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DONGYUE FEDERATION

# DONGYUE GROUP LIMITED
# 東岳集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 189)**

# (1) ANNOUNCEMENT OF ANNUAL RESULTS FOR 2013; (2) CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE AND (3) CLOSURE OF REGISTER OF MEMBERS

**FINANCIAL HIGHLIGHTS**
*(in RMB million, unless otherwise stated)*

| | Financial Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| Revenue | **6,783** | 7,051 |
| Gross Profit | **1,096** | 1,683 |
| Gross Profit Margin | **16.16%** | 23.88% |
| Profit before Tax | **562** | 1,055 |
| Profit and Total Comprehensive Income | **437** | 707 |
| Profit and Total Comprehensive Income attributable to the Shareholders | **466** | 713 |
| Basic Earnings per Share (RMB) | **0.22** | 0.34 |
| Final Dividend per Share (HK$) | **0.085** | 0.13 |

| | As at | |
|---|---|---|
| | **31 December 2013** | 31 December 2012 |
| Total Equity | **5,511** | 5,227 |
| Net Assets per Share (RMB) | **2.60** | 2.46 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2013*

| | *Notes* | **2013** *RMB'000* **(Audited)** | 2012 *RMB'000* (Audited) |
|---|---|---|---|
| **Revenue** | *4* | **6,782,814** | 7,050,822 |
| Cost of sales | | **(5,686,752)** | (5,367,436) |
| **Gross profit** | | **1,096,062** | 1,683,386 |
| Other income | *5* | **178,186** | 117,817 |
| Distribution and selling expenses | | **(253,976)** | (209,912) |
| Administrative expenses | | **(298,483)** | (367,203) |
| Research and development expenses | | **(71,668)** | (33,764) |
| Finance costs | *6* | **(89,065)** | (136,076) |
| Share of results of associates | | **445** | 324 |
| **Profit before tax** | | **561,501** | 1,054,572 |
| Income tax expense | *7* | **(124,275)** | (347,509) |
| **Profit and total comprehensive income for the year** | *8* | **437,226** | 707,063 |
| **Profit and total comprehensive income (expense) attributable to:** | | | |
| Owners of the Company | | **465,898** | 713,056 |
| Non-controlling interests | | **(28,672)** | (5,993) |
| | | **437,226** | 707,063 |
| | | ***RMB*** | *RMB* |
| **Earnings per share** | *9* | | |
| – basic | | **0.22** | 0.34 |
| – diluted | | **0.22** | 0.34 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2013*

| | *Notes* | **2013** **RMB'000** **(Audited)** | 2012 *RMB'000* (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,494,015** | 4,121,444 |
| Prepayment for purchase of property, plant and equipment | | **54,556** | 48,488 |
| Prepayment for land lease | | **367** | 495 |
| Prepaid lease payments | | **562,117** | 379,533 |
| Intangible assets | | **179,241** | 84,475 |
| Interest in associates | | **17,038** | 1,593 |
| Available-for-sale investments | | **195,283** | 118,178 |
| Deferred tax assets | | **166,451** | 116,221 |
| Goodwill | | **85,894** | 1,354 |
| | | **5,754,962** | 4,871,781 |
| **Current assets** | | | |
| Inventories | | **700,054** | 524,926 |
| Properties under development for sale | | **569,488** | 372,884 |
| Prepaid lease payments | | **15,272** | 10,909 |
| Trade and other receivables | *11* | **1,218,239** | 894,191 |
| Entrusted loans | | **425,000** | 400,000 |
| Pledged bank deposits | | **106,320** | 20,570 |
| Bank balances and cash | | **1,243,296** | 1,682,728 |
| | | **4,277,669** | 3,906,208 |
| **Current liabilities** | | | |
| Trade and other payables | *12* | **1,604,381** | 1,325,490 |
| Deposits received from pre-sale of properties | | **438,784** | – |
| Borrowings | | **866,474** | 774,302 |
| Tax liabilities | | **16,736** | 63,063 |
| Deferred income | | **12,797** | 8,256 |
| | | **2,939,172** | 2,171,111 |
| **Net current assets** | | **1,338,497** | 1,735,097 |
| **Total assets less current liabilities** | | **7,093,459** | 6,606,878 |

| | 2013 | 2012 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Audited) | (Audited) |
| **Capital and reserves** | | |
| Share capital | **201,013** | 201,111 |
| Reserves | **5,065,836** | 4,747,204 |
| Equity attributable to the owners of the Company | **5,266,849** | 4,948,315 |
| Non-controlling interests | **243,979** | 278,543 |
| **Total equity** | **5,510,828** | 5,226,858 |
| **Non-current liabilities** | | |
| Deferred income | **246,377** | 199,613 |
| Deferred tax liabilities | **50,164** | 42,611 |
| Borrowings | **1,286,090** | 1,137,796 |
| | **1,582,631** | 1,380,020 |
| | **7,093,459** | 6,606,878 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2013*

| | **Attributable to owners of the Company** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Share option reserve** | **Merger reserve** | **Capital reserve** | **Statutory surplus reserve** | **Retained earnings** | **Total** | **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 2012 (audited)** | 201,111 | 1,238,838 | 127,778 | (32,210) | 101,098 | 497,046 | 2,649,427 | 4,783,088 | 292,208 | 5,075,296 |
| Profit and total comprehensive income (expense) for the year | – | – | – | – | – | – | 713,056 | 713,056 | (5,993) | 707,063 |
| Transfer | – | – | – | – | – | 130,093 | (130,093) | – | – | – |
| Capital contribution from non-controlling interests | – | – | – | – | – | – | – | – | 9,800 | 9,800 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (17,472) | (17,472) |
| Dividends paid | – | – | – | – | – | – | (690,876) | (690,876) | – | (690,876) |
| Recognition of equity-settled share-based payments | – | – | 143,047 | – | – | – | – | 143,047 | – | 143,047 |
| **Balance at 31 December 2012 (audited)** | 201,111 | 1,238,838 | 270,825 | (32,210) | 101,098 | 627,139 | 2,541,514 | 4,948,315 | 278,543 | 5,226,858 |
| Profit and total comprehensive income (expense) for the year | – | – | – | – | – | – | 465,898 | 465,898 | (28,672) | 437,226 |
| Transfer | – | – | – | – | – | 71,926 | (71,926) | – | – | – |
| Capital contribution from non-controlling interests | – | – | | – | – | – | – | – | 4,000 | 4,000 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (9,892) | (9,892) |
| Dividends paid | – | – | – | – | – | – | (219,428) | (219,428) | – | (219,428) |
| Recognition of equity-settled share-based payments | – | – | 74,962 | – | – | – | – | 74,962 | – | 74,962 |
| Shares repurchased and cancelled | (98) | (2,800) | – | – | – | – | – | (2,898) | – | (2,898) |
| **Balance at 31 December 2013 (audited)** | 201,013 | 1,236,038 | 345,787 | (32,210) | 101,098 | 699,065 | 2,716,058 | 5,266,849 | 243,979 | 5,510,828 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2013*

| | 2013 | 2012 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Audited) | (Audited) |
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **561,501** | 1,054,572 |
| Adjustments for: | | |
| Finance costs | **89,065** | 136,076 |
| Interest income | **(110,657)** | (95,985) |
| Realisation of deferred income | **(12,384)** | (8,256) |
| Recognition of impairment on trade receivables | **111** | 5,380 |
| Reversal of impairment on other receivables | **–** | (1,342) |
| Depreciation and amortisation | **561,195** | 556,027 |
| Release of prepaid lease payments | **12,869** | 9,193 |
| Equity-settled share-based payment expenses | **74,962** | 143,047 |
| Write down of inventories | **5,890** | 4,041 |
| Share of results of associates | **(445)** | (324) |
| Dividend income from available-for-sale investments | **(5,302)** | (2,848) |
| Loss on disposals of property, plant and equipment | **1,138** | 17,908 |
| Operating cash flows before movements in working capital | **1,177,943** | 1,817,489 |
| (Increase) decrease in inventories | **(100,706)** | 119,689 |
| Increase in properties under development for sale | **(169,666)** | (14,470) |
| (Increase) decrease in trade and other receivables | **(179,350)** | 618,505 |
| Increase in trade and other payables | **152,752** | 15,483 |
| Increase in deposits received from per-sale of properties | **438,784** | – |
| Increase in deferred income | **29,402** | 40,881 |
| Cash generated from operations | **1,349,159** | 2,597,577 |
| Income tax and withholding tax paid | **(234,829)** | (522,251) |
| **NET CASH FROM OPERATING ACTIVITIES** | **1,114,330** | 2,075,326 |

| | 2013<br>*RMB'000*<br>(Audited) | 2012<br>*RMB'000*<br>(Audited) |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Entrusted loans to third parties | **(1,383,728)** | (700,000) |
| Purchase of property, plant and equipment | **(561,486)** | (577,414) |
| Payment for prepaid land lease | **(168,388)** | (97,042) |
| Purchase of intangible assets | **(3,881)** | (83,761) |
| Purchase of available-for-sale investments | **(77,105)** | (37,672) |
| Placement of pledged bank deposits | **(138,212)** | (25,463) |
| Capital contribution to an associate | **(15,000)** | (490) |
| Repayment of entrusted loans from third parties | **1,358,728** | 703,000 |
| Interest received | **110,657** | 97,099 |
| Proceeds from release of pledged bank deposits | **108,962** | 9,233 |
| Proceeds from disposals of property, plant and equipment | **1,927** | 1,927 |
| Dividend income from available-for-sale investments | **5,302** | 2,848 |
| Acquisition of a subsidiary | **(550,294)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(1,312,518)** | (707,735) |
| **FINANCING ACTIVITIES** | | |
| Repayment of borrowings | **(1,006,634)** | (1,163,988) |
| Dividend paid | **(219,428)** | (690,876) |
| Interest paid | **(130,842)** | (136,607) |
| Dividends paid to non-controlling interests | **(9,892)** | (17,472) |
| Shares repurchased and cancelled | **(2,898)** | – |
| Proceeds from borrowings | **1,124,450** | 805,000 |
| Capital contribution from non-controlling interests | **4,000** | 9,800 |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(241,244)** | (1,194,143) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(439,432)** | 173,448 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **1,682,728** | 1,509,280 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | |
| represented by: | | |
| Bank balances and cash | **1,243,296** | 1,682,728 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

Dongyue Group Limited (the "Company"or "Dongyue") was incorporated in the Cayman Islands on 24 July 2006 as an exempted company with limited liability. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") since 10 December 2007.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture, distribution and sale of refrigerants, polymers, organic silicone and dichloromethane, polyvinyl chloride and liquid alkali and others. In addition, the Group is also engaged in property development in the People's Republic of China (the "PRC") and 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 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 ("IFRSs"). 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.

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, interpretation and amendments applied in the current year**

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

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009 – 2011 Cycle |
| Amendments to IFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 13 | Fair Value Measurement |
| IAS 19 (as revised in 2011) | Employee Benefits |
| IAS 27 (as revised in 2011) | Separate Financial Statements |
| IAS 28 (as revised in 2011 | Investments in Associates and Joint Ventures |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income |
| IFRIC-Int 20 | Stripping Costs in the Production Phase of a Surface Mine |

Except as described below, the application of these new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

***New and revised standards on consolidation, joint arrangements, associates and disclosures***

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding transitional guidance.

IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

***Impact of the application of IFRS 10***

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. The Directors assess the application of IFRS 10 and conclude that the Group has had control over the investee which are consolidated into the consolidated financial statements before the application of IFRS 10. Accordingly, the application of the adoption of IFRS 10 has had no material impact on the amounts reported in the consolidated financial statements.

***Impact of the application of IFRS 12***

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements. The application of the adoption of IFRS 12 has additional disclosure in these consolidated financial statements.

***IFRS 13* Fair Value Measurement**

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

The Directors assess the application of IFRS 13 and conclude that no additional disclosure is required in the consolidated financial statements.

*__Amendments to IAS 1 Presentation of items of Other Comprehensive Income__*

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to IAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

**New and revised standards, interpretations and amendments 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

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[1] |
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions[2] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| IFRS 9 | Financial Instruments[3] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[1] |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010-2012 Cycle[4] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011-2013 Cycle[2] |
| IFRS 14 | Regulatory Deferral Accounts[5] |
| IFRIC-Int 21 | Levies[1] |

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] Available for application the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
[4] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
[5] Effective for first annual IFRS financial statements beginning on or after 1 January 2016

Except as described below, the Directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and financial position of the Group.

*__IFRS 9 Financial Instruments__*

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

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.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that adoption of IFRS 9 in future may have impact on amounts reported in respect of the Group's available-for-sale investments but no impact on amounts reported in respect of the Group's financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

***Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets***

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The Directors of the Company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Group's consolidated financial statements.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of goods.

The Group's reportable and operating segments are based on the different types of products and property development. 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 is also presented based on types of products and property development.

### Segment revenues and results

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

**2013**

| | Refrigerants | Polymers | Organic silicone | Certified Emission Reduction ("CER") | Dichloromethane, Polyvinyl Chloride ("PVC") and liquid alkali | Property development | Reportable segments' total | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| External sales | 1,919,055 | 2,053,751 | 1,515,439 | 48,554 | 1,088,141 | – | 6,624,940 | 157,874 | – | 6,782,814 |
| Inter-segment sales | 1,004,835 | – | 5,440 | – | 55,473 | – | 1,065,748 | 398,056 | (1,463,804) | – |
| Total revenue – segment revenue | 2,923,890 | 2,053,751 | 1,520,879 | 48,554 | 1,143,614 | – | 7,690,688 | 555,930 | (1,463,804) | 6,782,,814 |
| SEGMENT RESULTS | 74,013 | 553,000 | 74,645 | 49,225 | 4,015 | (15,026) | 739,872 | (15,102) | – | 724,770 |
| Unallocated corporate expenses | | | | | | | | | | (79,951) |
| Unallocated other income | | | | | | | | | | 5,302 |
| Finance costs | | | | | | | | | | (89,065) |
| Share of results of associates | | | | | | | | | | 445 |
| Profit before tax | | | | | | | | | | 561,501 |

2012

| | Refrigerants | Polymers | Organic silicone | CER | Dichloromethane, PVC and liquid alkali | Property development | Reportable segments' total | Other operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| External sales | 2,319,819 | 1,944,666 | 1,346,470 | 184,697 | 1,111,246 | – | 6,906,898 | 143,924 | – | 7,050,822 |
| Inter-segment sales | 1,351,502 | – | 4,808 | – | 53,355 | – | 1,409,665 | 414,064 | (1,823,729) | – |
| Total revenue – segment revenue | 3,671,321 | 1,944,666 | 1,351,278 | 184,697 | 1,164,601 | – | 8,316,563 | 557,988 | (1,823,729) | 7,050,822 |
| SEGMENT RESULTS | 296,270 | 856,118 | (22,848) | 135,524 | 92,003 | (9,063) | 1,348,004 | (9,669) | – | 1,338,335 |
| Unallocated corporate expenses | | | | | | | | | | (150,859) |
| Unallocated other income | | | | | | | | | | 2,848 |
| Finance costs | | | | | | | | | | (136,076) |
| Share of results of associates | | | | | | | | | | 324 |
| Profit before tax | | | | | | | | | | 1,054,572 |

Segment results represent the results of each segment without allocation of unallocated other income, central administration costs, directors' salaries, share of results of associates 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 by products from external customers**

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Monochlorodifluoromethan (HCFC-22) | **857,855** | 1,062,085 |
| Tetrafluoroethane (R134a) | **167,497** | 392,617 |
| Pentafluoroethane (R125) | **221,818** | 157,017 |
| R439A | **14** | 85,500 |
| R410a | **217,314** | 91,013 |
| R413A | **39,333** | 55,124 |
| R142b | **32,323** | 129,207 |
| R152a | **4,455** | 76,796 |
| R32 | **72,784** | 56,885 |
| Others | **305,662** | 213,575 |
| | **1,919,055** | 2,319,819 |

**Information about revenue from polymers segment by products from external customers**

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Polytetrafluoroethylene (PTFE) | **1,183,844** | 1,451,166 |
| Hexafluoropropylene (HFP) | **244,812** | 455,908 |
| Perfluorocyclobutane | **36,572** | 34,000 |
| Fluorinated ethylene propylene (FEP) | **238,157** | – |
| Polyvinylidene fluoride (PVDF) | **185,515** | – |
| Fluorine rubber (FKM) | **74,758** | – |
| Vinylidene fluoride (VDF) | **30,998** | – |
| Others | **59,095** | 3,592 |
| | **2,053,751** | 1,944,666 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| DMC (Dimethylcyclosiloxane) | **524,976** | 577,490 |
| 107 Silicone Rubber | **363,131** | 272,377 |
| Raw Vulcanizate | **156,840** | 137,457 |
| D3 (Hexamethylcyclotrisiloxane) | **12,343** | 18,517 |
| Gross Rubber | **51,615** | 37,030 |
| Gaseous Silica | **86,558** | 46,760 |
| DMC Hydrolysate | **126,706** | 62,406 |
| Trimethylchlorosilane | **65,047** | 80,092 |
| Methyldichlorosilane | **10,935** | 28,713 |
| Ganister sand | **30,880** | 15,258 |
| Others | **86,408** | 70,370 |
| | **1,515,439** | 1,346,470 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| PVC | **566,578** | 495,236 |
| Dichloromethane | **178,859** | 216,823 |
| Liquid alkali | **342,704** | 399,187 |
| | **1,088,141** | 1,111,246 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| AHF (Anhydrous Fluoride) | **7,621** | 5,100 |
| Ammonium Bifluoride | **50,919** | 62,410 |
| Hydrofluoric Acid | **22,391** | 20,994 |
| Bromine | **26,616** | 16,893 |
| Others | **50,327** | 38,527 |
| | **157,874** | 143,924 |

**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 2013.

**Geographical information**

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| The PRC | **5,266,217** | 5,135,697 |
| Asia (except PRC) | | |
| – Japan | **363,919** | 334,727 |
| – South Korea | **242,722** | 233,892 |
| – India | **19,500** | 22,080 |
| – Singapore | **18,007** | 49,133 |
| – Thailand | **31,263** | 64,763 |
| – United Arab Emirates | **21,014** | 34,157 |
| – Pakistan | **19,032** | 18,645 |
| – Malaysia | **19,393** | 30,793 |
| – other countries | **114,802** | 197,952 |
| Subtotal | **849,652** | 986,142 |
| America | | |
| – United States of America | **255,405** | 276,343 |
| – Brazil | **68,162** | 129,109 |
| – Chile | **–** | 12,372 |
| – other countries | **6,634** | 19,020 |
| Subtotal | **330,201** | 436,844 |

| | Year ended 31 December 2013 RMB'000 (Audited) | 2012 RMB'000 (Audited) |
|---|---|---|
| Europe | | |
| – Italy | **161,221** | 216,814 |
| – England | **6,591** | 63,965 |
| – Russia | **39,996** | 33,734 |
| – Spain | **5,588** | 8,308 |
| – German | **34,569** | 34,128 |
| – France | **6,928** | 9,591 |
| – other countries | **21,220** | 34,239 |
| Subtotal | **276,113** | 400,779 |
| Africa | | |
| – South Africa | **14,858** | 21,045 |
| – Egypt | **8,737** | 27,201 |
| – Nigeria | **10,251** | 14,062 |
| – other countries | **2,870** | 6,650 |
| Subtotal | **36,716** | 68,958 |
| Other countries/regions | **23,915** | 22,402 |
| | **6,782,814** | 7,050,822 |

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

**Other segment information (audited)**

| | Refrigerants RMB'000 | Polymers RMB'000 | Organic silicone RMB'000 | CER RMB'000 | Dichloromethane, PVC and Liquid Alkali RMB'000 | Property development RMB'000 | Reportable and operating segments' total RMB'000 | Other operations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | |
| Depreciation of property, plant and equipment | 220,602 | 131,773 | 115,187 | 1,163 | 57,546 | 415 | 526,686 | 25,801 | 552,487 |
| Amortisation of intangible assets | 179 | 8,291 | 165 | – | 55 | – | 8,690 | 18 | 8,708 |
| Recognition of impairment on trade receivables | – | 111 | – | – | – | – | 111 | – | 111 |
| Research and development costs recognised as an expense | 7,858 | 58,220 | 2,084 | – | 3,116 | – | 71,278 | 390 | 71,668 |
| Write-down of inventories | 4,187 | – | 293 | 46 | 1,292 | – | 5,818 | 72 | 5,890 |
| Loss on disposals of property, plant and equipment | 262 | 666 | 144 | – | 59 | – | 1,131 | 7 | 1,138 |
| Release of prepaid lease payments | 3,566 | 3,984 | 2,672 | 23 | 697 | 1,837 | 12,779 | 90 | 12,869 |

| | Refrigerants | Polymers | Organic silicone | CER | Dichloromethane, PVC and Liquid Alkali | Property development | Reportable and operating segments' total | Other operations | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **2012** | | | | | | | | | |
| Depreciation of property, plant and equipment | 244,271 | 82,052 | 109,327 | 7,618 | 84,913 | 244 | 528,425 | 27,063 | 555,488 |
| Amortisation of intangible assets | 109 | 109 | 287 | – | 28 | – | 533 | 6 | 539 |
| Recognition of impairment on trade receivables | 2,523 | 1,990 | 393 | – | 376 | – | 5,282 | 98 | 5,380 |
| Reversal of impairment on other receivables | 1,118 | – | – | – | 187 | – | 1,305 | 37 | 1,342 |
| Research and development costs recognised as an expense | 3,703 | 27,354 | 2,376 | – | – | – | 33,433 | 331 | 33,764 |
| Write-down of inventories | – | – | 541 | – | 3,500 | – | 4,041 | – | 4,041 |
| Loss on disposals of property, plant and equipment | 2,368 | 15,094 | – | – | 153 | – | 17,615 | 293 | 17,908 |
| Release of prepaid lease payments | 3,324 | 1,110 | 2,008 | 76 | 676 | 1,837 | 9,031 | 162 | 9,193 |

## 5. OTHER INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Government grants | | |
| – related to expense items *(Note a)* | **12,576** | 3,623 |
| – related to assets | **12,384** | 8,256 |
| Bank deposits interest income | **13,741** | 20,686 |
| Interest income on entrusted loans | **96,916** | 75,299 |
| Dividend income from unlisted available-for-sale investments | **5,302** | 2,848 |
| Compensation received *(Note b)* | **24,869** | – |
| Others | **12,398** | 7,105 |
| | **178,186** | 117,817 |

*Notes:*

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

(b) The amount represented compensation received from an independent third party on CDM Project due to its failure to fulfil its obligation as stated in the agreement entered into by the Group with the independent third party.

## 6. FINANCE COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Interest on: | | |
| Bank loans wholly repayable within five years | **112,597** | 131,369 |
| Other borrowings repayable within five years | **18,400** | 5,705 |
| Total borrowing costs | **130,997** | 137,074 |
| Less: amounts capitalised for properties under development for sale | **(26,928)** | – |
| amounts capitalised for property, plant and equipment | **(15,004)** | (998) |
| | **89,065** | 136,076 |

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 6.67% (2012: 6.53%) per annum to expenditure on qualifying assets.

## 7. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| PRC enterprise income tax | | |
| – Current year | **(164,189)** | (305,757) |
| – Over (under) provision in prior years | **7,705** | (4,858) |
| | **(156,484)** | (310,615) |
| Deferred tax charge | | |
| – Withholding tax for distributable profits of PRC subsidiaries | **(13,977)** | (22,053) |
| – Others | **46,186** | (14,841) |
| | **32,209** | (36,894) |
| Total income tax expense | **(124,275)** | (347,509) |

## 8. 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:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Short term employee benefits | **296,288** | 245,932 |
| Discretionary bonus *(Note a)* | **–** | 5,000 |
| Post-employment benefits | **82,460** | 54,829 |
| Equity-settled share-based payment expense | **74,962** | 143,047 |
| Other staff welfare | **25,084** | 19,265 |
| Total staff costs *(Note b)* | **478,794** | 468,073 |
| Cost of inventories recognised as an expense | **5,143,767** | 5,367,436 |
| Depreciation of property, plant and equipment | **552,487** | 555,488 |
| Amortisation of intangible assets (included in cost of sales) | **8,708** | 539 |
| Auditor's remuneration | **3,063** | 2,421 |
| Net foreign exchange losses | **8,205** | 6,855 |
| Recognition of impairment on trade receivables | **111** | 5,380 |
| Reversal of impairment on other receivables | **–** | (1,342) |
| Research and development costs recognised as an expense | **71,668** | 33,764 |
| Write-down of inventories (included in cost of sales) | **5,890** | 4,041 |
| Release of prepaid lease payments | **12,869** | 9,193 |
| Loss on disposals of property, plant and equipment | **1,138** | 17,908 |

*Notes:*

(a) Discretionary bonus is determined based on the performance of the individuals.

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

## 9. EARNINGS PER SHARE

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

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share | **465,898** | 713,056 |
| | ***('000)*** | *('000)* |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **2,119,960** | 2,120,552 |

The computation of diluted earnings per share for the years ended 31 December 2013 and 2012 does not assume the exercise of all of the Company's outstanding share options as the exercise prices of those options are higher than the average market price of the shares.

## 10. DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Dividends paid during the year: 2012 final dividend: HK$0.130 (2012: 2011 final dividend HK$0.400) per share | **219,428** | 690,876 |

A final dividend of HK$0.085 per share, amounting to approximately HK$180,044,000 in respect of the year ended 31 December 2013 (2012: final dividend of HK$275,672,000 (HK$0.130 per share), equivalent to RMB219,428,000, in respect of the year ended 31 December 2012) has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

## 11. TRADE AND OTHER RECEIVABLES

| | 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Trade receivables | **1,054,504** | 798,764 |
| Less: allowance for doubtful debts | **(6,169)** | (8,304) |
| | **1,048,335** | 790,460 |
| Prepayment for raw materials | **85,304** | 59,230 |
| Value added tax receivables | **21,334** | 34,096 |
| Prepaid taxes arising from pre-sale of properties | **30,714** | – |
| Advance to a non-controlling shareholder of a subsidiary | **10,000** | – |
| Deposits, prepayment and other receivables | **22,552** | 10,405 |
| | **1,218,239** | 894,191 |

Included in the trade receivables are bills receivables amounting to RMB811,604,000 at 31 December 2013 (31 December 2012: RMB453,327,000).

Advance to a non-controlling shareholder of a subsidiary is unsecured, charged at 2% interest rate per month and repaid subsequent to the year-end date.

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, net of allowance for doubtful debts presented based on the invoice date, also approximate the date of revenue recognition, which are recognised by the Group at the end of the reporting period.

| | 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Within 90 days | **955,840** | 582,142 |
| 91 – 180 days | **86,345** | 192,914 |
| 181 – 365 days | **6,150** | 15,404 |
| | **1,048,335** | 790,460 |

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. 98% (2012: 96%) 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 RMB23,280,000 (31 December 2012: RMB29,730,000) 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** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| 91 – 180 days | **17,130** | 15,059 |
| 181 – 365 days | **6,150** | 14,671 |
| | **23,280** | 29,730 |

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**

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Balance at beginning of the year | **8,304** | 2,924 |
| Recognition of impairment on trade receivables | **111** | 5,380 |
| Amounts written off as uncollectible | **(2,246)** | – |
| Balance at end of the year | **6,169** | 8,304 |

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

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

| | **US$** | **Equivalent to** |
|---|---|---|
| | ***$'000*** | ***RMB'000*** |
| As at 31 December 2013 | 18,120 | 110,471 |
| As at 31 December 2012 | 36,756 | 231,032 |

## 12. TRADE AND OTHER PAYABLES

| | 31 December 2013 | 2012 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (Audited) | (Audited) |
| Trade payables | **941,408** | 590,809 |
| Receipt in advance from customers | **62,048** | 60,254 |
| Payroll payable *(Note a)* | **224,847** | 288,288 |
| Payable for CDM project *(Note b)* | **–** | 146,047 |
| Payable for property, plant and equipment *(Note c)* | **117,647** | 148,476 |
| Other tax payables | **12,203** | 17,211 |
| Other deposits in relation to property development project | **110,955** | – |
| Construction cost payable for properties under development for sale | **48,525** | 2,617 |
| Other payables and accruals | **86,748** | 71,788 |
| Total | **1,604,381** | 1,325,490 |

*Notes:*

(a) As at 31 December 2013, included in the payroll payable is a provision for social insurance fund for employees of the PRC subsidiaries amounting to approximately RMB67,391,000 (31 December 2012: RMB71,321,000). 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 belonged to the PRC government and the Group collected this portion on behalf of the PRC government. All amounts were paid to the PRC government during the year.

(c) The payable for acquisition of property, plant and equipment will be settled three months after the completion of installation of the plant and machinery which is recorded in the addition of construction in progress during the year.

Included in the trade payables are bills payable amounting to RMB295,490,000 (31 December 2012: RMB30,730,000). Bills payable are secured by the Group's pledged bank deposits.

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

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

| | 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(Audited)** | (Audited) |
| Within 30 days | **686,530** | 423,757 |
| 31 – 90 days | **174,941** | 70,257 |
| 91 – 180 days | **52,744** | 62,326 |
| 181 – 365 days | **12,929** | 15,724 |
| 1 – 2 years | **8,254** | 8,678 |
| More than 2 years | **6,010** | 10,067 |
| | **941,408** | 590,809 |

Included in the trade payables is a trade payable to a non-controlling shareholder of a subsidiary amounting to approximately RMB5,464,000 (31 December 2012: RMB464,000) which are aged within 30 days. The general credit period given by them is three to six months. The construction cost payables for properties under development for sale are aged within 90 days.

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

| | **US$** | **Equivalent to** |
|---|---|---|
| | ***$'000*** | ***RMB'000*** |
| As at 31 December 2013 | 1,536 | 9,365 |
| As at 31 December 2012 | 1,624 | 10,519 |

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2013, the global economy saw feeble growth and the Chinese economic momentum slowed down. Due to the exacerbated competition as a result of structural overcapacity, certain products of the fluorosilica industry was faced up with considerable pricing pressure. Faced with such a grim operating environment, the Group, adhering to its operating guidelines known as "Innovation, Transformation and Organic Growth" and riding on its advantages in scientific research, innovation, brand and size built up over the last 26 years, managed to deliver a brilliant performance in every key aspect in such an adverse environment, which earned it the acknowledgment from the whole industry:

### (I) Further increase in product sales, market share and brand influence

In 2013, the sales of our refrigerants, polymers and principal organic silicone products increased by 8.7%, 44.6% and 14.6%, respectively, as compared to the previous year. Dongyue's refrigerants and polymers products continued to lead the industry in terms of market share, once again proving its leading position in the fluorochemical industry. What's particularly worthy of mentioning is Dongyue's organic silicone business, which, riding on the technological advancement, new product development and reduced energy consumption and potential stimulation, successfully resumed profit during the year, with its product sales, technical advancement and profitability among the best in the industry.

During the year, the Group launched a campaign known as "Quality Service Visitation" and publicized the "Dongyue Service Statement", with an impressive accomplishment of its promise of "Triple Zeroes". All these measures have further enhanced the reputation and market image of its products.

### (II) Remarkable R&D achievements with significant breakthrough in technical innovation

The Group rendered its best R&D performance ever in 2013, with the greatest technical advancement and productivity in product development. During the year, the Group filed application for an aggregate of 38 patents, among which 28 have been authorized. Through in-house R&D, the Group successfully delivered 21 new products, including the hydrogen silicone oil, DMC linear products under the organic silicone segment and the modified PTFE dispersion resin, PTFE emulsion and new models of PVDF, FEP and FKM under the polymers segment. Through technological innovation, productivity and efficiency enhancement, the Group has increased the output of its superior products such as PTFE, organic silicone monomers, gaseous silica and 107 Silicone Rubber while reducing the consumption of materials and energy, which has significantly improved its competitiveness.

The Group signed an agreement with AFCC (a wholly-owned subsidiary of Daimler and Ford) in November 2013 to jointly develop cell membrane for automobile fuel. This marked the beginning of official cooperation between Dongyue and Daimler and Ford, two of the world's automobile giants, which is of huge significance for Dongyue in its endeavour to further improve the technology standards of its fuel cell membrane and accelerate the industrialization process of the clean fuel-powered vehicles, while creating new opportunities for penetrating new energy markets and securing new sources of profit.

**(III) Effective cost control**

Faced with an adverse situation of declining prices and squeezed profit margin, the Group continued to strengthen cost control, reinforce budget management, optimize expenditure procedures and arouse the awareness of economy among its employees. In 2013, the Group's recorded a significant decrease as compared with the last year. In addition, through the Campaigns known as "Two Up, Two Down" and the "Triple Guarantees (Guarantee Profit, Guarantee Market Share and Guarantee Brand Image)", our material and energy consumption have been more or less reduced, which further strengthened our cost competitiveness.

**(IV) Successful consolidation of the acquired businesses to further strengthen our industry chain**

In February 2013, the Group successfully completed the acquisition of Shandong Huaxia Shenzhou New Materials Co., Ltd. ("Huaxia Shenzhou"). Huaxia Shenzhou is primarily engaged in the production and sales of a variety of downstream fluoropolymer fine chemicals, including VDF, PVDF, FKM and FEP. Such fluoropolymer fine chemicals are deemed as new materials in China with outstanding properties, and are widely used in a number of fields such as the electrical and electronic industry, painting and automobile industries. The key products of Huaxia Shenzhou enjoy leading market shares. For example, its FEP holds the biggest market share in China, and PVDF holds the second biggest. Upon completion of the acquisition, the Group quickly and effectively consolidated Huaxia Shenzhou's businesses, as a result of which the sales of its main products recorded a significant growth in spite of the falling price, with its profits growing beyond expectation and its profit margin topping the list of all its business segments. During the year, Huaxia Shenzhou also successfully developed many new products such as the PVDF of the "solar back panel film" grade, PVDF of the "lithium cell binder" grade, FEP of the "high frequency line" grade and high fluorine FKM.

In addition, Dongyue International Phase I (東岳國際一期), the Group's property development project was launched in August 2013, with nearly all its units sold out on the opening date, setting a record of launching sales in the real estate market of Zibo City in recent years.

## FUTURE PROSPECTS

In 2014, the fluorosilica industry is expected to stay in the whirlpool as the structural overcapacity is difficult to turn within a short time, and the low-end surplus products will continue to face enormous price pressure. The Group is going to take the following measures in order to enhance its competitiveness and profitability while ensuring sustainable development:

**(1) Enhancing its management expertise in every aspect**

Introducing modern management models to pursue IT-based, standardized and fully fine-tuned management, ensuring that its operating guidelines will seep into every aspect of its operation, so as to improve efficiency and effectiveness.

**(2) Effecting technology and product upgrades to reinforce its leading position**

Accelerating the pace of automation, maintaining and improving quality; optimizing its technical support services to answer the customers' requests in a quicker and sincerer manner; developing proprietary technologies, transplanting advanced technologies and ensuring the imported high-end & high-value products can be properly replaced; striving to increase the proportion of new products and specially-supplied materials in terms of sales revenue, and use the same to cultivate a unique market for Dongyue.

**(3) Accelerating R&D of new products and capitalization of the latest R&D achievements, and exploring for new sources of profits**

Focusing on market demands and developing well-marketable products while accelerating the marketing and promotion of new products previously developed; accelerating the industrialization process of perfluoro chlor-alkali ionic membrane, FEVE and PFA, and exploring and securing new sources of profits. We also aim to complete our incentive system to encourage and reward innovation, so as to cultivate an agreeable atmosphere of technological innovation within the Group.

**(4) Exercising strict control over safety and environmental protection**

Implementing guidelines on safety and environmental protection, consolidating the fundamental work, arousing awareness of safety and environmental protection in every aspect of our operation, so as to ensure production safety.

**(5) Enhancing teamwork performance and inspiring creativity among our people**

Fully implementing the competition mechanism, rotation mechanism, elimination mechanism and the appraisal system. Meanwhile, paying more attention to our employees' appeals, creating an agreeable working environment to allow talents to stand out and inspire innovation and creativity.

## FINANCIAL REVIEW

### Results Highlights

For the year ended 31 December 2013, the Group recorded revenue of approximately RMB6,782,814,000, representing a decrease of 3.80% over RMB7,050,822,000 of the previous year. The gross profit margin decreased to 16.16% (2012: 23.88%) and the consolidated segment results margin* was 10.69% (2012: 18.98%). The operating results margin was 9.58% (2012: 16.88%). Should the CER segment and expenses on share options granted to the employees and the Directors be excluded, the operating results margin of the Group would have been 10.04% (2012: 17.45%). During the year under review, the Group recorded profit before tax of approximately RMB561,501,000 (2012: RMB1,054,572,000), and net profit of approximately RMB437,226,000 (2012: RMB707,063,000), while consolidated profit attributable to the Company's owners was approximately RMB465,898,000 (2012: RMB713,056,000). Basic earnings per share were RMB0.22 (2012: RMB0.34). The Board of Directors of the Company recommended the payment of a final dividend of HK$0.085 (2012: HK$0.130) per share to the shareholders whose names appear on the register of members of the Company on 28 May 2014.

* Consolidated Segment Results÷Revenue×100%

## 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 2013 and the year ended 31 December 2012:

| Reportable and Operating Segments | **For the year ended 31 December 2013** Revenue | | | For the year ended 31 December 2012 Revenue | | |
|---|---|---|---|---|---|---|
| **Reportable and Operating Segments** | **Revenue** | **Results** | **Operating Results Margin** | Revenue | Results | Operating Results Margin |
| | ***RMB'000*** | ***RMB'000*** | | *RMB'000* | *RMB'000* | |
| Polymers | **2,053,751** | **553,000** | **26.93%** | 1,944,666 | 856,118 | 44.02% |
| Organic silicone | **1,520,879** | **74,645** | **4.91%** | 1,351,278 | (22,848) | -1.69% |
| Refrigerants | **2,923,890** | **74,013** | **2.53%** | 3,671,321 | 296,270 | 8.07% |
| Dichloromethane, Polyvinyl Chloride ("PVC") and Liquid Alkali | **1,143,614** | **4,015** | **0.35%** | 1,164,601 | 92,003 | 7.90% |
| CER | **48,554** | **49,225** | **101.38%** | 184,697 | 135,524 | 73.38% |
| Property development | **–** | **(15,026)** | **–** | – | (9,063) | – |
| Others | **555,930** | **(15,102)** | **-2.72%** | 557,988 | (9,669) | -1.73% |
| | **8,246,618** | **724,770** | **8.79%** | 8,874,551 | 1,338,335 | 15.08% |
| Less: | | | | | | |
| Inter-segment sales | **(1,463,804)** | **–** | **–** | (1,823,729) | – | – |
| Consolidated | **6,782,814** | **724,770** | **10.69%** | 7,050,822 | 1,338,335 | 18.98% |

## Analysis of Revenue and Operating Results

During the year ended 31 December 2013, the bleak domestic and overseas economic environment, which was initiated by the vulnerable U.S. economic recovery process and the issue of European debt crisis, and the slowdown in the domestic economic growth in the PRC continued and the whole fluorochemical industry was adversely affected in terms of the decrease in selling prices of fluorochemical products. Such unfavourable market sentiment had not turned around during the year under review. Meanwhile, (1) additions of new commercializing capacities mainly in the Refrigerants and Polymers segments by the domestic peers had led to a substantial increase in the supply of fluorochemical products, and (2) foreign peers geared up their forces in the PRC fluorochemical market, which further intensified the competition and drove down the selling prices of the majority of the Group's fluorochemical products, resulting in a drop in the Group's consolidated operating results margin during the year under review.

Under such unfavourable market condition, with its scalable vertically integrated self-sufficient value chain, the Group continued to capitalize on its leading market position, strong R&D capabilities and extensive sales network to expand its production capacities, to upgrade its technology level, to optimize its product mix and to develop new products. As a result, during the year under review, the Group strived to increase its overall production and sales volumes year-on-year for all of its operating segments of the Group except CER operating segment. However, the Group experienced substantial decrease in the selling prices of its fluorochemical products year-on-year, which led to a substantial decrease in the gross profit and operating results margins of the Group during the year under review. Although there had been encouraging improvements in the Group's Organic Silicone operating segment in terms of operating results margin during the year and the Group completed the acquisition (the "Acquisition") of Huaxia Shenzhou in February 2013 and has started to consolidate the financial results of Huaxia Shenzhou after the completion, the contributions from Huaxia Shenzhou and the Group's Organic Silicone operating segment cannot fully mitigate the negative impact arising from the decrease in the selling prices in the fluorochemical industry. Moreover, the Group recorded a substantial drop in the sales volume of the Group's CER operating segment, which, together with the above-mentioned factors, mainly accounted for the substantial year-on-year decrease in the Group's operating results. Such situation was further aggravated with the decrease in the raw materials cost not in the same proportion.

***Polymers***

Thanks to the consolidation of Huaxia Shenzhou's financial results by the Group, during the year, the Polymers segment overtook Refrigerants segment as the Group's largest external revenue contributor, accounting for approximately 30.28% of the consolidated revenue of the Group (2012: 27.58%). Despite the significant year-on-year decrease in the selling prices of the Group's polymers products, the revenue from the Polymers segment increased by 5.61% to RMB2,053,751,000 from RMB1,944,666,000 of the previours year. Polymers segment, together with the Organic Silicone segment of the Group, fall within the "New Material Industry of the PRC" with huge potential and business prospects. During the year, with the Group's strategy in developing new products to optimize its product mix, the Group developed a total of 15 new products with huge potential and applied a total of 29 registered proprietary patents within this segment.

The segment mainly includes the revenue from the production and sales of PTFE (a synthetic fluoropolymer with high level of resistance to temperature changes, electrical insulation, and ageing and chemical resistant that is used as a coating material and can also be further processed into high-end fine chemicals which can be widely applied in the chemicals, construction, electrical and electronics and automotive industries.) and HFP (a primary raw material to produce fine fluorochemicals such as FEP (Fluorinated Ethylene Propylene) and FKM (Fluorine Rubber)). After the Acquisition, this segment further includes the revenue from the production and sales of a variety of downstream fluoropolymer fine chemicals including PVDF (Polyvinylidene Fluoride), VDF (Vinylidene Fluoride), FEP and FKM, in which Huaxia Shenzhou has been engaging. Other fluorinated fine chemicals, including PPVE, PSVE, HFPO, formed another major production category of Huaxia Shenzhou.

Depending on specific market requirements, PTFE is produced and sold in the forms of suspension medium grain, suspension fine powders, dispersion resins and concentrate liquid. R22 (a major refrigerant product of the Group) is the basic and important raw material for TFE (a fluorocarbon), which is used by the Group for the production of PTFE and HFP. In addition, Huaxia Shenzhou has been relying on the supply of R22, R142b (another refrigerant product of the Group) and HFP by the Group as the raw materials for the production of FEP, FKM and VDF (a raw material for the production of PVDF).

Due to the weaknesses of its end-application industrial and manufacturing markets, which translated into softened domestic and international demand for the Group's products, coupled with the depressing raw material cost (R22) and the increase in supply in the relevant industry, this segment saw a significant year-on-year decline in the selling prices of PTFE and HFP in the year of 2013, which negatively affected the sales revenue and the results margin of this segment. However, the Group was able to record growth in the sales volume of PTFE, which was attributable to (1) the increase of 10,000 tonnes per annum in the production capacity of TFE starting from April 2013; (2) the increase of 7,000 tonnes per annum in the production capacity of PTFE-dispersion resins starting from December 2012; (3) the increase of 2,500 tonnes per annum in the production capacity of PTFE- suspension fine powders starting from June 2013; and (4) the launching of new products in such areas as PTFE-dispersion resins and PTFE-suspension fine powders. Furthermore, the associated positive effects arising from the consolidation of Huaxia Shenzhou's financial results can mitigate the negative impacts arising from the fall in the selling prices.

The sales volume of HFP declined on a year-on-year basis as a result of the decrease in the domestic external demand and the increase in the internal demand by Huaxia Shenzhou which had to be eliminated as inter- company transactions within this operating segment after the Acquisition.

This segment contributed 76.30% (2012: 63.97%) to the total segment results of the Group, while its segment results margin decreased to 26.93% from 44.02% of the previous year.

The following is a summary of the financial results of Huaxia Shenzhou from the completion of the Acquisition to 31 December 2013 which were consolidated into the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013:

| | *RMB'000* |
|---|---|
| Revenue-external sales | 610,770 |
| Profit for the year | 120,745 |

Compared with the previous year, 2013 saw a significant growth in the sales volume of three core products of Huaxia Shenzhou, namely FEP (modified materials of PTFE, produced with HFP added in TFE, mainly used in the lining for wire insulation layer, thin-walled tube, heat shrinkable tubes, pumps, valves and pipes), PVDF (fluorocarbon made with R142b to produce VDF, mainly used as a fluorine coating resin, fluorinated powder coating resin and lithium battery electrode binding material), and FKM (a specialized fluorinated material which is mainly used in the fields of aerospace, automotives, machinery and petro-chemistry because of its superior mechanical property, and excellent oil, chemical and heat resistance). However, all of the three core products experienced drop in the selling prices as a result of the increase in industry capacity, leading to the year-on-year decrease in the operating results margin of Huaxia Shenzhou.

### *Organic Silicone*

Accounting for 22.34% (excluding inter-segment sales) of the consolidated revenue of the Group for the current year under review, the revenue from the Organic Silicone business segment increased by 12.55% to RMB1,520,879,000 from RMB1,351,278,000. This segment mainly includes the production and sales of DMC (upstream organic silicone intermediates that are used as raw materials to produce deep proceeded mid-stream and downstream silicone products, such as silicone oils, silicone rubber and silicone resins), 107 Silicone Rubber, Raw Vulcanizate and Gross Rubber (deep proceeded silicone rubber products, where Raw Vulcanizate is a key raw material for producing Gross Rubber), and other by-products and other high-end downstream products, such as Gaseous Silica, Silicone Oils and D5. Named as "Industrial MSG", organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries, mainly in the form of additives, treatment chemicals stabilizers, lubricants and sealants and are a key ingredient in industrial processes. The Group initially produces silicone monomers with silicone powder and internally- generated chloromethane and further processes them to become silicone intermediates (mainly DMC), with certain portion of which the Group produces such deep processed mid-stream and downstream products as silicone rubbers). The Group can also produce and generate other by-products and high-end downstream products, such as Gaseous Silica, Silicone Oils and D5 through its production processes.

Same for the Polymers segment, one of the Group's strategies in the Organic Silicone business segment is to devise and develop new products to cater for customers' demand and to expand and upgrade the production capacities of deep-processed mid-stream and downstream products with higher profit margins. During the year under review, the Group was successful in launching 6 new products and applied a total of 5 registered patents within this business segment. Furthermore, the Group increased the production capacities of 107 Rubber and Gaseous Silica by 15,000 tonnes per annum and 2,000 tonnes per annum, respectively.

In 2013, the market of organic silicone was less vulnerable compared with the flurorchemcial market. As a result, the Group's DMC, the principal product in the Organic Silicone segment, experienced moderate increases in both its sales volumes and selling prices year-on-year, while the Group's silicone rubbers products recorded a considerable increase in the sales volume resulting from its expansion in production capacity. In addition, thanks to the increase in production capacity of 3,000 tonnes per annum for Gaseous Silica previous year and an additional 2,000 tonnes per annum during the year, as well as the shortage of supply of quality product in the gaseous silica market, the Group was able to record a surge sales volume as well as a substantial increase in the selling prices of the Group's Gaseous Silica product.

Moreover, during the year, the Group continued to achieve progressive and enduring improvement in its operating efficiencies through its production synergies, optimizing the rate of utilizing wastage and ancillary chemical and increasing the yield of its production processes. As a result, the Group achieved a drop in the production costs of this business segment. Together with the above factors, the Organic Silicone segment of the Group turned- around to achieve an operating profit of RMB74,645,000 during the year under review, compared to a operating loss of RMB22,848,000 for the previous year, and recorded a segment results margin of 4.91% (2012: -1.69%).

*Refrigerants*

During the year, the Refrigerants segment accounted for approximately 28.29% (excluding inter-segment sales) (2012: 32.90%) of the Group's revenue. Due to the substantial drop in the selling prices of refrigerants products, the revenue decreased by 20.36% to RMB2,923,890,000 from RMB3,671,321,000 of the previous year. This segment includes the revenue from the manufacturing and sales of traditional refrigerants products (mainly R22), new green and environmental-friendly refrigerants products (mainly R32, R125, R134a and R410a and so forth) and other types of refrigerants products (mainly R142b and R152a and so forth). The Group produces and sells refrigerants products externally to both domestic and international customers and internally (mainly R22 and R142b) for its Polymers business segment.

As the backbone refrigerants product of the Group with the largest production capacity in the world, R22 is the most widely used refrigerant in the PRC and is generally used in household appliances. Apart from that, it has been one of the key raw materials for the production of the fluoropolymers (i.e. PTFE, HFP and other downstream fluorinated chemicals) and R125. R125 and R32 are the key refrigerant mixture for other types of green refrigerants (such as R410a and R439a (independently developed by the Group)) to replace R22. Currently, R410a and R439a have been the two principal replacing refrigerants which have been widely applied in inverter air conditioners and other green home appliances. R134a is broadly used in the refrigeration and air-conditioning systems in automobile air conditioners, while R152a is another key refrigerant product of the Group which can also be used as blowing agents, aerosols and cleaning agents. Apart from the fact that R142b can be used as refrigerant, temperature controller medium, or intermediates of aviation propellant, it can also be one of the main raw materials for the production of VDF, the production of which Huaxia Shenzhou has been presently engaging in.

Pursuant to the Montreal Protocol, R22 would be progressively phased out as a refrigerant in the PRC by the end of 2030 and would be replaced by other green refrigerants. The Chinese government has stopped granting approval to the building up of new R22 capacity. Starting from 2013, the Chinese government has been enforcing a quota system for the sales of R22 as a refrigerant or ozone depleting substances for all of the domestic R22 producers. As a result, the year-on-year growth of the sales volume of R22 was limited and the external sales volume was flat compared to the previous year. However, as the Group's internal demand for R22 for the production of downstream fluoropolymers remained strong, which principally resulted from expansion of production capacity in PTFE, the Group was able to record growth in the overall sales volume of R22. Notwithstanding this, the depressed raw materials prices (such as fluorspar, AHF and methane chloride) and the softness in the domestic and worldwide economy and momentum has led to a fall in the selling prices of the Group's R22 product as compared to the previous year.

The irrational massive expansion in the capacity of R134a in the domestic market during the year and the general weakness in the domestic and foreign automobile markets had intensified the price competition, which made the Group see the substantial year-on-year drop in both the sales volume and prices of R134a. Such excessive supply situation applied to R32 and R125 markets in that existing and potential domestic peers aggressively expanded the capacities based on the expectation that R32 and R125 would replace R22 in a quicker pace and the flourishing outlook of the green home appliances would drive up the consumption of these refrigerants, resulting from increasing awareness of the environment protection by the Chinese government, manufacturers and the general public. Despite the fall in the selling prices of these two categories, the Group was able to record substantial increase in the relevant sales volumes as one of the Group's key foreign customers increased its purchase quantities from the Group.

With the gradual recovery of the PRC's property market, the green home appliance products end-market and other relevant industries have all boosted the domestic demand for R410a. During the year under review, the Group modified its strategy by promoting R410a which has become more widely accepted by the market. As a result, the Group saw a material decrease in the sales volume of R439a and a significant increase in R410a. However, as a result of the aggressive expansion in the supply of R410a in the market, the selling prices of R410a experienced substantial decline, leading to a fall in the sales revenue of this category. Notwithstanding this, the sustained growth in the sales volume of such green refrigerants as R32, R125 and R410a over the last few years indicates that green refrigerants would gradually substitute R22 as the most commonly used refrigerant in the PRC.

The acquisition of Huaxia Shenzhou enabled the Group to secure a stable and reliable source of demand for the Group's R142b product, and the strong downstream fluoropolymer fine chemicals markets also led to the significant year-on-year increase in the sales volume of R142b achieved during 2013.

Notwithstanding the increase in sales volume of this business segment, during the year of 2013, as the Group recorded a substantial fall in the selling prices of all of its refrigerants products, the sales revenue of this segment declined accordingly as compared to the previous year.

The results of the Refrigerants segment contributed 10.21% (2012: 22.14%) to the total segment results of the Group, while its segment results margin was 2.53%, compared with 8.07% of the last year. In 2013, there was significant decline in the selling prices of the Group's refrigerants products. Notwithstanding the fact that the raw materials (fluorspar, AHF, methane chloride, sulfuric acid, methanol, industrial salt, etc.) cost decreased year- on-year, such decreases were not able to offset entirely the impact of the decrease in selling prices, leading to the overall decrease in this segment results margin.

***Dichloromethane, PVC and Liquid Alkali***

This segment includes the revenue from the production and sale of the Group's two main anciliary products of the Refrigerants segment (dichloromethane and liquid alkali) and the PVC products.

During the year, accounting for approximately 16.04% (excluding inter- segment sale) of the Group's consolidated revenue, the revenue for this segment decreased by 1.80% to RMB1,143,614,000 from RMB1,164,601,000 of the previous year.

Liquid alkali is a basic chemical product from the production of methane chloride, and is used in textile, power and materials industries. Methane chloride includes dichloromethane, which is mainly used to produce antibiotics and as a foaming mode for polyurethane. The Group engaged in the production of PVC (a widely used thermoplastic polymer applied in construction industry to replace traditional building materials). The production of refrigerants products generates a chemical, hydrogen chloride, which is one of the basic raw materials for PVC production. Therefore, the Group's PVC production can ensure production synergies and increase economic value generated from a self-sufficient business chain.

During the year under review, while the sales volume of PVC and liquid alkali increased and that of dichloromethane was slightly decreased year-on-year as compared to 2012, the selling prices of dichloromethane and liquid alkali recorded significant drop year-on-year as a result of the general weakness and downturn of manufacturing industries as well as overcapacity in the PRC's methane chloride market, which principally led to a drop in the sales revenue of this segment.

During the year, as a result of market downturn in the chemical industry, this segment recorded an operational profit of RMB4,015,000, compared with segment profits of RMB92,003,000 recorded in the year ended 31 December 2012. The Group experienced substantial decrease in the average selling price and the increase in the average production costs of dichloromethane which, together with the drop in the gross profit margin of liquid alkali, accounted for the decrease in the segment results. However, the Group was able to alleviate the operating loss of the PVC product year-on-year.

***CER***

During the year, the Group sold a total of approximately 3,224,000 (2012: 12,691,562) tonnes of CER units and a total amount of RMB48,554,000 (2012: RMB184,697,000) was recorded as the CER revenue in respect of the Group's reduction in HFC23 emission for the third and fourth quarters in 2012, which have been confirmed and endorsed by United Nations Framework Convention on Climate Change ("UNFCCC"). In the wake of the weakness of the worldwide CER market, the majority of the Group's CER units could only be sold at the minimum price of US$6.5 per each CER unit as stipulated by the Chinese government. The Group did not recognize any CER revenue in the second half of 2013.

During the year, the sales volume of CER units dropped substantially as (1) one of the Group's CER customers terminated the CER purchase agreement with the Group by compensating USD4 million (equivalent RMB24,869,000) as the condition for the termination, and (2) only two operating quarters were included during the year, compared with five operating quarters recorded during the previous year.

As the registration of the CDM Project with UNFCCC expired on 31 December 2012, the Group temporarily ceased the production of CER units during the year. The Group had been in active negotiation with UNFCCC, the existing and other potential customers to have the relevant registration renewed and to have the operation re-commenced. Moreover, the Group had been studying the potential of entering into the CER market of the PRC and refining the prevailing facilities such that they can be employed for other operating purposes, if necessary.

***Property Development – Dongyue International Project (the "Project")***

The Project comprises, among others, residential portion of two parcels of land which are adjacent to each other. They are located at the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, the PRC with a total site area of 189,381 square metres. The residential portion is 157,187 square metres, upon which the Group planned to construct 23 residential blocks with a total planned gross floor area of approximately 296,000 square metres. It comprises five phases which are scheduled for completion by the end of 2017. The Group, owning 100% interest in the Project, commenced to construct the first two phases with planned gross floor area of approximately 152,000 square metres during the year under review.

The Group commenced pre-sale of the phase 1 during the year and phase 2 subsequent to the year end date. The Project received overwhelming response and approximately 89,000 square metres of the phase 1 were sold at average selling prices of RMB6,506 per square metre. However, as the phase 1 and phase 2 are in the course of construction and the sales transactions were not completed up to the date of this annual report, no revenue was recognized in the consolidated statement of profit or loss and other comprehensive income.

*Others*

This segment includes the revenue from the production and sale of the Group's other side and by-products of various operating segments.

During the year, accounting for approximately 2.33% (excluding inter- segment sale) of the Group's consolidated revenue, the revenue for this segment slightly decreased by 0.37% to RMB555,930,000 from RMB557,988,000 of the previous year, and this segment recorded an operational loss of RMB15,102,000, compared to operational loss of RMB9,669,000 in 2012.

**Distribution and Selling Expenses**

During the year, the distribution and selling expenses increased by 20.99% to RMB253,976,000 from RMB209,912,000 of the previous year, which was mainly due to (1) year-on-year increase in the sales volume of the Group and (2) the Acquisition.

**Administrative Expenses**

During the year, the administrative expenses decreased by 18.71% to RMB298,483,000 from RMB367,203,000. The decrease was mainly attributable to the decrease in the expenses on share options granted to the Directors and the employees. Should the relevant expenses on share options be excluded, the administrative expenses during the year would have been RMB223,521,000 (2012: RMB224,156,000), representing a slight decrease of 0.28%.

**Research and Development Expenses**

During the year, the research and development expenses increased by 112.26% to RMB71,668,000 from RMB33,764,000 of the previous year, which was mainly due to increase in the number of research and development projects and activities undertaken by the Polymers segment of the Group.

**Finance Costs**

During the year, the finance costs decreased by 34.55% to RMB89,065,000 from RMB136,076,000 of the previous year. This was mainly attributable to (1) the decrease in the average interest rate of the Group's borrowings during the year, and (2) the substantial increase in the amount of finance costs capitalised.

**Capital Expenditure**

For the year ended 31 December 2013, the Group's aggregate capital expenditure was approximately RMB1,306,035,000 (2012: RMB791,901,000). The Group used an amount of RMB590,000,000 for the Acquisition and used the remaining amount of capital expenditure mainly for acquisition of fixed assets including the equipment and facilities for the Group's expansion projects in (1) the 10,000 tonnes per annum of TFE, (2) the 7,500 tonnes per annum of PTFE, (3) the technological upgrade in respect of organic silicone monomers capacity to 200,000 tonnes per annum, (4) the 15,000 tonnes per annum of 107 Silicone Rubber, (5) the 2,000 tonnes per annum of Gaseous Silica, (6) the 2,000 tonnes per annum of PVDF, and (7) the 15,000 tonnes per annum of Tetrachloroethylene (a raw material for the production of R125 under PCE method), and for the Group's various technological revamp, energy saving and emission management projects.

During the year, the Group's two mineral exploration licenses of a nickel mine and an iron and fluorspar mine expired and the Group successfully renewed the aforementioned licenses for a period of two years. In addition, the Group has commenced its required exploration works and strived to obtain the necessary extraction licenses for the mines before engaging in actual production, which enables the Group to secure supply of raw materials for its existing business and to align with the Group's strategy of vertical integration into the fluorochemical value chain.

**Liquidity and Financial Resources**

The Group's financial position is sound with healthy working capital management and strong operational cash flow. As at 31 December 2013, the Group's total equity amounted to RMB5,510,828,000, representing an increase of 5.43% compared with that as at 31 December 2012. As at 31 December 2013, the Group's bank balances and cash totaled RMB1,243,296,000 (31 December 2012: RMB1,682,728,000). During the year under review, the Group generated a total of RMB1,114,330,000 (for the year ended 31 December 2012: RMB2,075,326,000) cash inflow from its operating activities. The current ratio(1) of the Group as at 31 December 2013 was 1.46 (31 December 2012: 1.80).

Taking the above figures into account, together with the available bank balances and cash, the unutilized banking credit facilities and support from its banks 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**

During the year, the Company repurchased and cancelled a total of 1,233,000 ordinary shares of the Company (the "Buyback Shares"). After the cancellation of the Buyback Shares, the number of issued shares of the Company was decreased from 2,120,552,455 to 2,119,319,455.

As at 31 December 2013, the borrowings of the Group totaled RMB2,152,564,000 (31 December 2012: RMB1,912,098,000). The gearing ratio(2) of the Group was 14.16% (31 December 2012: 4.20%).

The Group had no particular seasonal pattern of borrowing. As at 31 December 2013, 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 RMB1,286,090,000, which are wholly repayable after one year but not exceeding five years. The current portion of borrowings amounted to approximately RMB866,474,000. 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 2013 were 6.45% (2012: 6.65%) and 6.16% (2012: 6.53%) per annum, respectively. As at 31 December 2013, 35.46% (31 December 2012: 12.20%) of the Group's borrowings bear fixed interest rates.

As at 31 December 2013, the Group's borrowings were denominated in RMB and US dollars, amounting to approximately RMB2,049,679,000 and approximately US$16,875,000 (equivalent to approximately RMB102,885,000) respectively.

## Group Structure

During the year, Shandong Dongyue Polymers Co. Ltd., a wholly-owned subsidiary of the Company, acquired the entire issued equity capital in Huaxia Shenzhou. Huaxia Shenzhou is a company established in the PRC and is principally engaged in the business of the production and sales of a variety of downstream fluoropolymer fine chemicals, which is related to the reportable and operating segment of "Polymers" of the Group.

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

*Notes:*

(1) Current Ratio = Current Assets ÷ Current Liabilities

(2) Gearing Ratio = Net Debt ÷ Total Capital

Net Debt = Total Borrowing – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

## Charge on Assets

As at 31 December 2013, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB558,694,000 (31 December 2012: RMB751,261,000), and bank deposits of RMB106,320,000 (31 December 2012: RMB20,570,000), which were pledged to secure the Group's borrowings and the bills payable 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 United States dollars) 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 entered into forward contacts 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 6,797 employees in total as at 31 December 2013 (31 December 2012: 5,887). 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 social insurance and pensions to ensure competitiveness.

In addition, the Group had also adopted a share option scheme 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.

## OTHER INFORMATION

### Final Dividend

The Directors recommend the payment of a final dividend of HK$0.085 (the "Final Dividend") (2012: HK$0.130) per share in respect of the year 2013, to the shareholders whose names appear on the register of members of the Company (the "Register") on 28 May 2014, subject to the approval of the members of the Company at the Company's annual general meeting (the "AGM"). The Final Dividend is after excluding the applicable PRC income tax.

The AGM of the Company will be held on 23 May 2014. A notice of the AGM will be published and dispatched to the shareholders of the Company in due course.

### 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 2013 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the year.

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

During the year, the Company repurchased, on the HKSE, a total of 1,233,000 ordinary shares of the Company (the "Buyback Shares") at a price range of HK$2.92 to HK$2.99 per share. The aggregate consideration for the Buyback Shares is approximately HK$3,646,000, which was funded from internal resources of the Company. The Buyback Shares were validly cancelled on 4 and 12 July 2013.

Save as disclosed above, 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 2013.

### 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 Rundong and Mr. Liu Yi, all being independent non-executive Directors.

The Audit Committee met with the management on 20 March 2014, 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 2013 before proposing them to 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.

## Nomination Committee

The Company established a Nomination Committee with written terms of reference on 18 March 2012 to be responsible for the appointment of new Director(s) of the Company and other related matters. 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.

## Compliance with the Corporate Governance Code

The HKSE has promulgated the Corporate Governance Code (the "Code") which came into effect for listed issuers' first financial year commencing on or after 1 January 2005. Afterwards, the HKSE has made certain revision to the Code ("the Revised Code") which becomes effective from 1 January and 1 April 2012 and 1 September 2013.

Throughout the year ended 31 December 2013, save as disclosed below, the Company has complied with the Code and the Revised 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.

## Corporate Governance Committee

The Company established a Corporate Governance Committee with terms of reference on 21 March 2013 to be responsible for reviewing the Company's policies and practices on corporate governance, the Company's compliance with the Code and the Revised Code, the relevant disclosure in the Report on corporate governance code and other related matters. Mr. Zhang Jianhong was appointed as the chairman of the Corporate Governance Committee and Mr. Liu Chuanqi and Dr. Wu Tao were appointed as the members of the Corporate Governance Committee.

## 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 April 2014.

***Change of Address of Hong Kong Branch Share Registrar and Transfer Office***

The Board announces that with effect from 31 March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Branch Share Registrar"), will change its address from 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong to Level 22, Hopewell Centre,183 Queen's Road East, Hong Kong. All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

***Closure of Register of Members***

The Board announces that the Register will be closed from 20 May to 23 May 2014, 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 Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 19 May 2014.

The Board further announces that the Register will be closed from 29 May to 3 June 2014, 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 the Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4: 30 p.m. on 28 May 2014.

The expected date for payment of the Final Dividend is 24 June 2014.

By Order of the Board
**Dongyue Group Limited**
**Zhang Jianhong**
*Chairman*

The PRC, 20 March 2014

*As at the date of this announcement, the Board comprised Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Dr. Wu Tao and Mr. Zhang Jian as executive Directors; and Mr. Ting Leung Huel, Stephen, Mr. Liu Yi and Mr. Yue Rundong as independent non-executive Directors.*