded as share capital and share premium respectively.

30. SHARE-BASED PAYMENTS

The Company's Pre-IPO Share Option Scheme and Share Option Scheme (the "Schemes") were adopted pursuant to a resolution passed on 16 November 2007 for the primary purpose of providing incentives to directors and eligible employees. Under the Schemes, 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 2011, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was nil (31 December 2010: 21,102,534), representing nil (31 December 2010: 1.01%) of the shares of the Company in issue at that date.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 147,800,000 (31 December 2010: nil), representing 6.97% (31 December 2010: nil) of the shares of the Company in issue at that date.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

30. SHARE-BASED PAYMENTS (Continued)

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
Pre-IPO Share Option Scheme:					
Options to 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
Options 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
Share Option Scheme:					
Options to directors					
Option G	01/06/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK$8.13	HK$3.067
Option H	01/06/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK$8.13	HK$3.201
Option I	01/06/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK$8.13	HK$3.314
Option J	01/06/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK$8.13	HK$3.411
Options to other employees					
Option K	01/06/2011	01/06/2011 to 01/06/2012	01/06/2012 to 01/06/2016	HK$8.13	HK$3.067
Option L	01/06/2011	01/06/2011 to 01/06/2013	01/06/2013 to 01/06/2016	HK$8.13	HK$3.201
Option M	01/06/2011	01/06/2011 to 01/06/2014	01/06/2014 to 01/06/2016	HK$8.13	HK$3.314
Option N	01/06/2011	01/06/2011 to 01/06/2015	01/06/2015 to 01/06/2016	HK$8.13	HK$3.411

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

30. SHARE-BASED PAYMENTS (Continued)

The following table discloses the movement of the share options during the year ended 31 December 2011:

Option type	Outstanding at 1.1.2011 '000	Granted during year '000	Exercised during year '000	Forfeited during year '000	Outstanding at 31.12.2011 '000
Option C	11,116	—	11,116	—	—
Option F	9,986	—	9,986	—	—
Option G	—	8,500	—	—	8,500
Option H	—	8,500	—	—	8,500
Option I	—	8,500	—	—	8,500
Option J	—	8,500	—	—	8,500
Option K	—	29,000	—	550	28,450
Option L	—	29,000	—	550	28,450
Option M	—	29,000	—	550	28,450
Option N	—	29,000	—	550	28,450
	21,102	150,000	21,102	2,200	147,800
Exercisable at the end of the year 2012					36,950
Weighted average exercise price	HK$8.13				HK$8.13

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

30. SHARE-BASED PAYMENTS (Continued)

The following table discloses the movement of the share options during the year ended 31 December 2010:

Option type	Outstanding at 1.1.2010 '000	Granted during year '000	Exercised during year '000	Forfeited during year '000	Outstanding at 31.12.2010 '000
Option B	7,999	—	7,999	—	—
Option C	11,116	—	—	—	11,116
Option E	8,662	—	7,828	834	—
Option F	11,098	—	—	1,112	9,986
	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 estimated fair values of the options granted on 1 June 2011 at the date of grant was approximately RMB405,174,000. These fair values were calculated using the Black-Scholes option pricing model.

The inputs into the model were as follows:

Share price	HK$8.13
Exercise price	HK$8.13
Expected life	3.5-5 years
Expected volatility	64.65%
Dividend yield	3.68%
Risk-free interest rate	1.00%–1.49%

Expected volatility was determined by using the annualized historical stock price volatility of the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the expense of RMB116,760,000 for the year ended 31 December 2011 (2010: RMB4,082,000) in relation to share options granted by the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

31. CAPITAL COMMITMENTS

At 31 December 2011, the Group had outstanding capital commitments as follows:

	2011 RMB'000	2010 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	38,552	68,536
Capital expenditure in respect of acquisition of equity investments contracted for but not provided in the consolidated financial statements	75,611	—
Capital expenditure in respect of acquisition of intangible asset contracted for but not provided in the consolidated financial statements	78,000	—
	192,163	68,536

32. LEASE COMMITMENTS

The Group as lessee

	2011 RMB'000	2010 RMB'000
Minimum lease payments paid under operating leases during the year:		
Property, plant and equipment	296	404
Leasehold land	6,895	4,962
	7,191	5,366

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

32. LEASE COMMITMENTS (Continued)

The Group as lessee (Continued)

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:

	2011 RMB'000	2010 RMB'000
Within one year	6,190	1,742
In the second to fifth years inclusive	23,666	22,785
Over five years	74,935	78,378
	104,791	102,905

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

33. LIQUIDATION OF A SUBSIDIARY

As at 31 December 2010, the Group held a 60% interest in a subsidiary, Guangdong Dongyue Fluorine Chemicals Co., Ltd. ("Guangdong Dongyue"). In the current year, Guangdong Dongyue was placed into voluntary liquidation and dissolved on 14 March 2011.

The subsidiary liquidation did not contribute significantly to the Group's cash flows or operation results.

34. RELATED PARTY TRANSACTIONS

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

(a) Purchase of raw materials

	2011 RMB'000	2010 RMB'000
Non-controlling interests	8,294	29,269
Associate	—	15,987
	8,294	45,256

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Borrowings raised

	2011 RMB'000	2010 RMB'000
Non-controlling interests	–	5,000

(c) Compensation of key management personnel

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

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	41,682	15,788
Post-employment benefits	15	3
Share options granted to directors and key management personnel	38,868	2,371
	80,565	18,162

35. NON-CASH TRANSACTIONS

During the year, the property, plant and equipment of the Group of approximately RMB38,389,000 (for the year ended 31 December 2010: nil) was contributed by the non-controlling interests that formed part of their capital contribution.

36. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

37. 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 % 2011	Directly % 2010	Indirectly % 2011	Indirectly % 2010	Proportion of voting power held by the Company 2011	2010	Principal activities
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	Manufacture and sale of refrigerant
Dongyue Salt	PRC	Registered capital	RMB70,000	–	–	60.00	60.00	60.00	60.00	Production and sales of salt
Dongying Dongyue Precision Chemicals Co., Ltd	PRC	Registered capital	RMB10,000	25.00	25.00	75.00	75.00	100.00	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	16.00	100.00	100.00 (Note a)	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	– (Note f)	60.00	Manufacture and sale of anhydrous fluoride
Shandong Dongyue Silicone Rubber Co., Ltd.	PRC	Registered capital	RMB20,000	–	–	–	–	–	– (Note b)	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
Inner Mongolia Dongyue Fluorine Chemicals Co., Ltd.	PRC	Registered Capital	RMB50,000	–	–	100.00	–	100.00 (Note c)	–	Manufacture and sale of fluorite
Shandong Dongyue Wenhe Fluorine Chemicals Co., Ltd.	PRC	Registered capital	RMB115,700	–	–	51.00	–	51.00 (Note d)	–	Manufacture and sale of silicone rubber
Shandong Dongyue Union Property Co., Ltd.	PRC	Registered capital	RMB20,000	–	–	100.00	–	100.00 (Note e)	–	Property Development

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

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

Notes:

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

(b) 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 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.

(c) During 2011, the Group established Inner Mongolia Dongyue Fluorine Chemicals Co., Ltd. with a registered capital of RMB50,000,000.

(d) During 2011, the Group established Shandong Dongyue Wenhe Fluorine Chemicals Co., Ltd. with a registered capital of RMB115,700,000.

(e) During 2011, the Group established Dongyue Union Property Co., Ltd. with a registered capital of RMB20,000,000.

(f) Guangdong Dongyue Fluorine Chemicals Co., Ltd. was struck off during the year ended 31 December 2011.

38. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 **RMB'000**	2010 RMB'000
Property, plant and equipment	**4**	7
Investments in subsidiaries	**1,523,873**	1,523,873
Available-for-sale investments	**51,729**	—
Amounts due from subsidiaries	**49,675**	—
Other current assets	**8,086**	65,116
Other current liabilities	**(302)**	(392)
Deferred tax liabilities	**(92,064)**	(39,199)
	1,541,001	1,549,405
Share capital	**201,111**	199,356
Reserves (note)	**1,339,890**	1,350,049
	1,541,001	1,549,405

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2011

38. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

Movement in the reserves:

	2011 RMB'000	2010 RMB'000
1 January	1,350,049	1,401,794
Profit for the year	72,635	24,006
Dividend paid	(235,697)	(64,110)
Recognition of equity-settled share-based payments	116,760	4,082
Proceeds from share issued	36,143	27,586
Acquisition of further interest in a subsidiary from minority shareholders	–	(43,309)
	1,339,890	1,350,049

Five-Year Financial Summary

ASSETS AND LIABILITIES

	As at 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
Total Assets	6,536,552	5,594,937	5,884,274	6,898,115	**9,128,932**
Total Liabilities	(4,455,555)	(3,431,080)	(3,639,001)	(4,031,527)	**(4,053,636)**
	2,080,997	2,163,857	2,245,273	2,866,588	**5,075,296**
Equity attributable to					
Owners of the Company	1,845,560	1,898,906	2,014,646	2,674,266	**4,783,088**
Non-controlling Shareholders	235,437	264,951	230,627	192,322	**292,208**
	2,080,997	2,163,857	2,245,273	2,866,588	**5,075,296**

Five-Year Financial Summary (Continued)

FINANCIAL RESULTS

	Year ended 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
Revenue	2,684,721	3,962,159	3,544,447	5,964,322	**10,165,200**
Cost of sales	(2,050,044)	(3,286,355)	(3,024,006)	(4,320,670)	**(6,126,913)**
Gross profit	634,677	675,804	520,441	1,643,652	**4,038,287**
Other income	43,248	46,188	32,347	35,859	**66,058**
Distribution and selling expenses	(120,356)	(162,946)	(154,742)	(171,279)	**(211,849)**
Administrative expenses	(158,539)	(247,923)	(154,442)	(329,592)	**(600,587)**
Finance costs	(107,675)	(179,959)	(113,447)	(113,923)	**(150,277)**
Share of result of an associate	(214)	425	1,016	1,192	**(201)**
Profit before tax	291,141	131,589	131,173	1,065,909	**3,141,431**
Income tax credit/(expense)	(42,311)	6,789	22,796	(284,412)	**(880,550)**
Profit and total comprehensive income for the year	248,830	138,378	153,969	781,497	**2,260,881**
Profit and total comprehensive income attributable to:					
Owners of the Company	208,306	120,747	165,303	733,869	**2,189,861**
Non-controlling interests	40,524	17,631	(11,334)	47,628	**71,020**
	248,830	138,378	153,969	781,497	**2,260,881**

Corporate Information

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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 Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
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
Huantai Branch
134 Jianshe Road
Zibo City, Huantai
Shandong Province, PRC

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

Bank of China Limited
Huantai Branch
48 Heng Huan Road
Zibo City, Huantai
Shandong Province, PRC

Agricultural Bank of China Limited
Huantai Branch
101 Zhongxin Road
Suo Zhen
Zibo City, Huantai
Shandong Province, PRC

Bank of Communications Company Limited
Zibo Branch
100 Jin Jing Road
Zhang Dian Qu
Zibo
Shandong Province, PRC

INVESTOR RELATIONS CONSULTANT

A-World Consulting Limited
Unit 2401–2402, 24th Floor
Tower 2 Admiralty Centre
18 Harcourt Road, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

STOCK CODE

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