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DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 0189)

Announcement of Annual Results for 2010

Financial Highlights

- Revenue amounted to RMB5,964,322,000, representing an increase of 68.27% over RMB3,544,447,000 of the previous year
- Gross profit amounted to RMB1,643,652,000, representing an increase of 215.82% over RMB520,441,000 of the previous year
- Gross profit margin increased to 27.56% from 14.68% of the previous year, representing an increase of 12.88%
- Profit before tax was RMB1,065,909,000, representing a substantial increase of 712.60% over RMB131,173,000 of the previous year
- Profit and total comprehensive income for the year was RMB781,497,000, representing a substantial increase of 407.57% over RMB153,969,000 of the previous year
- Profit and total comprehensive income attributable to the owners of the Company was RMB733,869,000, representing a substantial increase of 343.95% over RMB165,303,000 of the previous year
- At 31 December 2010, total equity amounted to RMB2,866,588,000, representing an increase of 27.67% over RMB2,245,273,000 as at 31 December 2009
- As at 31 December 2010, net assets per share was RMB1.37, representing an increase of 26.85% over RMB1.08 as at 31 December 2009
- Basic earnings per share were RMB0.35, compared with RMB0.08 of the previous year

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Note</i>	2010 RMB'000 (Audited)	2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		3,822,394	3,243,681
Prepayment for purchase of property, plant and equipment		79,198	130,366
Prepayment for land lease		6,154	9,716
Deposit for auction of leasehold land		411,900	—
Prepaid lease payments		220,201	207,786
Intangible assets		3,352	6,533
Interest in an associate		—	14,874
Available-for-sale investments		37,727	21,593
Deferred tax assets		91,252	75,293
Goodwill		1,354	—
		<u>4,673,532</u>	<u>3,709,842</u>
Current assets			
Inventories		493,623	430,015
Prepaid lease payments		6,214	6,182
Trade and other receivables	<i>11</i>	1,114,187	659,384
Tax recoverable		—	12,033
Pledged bank deposits		15,938	213,309
Bank balances and cash		594,621	853,509
		<u>2,224,583</u>	<u>2,174,432</u>
Current liabilities			
Trade and other payables	<i>12</i>	971,944	1,213,278
Borrowings		1,323,266	1,601,360
Tax liabilities		101,522	9,851
Deferred income		9,160	7,535
		<u>2,405,892</u>	<u>2,832,024</u>
Net current liabilities		<u>(181,309)</u>	<u>(657,592)</u>
Total assets less current liabilities		<u>4,492,223</u>	<u>3,052,250</u>

	2010 RMB'000 (Audited)	2009 <i>RMB'000</i> (Audited)
Capital and reserves		
Share capital	199,356	197,854
Reserves	<u>2,474,910</u>	<u>1,816,792</u>
Equity attributable to the owners of the Company	2,674,266	2,014,646
Non-controlling shareholders	<u>192,322</u>	<u>230,627</u>
Total equity	<u>2,866,588</u>	<u>2,245,273</u>
Non-current liabilities		
Deferred income	175,408	173,013
Deferred tax liabilities	40,549	7,744
Borrowings	<u>1,409,678</u>	<u>626,220</u>
	<u>1,625,635</u>	<u>806,977</u>
	<u>4,492,223</u>	<u>3,052,250</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Share premium	Share option reserve	Merger reserve	Capital reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at										
1 January 2009	197,854	1,175,109	21,710	(32,210)	157,348	111,660	267,435	1,898,906	264,951	2,163,857
Profit and total comprehensive income for the year	—	—	—	—	—	—	165,303	165,303	(11,334)	153,969
Transfer	—	—	—	—	—	28,329	(28,329)	—	—	—
Acquisition of additional interests in a subsidiary	—	—	—	—	(12,941)	—	—	(12,941)	(13,059)	(26,000)
Capital refunded to non-controlling shareholders	—	—	—	—	—	—	—	—	(3,080)	(3,080)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(6,851)	(6,851)
Dividends paid	—	—	—	—	—	—	(45,923)	(45,923)	—	(45,923)
Recognition of equity-settled share-based payments	—	—	9,301	—	—	—	—	9,301	—	9,301
Balance at										
31 December 2009	<u>197,854</u>	<u>1,175,109</u>	<u>31,011</u>	<u>(32,210)</u>	<u>144,407</u>	<u>139,989</u>	<u>358,486</u>	<u>2,014,646</u>	<u>230,627</u>	<u>2,245,273</u>
Profit and total comprehensive income for the year	—	—	—	—	—	—	733,869	733,869	47,628	781,497
Shares issued	1,502	27,586	(10,347)	—	—	—	10,347	29,088	—	29,088
Transfer	—	—	—	—	—	81,833	(81,833)	—	—	—
Acquisition of additional interests in subsidiaries	—	—	—	—	(43,309)	—	—	(43,309)	(113,691)	(157,000)
Non-controlling interests arising on the acquisition of subsidiaries	—	—	—	—	—	—	—	—	32,131	32,131
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(4,373)	(4,373)
Dividends paid	—	—	—	—	—	—	(64,110)	(64,110)	—	(64,110)
Recognition of equity-settled share-based payments	—	—	4,082	—	—	—	—	4,082	—	4,082
Balance at										
31 December 2010	<u>199,356</u>	<u>1,202,695</u>	<u>24,746</u>	<u>(32,210)</u>	<u>101,098</u>	<u>221,822</u>	<u>956,759</u>	<u>2,674,266</u>	<u>192,322</u>	<u>2,866,588</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 <i>RMB'000</i> (Audited)	2009 <i>RMB'000</i> (Audited)
OPERATING ACTIVITIES		
Profit before tax	1,065,909	131,173
Adjustments for:		
Finance costs	113,923	113,447
Interest income	(11,705)	(7,920)
Realisation of deferred income	(9,160)	(8,042)
Impairment losses recognised (recovery of impairment losses recognised) on receivables	2,409	(6,139)
Depreciation and amortisation	449,270	389,565
Release of prepaid lease payments	9,555	5,909
Equity-settled share-based payment expenses	4,082	9,301
Reversal of write down of inventories	(124)	(2,144)
Impairment losses recognized on property, plant and equipment	853	—
Share of result of an associate	(1,192)	(1,016)
Gain on fair value of interest in an associate	(2,634)	—
Loss on disposals of property, plant and equipment	16,269	1,759
	<u>1,637,455</u>	<u>625,893</u>
Operating cash flows before movements in working capital	1,637,455	625,893
(Increase) decrease in inventories	(60,225)	59,386
Increase in trade and other receivables	(350,185)	(56,804)
(Decrease) increase in trade and other payables	(412,233)	324,874
Increase in deferred income	13,179	8,309
	<u>827,991</u>	<u>961,658</u>
Cash from operations	827,991	961,658
Interest paid	(164,987)	(119,900)
Refund of tax arising from Clean Development Mechanism (“CDM”) project	—	55,794
Income tax paid	(113,923)	(16,880)
	<u>549,081</u>	<u>880,672</u>
NET CASH FROM OPERATING ACTIVITIES	<u>549,081</u>	<u>880,672</u>

	2010	2009
	RMB'000	RMB'000
	(Audited)	(Audited)
INVESTING ACTIVITIES		
Net cash outflow from acquisition of subsidiaries	(30,589)	—
Deposit for auction of land lease	(411,900)	—
(Prepayment) repayment of prepayment for land lease	(561)	36,953
Purchase of property, plant and equipment	(825,058)	(368,656)
Purchase of intangible assets	(15)	(880)
Purchase of available-for sale investments	(16,134)	(15,593)
Interest received	11,705	7,920
Proceeds from disposal of property, plant and equipment	42,744	630
Increase in pledged bank deposits	(213,309)	(661,095)
Decrease in pledged bank deposits	410,680	530,724
Dividend received from an associate	—	200
Entrusted loans to third parties	(135,000)	—
Repayment of entrusted loans from third parties	60,000	—
Interest-bearing loan advances to third parties	(543,745)	(342,150)
Repayment of interest-bearing loan advances to third parties	544,245	341,650
	<u>(1,106,937)</u>	<u>(470,297)</u>
NET CASH USED IN INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Acquisition of additional interests in subsidiaries	(157,000)	(26,000)
Net proceeds from issuance of shares	29,088	—
Proceeds from borrowings	2,580,354	2,143,882
Repayment of borrowings	(2,084,991)	(2,186,094)
Dividend paid	(64,110)	(45,923)
Dividend paid to non-controlling shareholders of subsidiaries	(4,373)	(6,851)
Capital refunded to non-controlling shareholders of subsidiaries	—	(3,080)
	<u>298,968</u>	<u>(124,066)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
NET (DECREASE) INCREASE IN CASH		
AND CASH EQUIVALENTS		
	(258,888)	286,309
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE YEAR		
	<u>853,509</u>	<u>567,200</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by:		
Bank balances and cash	<u>594,621</u>	<u>853,509</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKSE”) on 10 December 2007.

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

The Group has net current liabilities of approximately RMB181,309,000 as at 31 December 2010 (31 December 2009: RMB657,592,000). The consolidated financial statements have been prepared on a going concern basis as in the opinion of the Directors of the Company, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future, taking into account the internally generated resources and the availability of its undrawn banking facilities of approximately RMB3,415,470,000 (31 December 2009: RMB1,996,550,000).

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

2. SIGNIFICANT ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 HKSE 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.

In the application of the Group’s accounting policies, 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.

3. 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.

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

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

New and revised Standards and Interpretations issued but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 July 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 January 2012.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 February 2010.

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

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

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

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods.

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

Segment revenues and results:

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

Year ended 31 December 2010

	Refrigerants (note) <i>RMB'000</i> (Audited)	Polymers <i>RMB'000</i> (Audited)	Organic silicone <i>RMB'000</i> (Audited)	Other operations <i>RMB'000</i> (Audited)	Eliminations <i>RMB'000</i> (Audited)	Consolidated <i>RMB'000</i> (Audited)
External sales	3,823,095	1,413,337	544,803	183,087	—	5,964,322
Inter-segment sales	<u>748,099</u>	<u>—</u>	<u>2,968</u>	<u>166,641</u>	<u>(917,708)</u>	<u>—</u>
Total revenue — segment revenue	<u>4,571,194</u>	<u>1,413,337</u>	<u>547,771</u>	<u>349,728</u>	<u>(917,708)</u>	<u>5,964,322</u>
Segment Results	<u>902,015</u>	<u>244,559</u>	<u>7,652</u>	<u>34,530</u>	<u>—</u>	1,188,756

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

Unallocated corporate expenses (net)	(10,116)
Finance costs	(113,923)
Share of result of an associate	<u>1,192</u>
Profit before taxation	1,065,909
Income tax expense	<u>(284,412)</u>
Profit and total comprehensive income for the year	<u>781,497</u>

Note: Include the Dongyue CDM project

Year ended 31 December 2009

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

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

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

Note: Include the Dongyue CDM project

Segment results represent the results of each segment without allocation of unallocated other income, central administration costs, directors' salaries, share of results of an associate and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. No segment information on assets and liabilities is presented as such information is not reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Entity-wide disclosures:

Information about revenue from refrigerants segment from external customers

	Year ended 31 December	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
Monochlorodifluoromethan (HCFC-22)	1,257,642	782,226
Polyvinyl chloride (PVC)	765,616	526,295
1,1,1,2-Tetrafluoroethane	335,902	111,364
Sodium hydroxide	315,917	275,982
1,1,1,2,2-pentafluoroethane	192,027	80,044
R439A	177,355	6,016
Dichloromethane	142,731	145,371
Dongyue CDM Project	38,188	193,323
Others	597,717	269,929
	<u>3,823,095</u>	<u>2,390,550</u>

Information about major customers

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

Geographical information

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
	(Audited)	(Audited)
The People's Republic of China (the "PRC")	<u>4,343,872</u>	<u>2,513,341</u>
Asia (except PRC)		
— Japan	301,122	287,069
— South Korea	199,691	113,824
— India	56,477	70,288
— Singapore	51,490	44,282
— Thailand	46,765	19,344
— Pakistan	24,118	13,580
— Malaysia	18,612	17,003
— other countries	<u>49,829</u>	<u>52,365</u>
Subtotal	<u>748,104</u>	<u>617,755</u>
America		
— United States of America	279,620	125,679
— Brazil	88,310	46,868
— Chile	15,406	—
— other countries	<u>13,086</u>	<u>16,276</u>
Subtotal	<u>396,422</u>	<u>188,823</u>
Europe		
— Italy	134,618	48,640
— Spain	22,378	8,757
— German	14,004	7,488
— France	11,019	3,655
— other countries	<u>68,738</u>	<u>51,574</u>
Subtotal	<u>250,757</u>	<u>120,114</u>
Africa		
— South Africa	41,141	11,304
— Egypt	15,198	2,898
— Nigeria	13,514	10,506
— other countries	<u>10,946</u>	<u>8,161</u>
Subtotal	<u>80,799</u>	<u>32,869</u>
Other countries/regions	<u>144,368</u>	<u>71,545</u>
	<u>5,964,322</u>	<u>3,544,447</u>

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

Other segment information

Year ended 31 December 2010	Refrigerants <i>RMB'000</i> (Audited)	Polymers <i>RMB'000</i> (Audited)	Organic silicone <i>RMB'000</i> (Audited)	Other operations <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	310,498	66,821	49,386	19,369	446,074
Amortisation of intangible assets	2,482	—	673	41	3,196
Impairment losses recognised on receivables	2,351	—	—	58	2,409
Research and development costs recognised as an expense	2,028	8,816	673	—	11,517
(Reversals of) write-down of inventories	(859)	—	735	—	(124)
Loss on disposals of property, plant and equipment	11,369	4,900	—	—	16,269
Release of prepaid lease payments	5,449	290	2,008	1,808	9,555
Impairment losses recognised on property, plant and equipment	—	—	—	853	853
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Year ended 31 December 2009	Refrigerants <i>RMB'000</i> (Audited)	Polymers <i>RMB'000</i> (Audited)	Organic silicone <i>RMB'000</i> (Audited)	Other operations <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	270,861	66,480	45,455	3,633	386,429
Amortisation of intangible assets	2,476	—	616	44	3,136
Recovery of impairment losses recognised on receivables	(5,947)	—	—	(192)	(6,139)
Research and development costs recognised as an expense	621	4,614	572	—	5,807
(Reversals of) write-down of inventories	(804)	(1,379)	—	39	(2,144)
Loss (gain) on disposals of property, plant and equipment	3,402	(1,609)	—	(34)	1,759
Release of prepaid lease payments	3,233	629	2,008	39	5,909
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5. OTHER INCOME

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
	(Audited)	(Audited)
Government grants		
— related to expense items (<i>note</i>)	7,541	11,129
— related to assets	9,160	8,042
Interest income	11,705	7,920
Net foreign exchange gain	—	1,082
Gain on fair value of interest in an associate	2,634	—
Others	4,819	4,174
	<u>35,859</u>	<u>32,347</u>

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.

6. FINANCE COSTS

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
	(Audited)	(Audited)
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	117,573	114,884
Other borrowings	8,718	5,016
	<u>126,291</u>	<u>119,900</u>
Total borrowing costs	126,291	119,900
Less: amounts capitalised	(12,368)	(6,453)
	<u>113,923</u>	<u>113,447</u>

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

7. INCOME TAX (EXPENSE) CREDIT

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
	(Audited)	(Audited)
PRC enterprise income tax ("EIT")		
— Current year	(260,416)	(17,457)
— (Under) overprovision in prior years	(7,150)	10,004
— Refund of tax arising from EIT exemption on profit from CDM project (<i>Note</i>)	—	55,794
	<u>(267,566)</u>	<u>48,341</u>
Deferred tax charge	<u>(16,846)</u>	<u>(25,545)</u>
	<u>(284,412)</u>	<u>22,796</u>

Note: The China Ministry of Finance and State Tax Bureau issued a notice on 23 March 2009 in relation to the EIT policy on CDM. According to the notice, the profit earned from CDM project is entitled to an exemption from EIT for the first three years since its first profit making year and 50% reduction for the next three years ("EIT Exemption"), commencing from the time when the project starts to earn the CDM revenue. This EIT Exemption had a retrospective effect from 1 January 2007. The amount represents the EIT paid in respect of the profit earned from CDM project for the years ended 31 December 2007 and 2008 and was refunded to the Group during 2009. According to the EIT Exemption, the profit earned from CDM project is exempted from EIT in 2009 and entitles 50% reduction of EIT in 2010.

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

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

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
	(Audited)	(Audited)
Short term employee benefits	174,775	97,570
Discretionary bonus (a)	125,817	37,312
Post-employment benefits	43,350	28,025
Equity-settled share-based payment expenses	4,082	9,301
Other staff welfare	<u>12,995</u>	<u>8,426</u>
Total staff costs (b)	<u><u>361,019</u></u>	<u><u>180,634</u></u>
Cost of inventories recognised as expenses	3,967,724	2,667,983
Depreciation of property, plant and equipment	446,074	386,429
Amortisation of intangible assets (included in cost of sales)	3,196	3,136
Auditor's remuneration	1,876	2,354
Net foreign exchange losses (gains)	3,148	(1,082)
Impairment losses (recovery of impairment losses) recognised on receivables	2,409	(6,139)
Research and development costs recognised as an expense	11,517	5,807
Reversals of write-down of inventories	(124)	(2,144)
Release of prepaid lease payments	9,555	5,909
Impairment losses recognised on property, plant and equipment	853	—
Loss on disposals of property, plant and equipment	<u><u>16,269</u></u>	<u><u>1,759</u></u>

Notes:

- (a) Discretionary bonus is determined based on the individual performance of the individuals.
- (b) Directors' emoluments are included in the above staff costs.

9. EARNINGS PER SHARE

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

	Year ended 31 December	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
Earnings		
Profit for the year attributable to owners of the Company	<u>733,869</u>	<u>165,303</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,084,534	2,083,623
Effect of dilutive potential ordinary shares:		
Share options	<u>1,785</u>	<u>—</u>
Weighted average number of ordinary shares for purpose of diluted earnings per share	<u>2,086,319</u>	<u>2,083,623</u>

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

10. DIVIDENDS

Year ended 31 December	
2010	2009
RMB'000	RMB'000
(Audited)	(Audited)

Dividends recognised as distribution during the year: 2009 final dividend

HK\$0.035 (2009: 2008 final dividend HK\$0.025) per share

<u>64,110</u>	<u>45,923</u>
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Final dividend of approximately HK\$283,426,000 (HK\$0.135 per share) in respect of the year ended 31 December 2010 (2009: final dividend of HK\$72,927,000 (HK\$0.035 per share) in respect of the year ended 31 December 2009) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. Other details regarding the recommendation and declaration of final dividend of the Group are set out in the section headed "Final Dividend" of this announcement.

11. TRADE AND OTHER RECEIVABLES

Year ended 31 December	
2010	2009
RMB'000	RMB'000
(Audited)	(Audited)

Trade receivables

847,780 607,857

Less: allowance for doubtful debts

(3,416) (4,744)

844,364 603,113

Prepayment for raw materials

104,994 31,699

Value added tax receivables

48,073 5,980

Entrusted loan (*Note*)

75,000 —

Deposits, prepayment and other receivables

41,756 18,592

1,114,187 659,384

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

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

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

	31 December	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
Within 90 days	358,593	508,423
91 – 180 days	485,782	91,250
181 – 365 days	185	3,869
1 to 2 years	953	743
2 to 3 years	55	63
More than 3 years	2,212	3,509
	<u>847,780</u>	<u>607,857</u>

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

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

	31 December	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
91 – 180 days	2,403	9,075
181 – 365 days	176	3,658
	<u>2,579</u>	<u>12,733</u>

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.

Movement in the allowance for doubtful debts

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

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

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

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

	US\$ \$'000
As at 31 December 2010	8,828
As at 31 December 2009	<u><u>20,788</u></u>

12. TRADE AND OTHER PAYABLES

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

Notes:

- (a) As at 31 December 2010, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to approximately RMB68,739,000 (31 December 2009: RMB40,499,000). The amount of the provision represents the Group's entire obligation for social insurance fund for employees of the PRC subsidiaries and is determined based on the relevant national regulations on social insurance and calculated based on the basic counting unit multiplied by the social insurance rate. The basic counting unit for social insurance shall be the average wages of an employee in the preceding year and shall not be less than the minimum limit promulgated by the local social insurance bureau each year.
- (b) According to the relevant PRC regulation, 65% of the proceeds from CDM project belong to PRC government and the Group has collected this portion on behalf of the PRC government.
- (c) The payable for acquisition of property, plant and equipment will settle three months after the complete installation of the plant and machinery which is recorded in construction in progress at the end of the reporting period.

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

In 2010, a significant breakthrough in technological innovation was achieved in the Group's two major technology attainments in research and development. One of these is the Group's ionic membrane project, an important project of the State in scientific research, had been officially applied in our 10,000-tonnes chloralkali production device on 30 June 2010, and only until then was the domestic production and commercial application of the chloralkali ionic membrane in the PRC truly realized, which ended once and for all the time of long lasting reliance on import by the PRC's chloralkali ionic membrane industry. As such, it was awarded the Shandong Province First Prize in Technological Invention. Li Keqiang and Zhang Dejiang, Vice Premiers of the State Council respectively gave instructions in writing to support the widened commercial applications of the Group's ionic membrane. The second application of technology achievements is DONGYUE No. 3, the new environmental

friendly refrigerant which is a product based on the Group's independent research efforts, has also found commercial application to be launched onto the market; in June 2010, it was given an globally common serial no, which is R439A, which means that DONGYUE No. 3 has been given the green light to access the world market, in addition to its having been granted the Inventions & Patents Award of the PRC. The product has become the first choice of new refrigerants to replace old ones for major domestic air-conditioner producers such as Haier, Hisense, Gree and Midea.

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

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

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

In the world to date, the principal replacements for the refrigerant HCFC22 are R410A and R407C, and their Ozone Depletion Potential (ODP) are both 0, which have already seen them being applied on many occasions. As for R125, it is one of the key ingredients of the above-mentioned environmental friendly refrigerants (R407C, R32/R125/R134a; 23/25/52; R410A, R32/R125: 50/50). It is precisely because of the heightened global awareness of environmental protection that gives rise to the strong demand for R125. The combined effect of the strong market demand and the relatively limited supply means the current market price of R125 remains remarkably optimistic.

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

Demand for raw vulcanizate and gross rubber as the downstream products of organic silicone have seen continuous rise in the wake of the economic growth. Amid the impact of product mix adjustment and market prices, users of downstream organic silicone products have essentially stopped production and

sale of raw vulcanizate (other than a small number of products of special specifications for self-consumption) and purchases are made directly from organic silicon monomers producers, and existing producers as well as impending monomers producers have broadened the varieties of follow-up products.

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

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

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

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

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

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

FINANCIAL REVIEW

Results Highlights

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

Segment Operating Results

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

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

Analysis of Revenue and Results

During the year under review, the refrigerants segment remained to be the largest contributor to the revenue of the Group, accounting for approximately 64.10% (excluding inter-segment sales). The revenue increased by 63.60% to RMB4,571,194,000 from RMB2,794,177,000 of last year, which was primarily caused by the remarkable increase in the sales of HCFC22 and HFC134a, the two major refrigerant products of the Group, as well as the increase in the sale of liquid alkali, the Group's side products in this segment. During the year, due to the increased demand of the refrigerants, there showed a generally significant increase in both sales volume and selling price of the refrigerants as compared to the year of 2009.

During the year, the revenue of the polymers segment increased by 111.96% to RMB1,413,337,000 from RMB666,793,000 of the year of 2009. The increase was mainly attributable to the increase in the sales of PTFE, the Group's largest polymers product.

For the organic silicone segment, the revenue increased by 30.70% to RMB547,771,000 from RMB419,107,000 of last year, while its contribution to the Group's revenue was decreased to 9.18% from 11.82% of last year (excluding inter-segment sales).

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

The results of the refrigerants segment contributed 75.88% (2009: 74.04%) to the total segment results of the Group, while its segment results margin was 19.73%, compared with 6.77% in the year of 2009. With our current market position, the Group is not only influential to, but also commands a large extent of authority in the industry. In the year of 2010, as a result of the market recovery, there showed a remarkable rebound in the selling prices of the refrigerant products, while the Group was able to stabilize the operating costs through our leading market position and fully vertically-integrated production value chain. In addition, the Clean Development Mechanism project and PVC also contributed to the results of this segment. Moreover, there showed improved operating results margin for the Group's dichlormethane and liquid alkali products.

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

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

Administrative Expenses

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

Capital Expenditure

For the year ended 31 December 2010, the Group's capital expenditure was approximately RMB950,041,000 (2009: RMB219,103,000), which was mainly used in the acquisition of fixed assets including equipment and facilities for the Group's expansion projects in the segments of refrigerants, polymers and organic silicone.

Liquidity and Financial Resources

The Group's financial position is sound with strong operational cash flow. As at 31 December 2010, the Group's total equity amounted to RMB2,866,588,000, representing an increase of 27.67% compared with 31 December 2009. As at 31 December 2010, the Group's bank balances and cash totaled RMB594,621,000 (31 December 2009: RMB853,509,000). During the current year under review, the Group generated a total of RMB549,081,000 (year ended 31 December 2009: RMB880,672,000) cash inflow from its operating activities. The current ratio⁽¹⁾ of the Group as at 31 December 2010 was 0.92 (31 December 2009: 0.77).

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

Capital Structure

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

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

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

The Group had no particular borrowing behaviour due to seasonality. As at 31 December 2010, the Group's borrowings comprised non-current portion (more than 1 year) and current portion (within 1 year). The non-current portion of borrowings amounted to approximately RMB1,409,678,000, of which approximately RMB1,260,340,000 are repayable more than 1 year but not more than 5 years and approximately RMB149,338,000 are repayable more than 5 years. The current portion of borrowings

amounted approximately to RMB1,323,266,000. The Group's borrowings were made at fixed interest rates and floating rates. The weighted average effective interest rates on floating rate borrowings and fixed rate borrowings at 31 December 2010 were 4.90% (2009: 5.33%) and 5.38% (2009: 5.76%) per annum, respectively. As at 31 December 2010, 39% (2009: 70%) of the Group's borrowings bear fixed interest rates.

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

Group Structure

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

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

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

Notes:

(1) Current Ratio = Current Assets/Current Liabilities

(2) Gearing Ratio = Net Debt/Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Charge on Assets

As at 31 December 2010, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB840,126,000 (31 December 2009: RMB1,027,628,000), and bank deposits of RMB15,938,000 (31 December 2009: RMB213,309,000), which were pledged to secure the Group's borrowings and the bill payables of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

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

Employees and Emolument Policy

The Group employed 4,696 employees in total (31 December 2009: 3,829) as at 31 December 2010. The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as medical insurance and pensions to ensure competitiveness.

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

OTHER INFORMATION

Final Dividend

The Directors recommend the payment of a final dividend of HK\$0.135 (2009: HK\$0.035) per share in respect of the year 2010, to the shareholders whose names appear on the register of members of the Company on 10 May 2011, subject to the approval of the Company's annual general meeting (the "AGM") on the same date. The final dividend is after excluding the applicable PRC income tax and the expected date for payment of such dividend is 7 June 2011.

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

Closure of Register of Members

The register of members of the Company will be closed from 3 May 2011 to 10 May 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 2 May 2011.

The AGM

The AGM of the Company will be held on 10 May 2011. A notice of the AGM will be published and dispatched to the shareholders of the Company in due course.

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

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2010 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the year.

Audit Committee

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

The Audit Committee met with the management and external auditors on 16 March 2011, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's annual results for the year ended 31 December 2010 before proposing them to the Board of Directors (the "Board") for approval.

Remuneration Committee

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

Compliance with the Code on Corporate Governance Practices

Throughout the year ended 31 December 2010, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules.

Code Provision A.2.1

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

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

Code Provision E.1.2

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

ANNOUNCEMENT OF ANNUAL RESULTS AND PUBLICATION OF ANNUAL REPORT

This final results announcement is published on the Company’s website at www.dongyuechem.com and the website of the HKSE at www.hkexnews.hk. The Annual Report will also be available at the websites of the Company and the HKSE and will be dispatched to shareholders of the Company in late March 2011.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 16 March 2011

As at the date of this announcement, the Board comprised Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Mr. Yan Jianhua and Mr. Zhang Jian as executive Directors; and Mr. Ting Leung Huel, Stephen, Mr. Yue Run Dong and Mr. Liu Yi as independent non-executive Directors.