DONGYUE FEDERATION

東岳集團有限公司

DONGYUE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code:189

Annual Report 09

Content

Chairman's Statement

In 2009, the global financial crisis, triggered by the sub-prime crisis in the United States, brought the global economy into the most serious recession since the World War II, while the People's Republic of China (the "PRC") economic development also witnessed the most difficult year since the turn of the century. Various governments put unprecedented efforts on introducing economic stimulating policies, which was remarkably successful and the global economy rebounded from the trough at the end of March 2009 with signs of gradual recovery. The PRC government also introduced a series of policies timely, including the RMB4–trillion economy-stimulating plan, which kept the PRC's economic environment basically unchanged amidst the global financial turmoil. Under such background and reliant upon Dongyue Group Limited and its subsidiaries (together the "Group") management team and all staff members' efforts in broadening income source and stringently controlling costs, the Group achieved satisfactory results.

Leveraging on the its own efforts and leading position in the industry, the Group achieved good results in 2009 amidst the financial crisis. The Group recorded revenue of RMB3,544,447,000, representing a decrease of 10.54% from 2008, while the profit attributable to shareholders was RMB165,303,000, representing an increase of 36.90% from 2008. 2009 Basic earnings per share were RMB0.08.

In 2009, technological innovation, especially the research and development of ionic membrane, had substantial breakthrough and aroused attention of the general public. The organic fluorine and organic silicon industry engaged by the Group are new material industries and has been regarded as part of an industry revitalization planning and technological revitalization planning of the PRC and Shandong Province, and become an strategic emerging industry which encourages focused development. In September of the year under review, the Group achieved successful trial production of chloralkali ionic membrane after eight years of research and development. Such success has changed the monopolistic landscape of technology which has prevailed internationally for a few decades. Such scientific result has a significant implication on the nation's industrial security and the healthy development of the chloralkali industry, and also on the adjustment and optimization of the Group's industrial structure. Hence, the Group also garnered the most advanced technology of organic fluorochemical polymer and successfully explored a brand-new sector.

During the year under review, Hu Jintao, President of the People's Republic of China, and Wen Jiabao, Premier of the State Council, paid their visits to the Group respectively. The technological innovation and self research and development ("R&D") of the Group were highly appreciated, which in turn raised the Group's social and brand influence tremendously. The Group has obtained awards including the recognition as an「改革開放30年山東省功勳企業」(Honorable Enterprise in Shandong Province since China's Open Policy Three Decades Ago), one of the「新中國60年山東百家領袖品牌」(Hundred Leading Brands in Shandong Province since the Establishment of New China Six Decades Ago), and an「中國化工行業企業文化先進單位」(Advanced Enterprise in the Chemical Industry in China).

Looking back to 2009, the Group's profitability was seriously dampened in the first quarter under the impact of the financial crisis. On the back of the introduction of economy-stimulating plans by the PRC government and its increased efforts on the promotion of "Rural Appliance Rebate Program", the market demand for the Group's refrigerants, polymer and organic silicone products were on the track of recovery in the second quarter, while there was even an excessive demand for some major products. To cope with the extreme challenges of the financial crisis, the Group acted decisively and firmly in modifying its own capability by lowering cost and raising its competitive edges, while maximizing efforts on all aspects such as marketing, technology, management, energy saving and emission reduction. Success was gained and the Group reaped a great harvest on enhancement of technology, management enhancement and market competitiveness, which in turn brought satisfactory results for the Group.

In 2009, the Group expanded a number of projects to enhance the integration of our production chain, our products' market competitiveness and market shares:

Chairman's Statement

Expansion Project on Methane Chloride of 60,000 Tons Production Capacity Per Year

Under the impact of the reduction and suspension of CFM worldwide, the supply of CFM, a major raw material of HCFC 22 refrigerant, was once tightened and the price increased correspondingly. As it is expected that such situation would not improve in a short time, the Group commenced investment in expanding the production facilities of methane chloride with a scale of 60,000 tons in 2009 to secure a steady supply of CFM, the major raw material of refrigerants. The expansion of production facilities is expected to be completed by the end of May 2010.

High-end PTFE Project of 7,300 Tons Production Capacity Per Year

In the arena of fluorochemical polymer, there is an abundant supply of low-end products locally in the PRC, while high-end products are basically unavailable at all. The high-end PTFE resin that the Group intends to produce has performance and quality reaching internationally advanced standard and has obtained recognition by relevant technology authorities. Primarily it is applied to the electronics, chemical, mechanical, construction, automotive industries as various protective layer of electrical appliances, anti-corrosive tube materials, sealing materials for electrical wires and cables, communications and IT, military clothes, glass paint cloth and specific coating materials, which are all high-tech products. With strong domestic demand, a large volume of imports is necessary every year to meet such demand of the domestic market, albeit its price at a premium of more than 50% over corresponding low-end products.

As the Group has made a breakthrough on developing PTFE high-end products, its investment in constructing a high-end PTEE project of 7,300 tons could mitigate the problem of excessive demand for high-end PTFE resin in the country by replacing imported products, raising the Group's competitive edges in both local and international markets. This project is expected to be completed by the end of August 2010.

Expansion Project of Organic Silicone Monomers of 100,000 Tons Production Capacity Per Year and Deep-processing Project of Organic Silicone

The construction of the organic silicone project of 100,000 tons, once suspended under the impact of financial crisis, resumed in late 2009 when market showed signs of recovery. The implementation of the project would enable the Group to achieve economy of scale for its organic silicone products and lower unit production cost. The project will be completed and commence production by late 2010. To enhance the risk-resistant capability of organic silicone product, the Group newly built a silicone rubber production line of 15,000 tons, which increased the Group's self processing capability of organic silicon monomers and enriched the variety of the product.

2010 is a year with opportunities and challenges. Judging from the current situation, the impact of the financial crisis is gradually diminishing and the market demand is also reviving gradually in tandem with the recovery of the economy.

Nevertheless, the Group still maintains its prudency and regard the guiding principle of "Prudent Operations to Guard Against Risks" as the fundamental strategy for its operations in 2010. The Group will adopt a number of measures to enhance its competitive advantages and consolidate its leading position:

The first measure is to accelerate the adjustment and upgrading of the industry

Structural adjustment and upgrading will be conducted in respect of technology development, project and complementary public facilities to achieve high effectiveness and sustainable development, going inroad to environment protection and low-carbon economy. Such structural adjustment will give the Group's products a high level of technological contents, added value and effectiveness. R&D of environmentally-friendly refrigerants and market promotion as well as the industry upgrading of fluorochemical polymer will be accelerated to enable the commencement of

Chairman's Statement

production of self-developed high-quality and high-added-value and high-performance fluorochemical polymer product, while the R&D of downstream deep-processing organic silicone products will be duly carried out.

The second measure is to foster the marketization of ionic membrane and build a technology R&D and production base of fluorochemical functional membrane

Chloralkali industry is a fundamental sector of the chemical industry of the PRC. At present, the chloralkali industry mainly adopts the process of ionic membrane method, accounting for more than 70% of the total capacity of the PRC. The remainder are those outdated processes to be eliminated by the market soon. The ionic membrane chloralkali process is currently the most advanced process and technology in the world. Its core component is a total-fluorine ionic membrane, the production technology of which is under the monopolistic ownership of a few foreign enterprises. In China, 100% of the ionic membrane required by the country's chloralkali industry is imported. This has affected the healthy development of the chloralkali industry of the PRC. The strategic significance of ionic membrane to the national industrial security of the PRC has driven the government's embarking on the research and development of such technology since the sixth Five-year Plan of the PRC. Since then, a number of research organizations, tertiary institutions and a few dozen of state-run enterprises have shown their attempts, obtaining results to a certain extent without, however, any significant breakthrough. After the efforts of generations of researchers over these 30-something years, and with the combined mode of cooperation between the private sector, the academia and the research field, the Group has ultimately become successful in its research of core technologies, under the support of the scientific management authorities of the PRC, and trial production of industrialized facilities. The Group will actively involve itself in fostering the launch of ionic membrane to the market. It is anticipated that the R&D team and the research platform will be relied upon for carrying on the research and development of fluorochemical polymer materials for the extension of the value of the industry chain.

The third measure is to foster the development of new refrigerants, especially the application and promotion of Dongyue's DYR-3 new environmental refrigerants, to expedite the replacement of foreign products with Dongyue's environmental refrigerants in the PRC's domestic market

On behalf of the Board, I would like to express my sincere gratitude to all customers, cooperation partners, shareholders, management and staff members for their unfailing support for the Group's development in the year.

Zhang Jianhong
Chairman

The PRC, 15 April 2010

Management Discussion and Analysis

Financial Review

Results Highlights

For the year ended 31 December 2009, the Company and its subsidiaries (together the "Group") recorded revenue of approximately RMB3,544,447,000, representing a decrease of 10.54% over last year. The gross profit margin was 14.68% (2008: 17.06%). During the year, the Group recorded profit before tax of approximately RMB131,173,000 (2008: RMB131,589,000), and net profit of approximately RMB153,969,000 (2008: RMB138,378,000), while profit attributable to the Company's owners was approximately RMB165,303,000 (2008: RMB120,747,000), representing an increase of 36.90% over last year. Basic earnings per share were RMB0.08 (2008: RMB0.06).

The board of Directors of the Company recommend the payment of a final dividend for 2009 of HK$0.035 (2008: HK$0.025) per share to the shareholders whose names appear on the register of members of the Company on 26 May 2010. The expected date for payment of such dividend is 23 June 2010.

Management Discussion and Analysis

Segment Operating Results

Set out below is the comparison, by segments, of the Group's revenue and results for the year ended 31 December 2009 and the year ended 31 December 2008:

Reportable Segments	For the year ended 31 December 2009 Revenue (RMB'000)	Results (RMB'000)	Operating Results Margin %	For the year ended 31 December 2008 Revenue (RMB'000)	Results (RMB'000)	Operating Results Margin %
Refrigerants	2,794,177	189,262	6.77	3,210,042	253,309	7.89
Polymers	666,793	62,770	9.41	745,988	54,449	7.30
Organic silicone	419,107	2,791	0.67	430,514	6,527	1.52
Others	67,997	814	1.20	97,246	7,671	7.89
	3,948,074	255,637	6.47	4,483,790	321,956	7.18
Less: Inter-segment sales	(403,627)	–	–	(521,631)	–	–
Consolidated	3,544,447	255,637	7.21	3,962,159	321,956	8.13

Analysis of Revenue and Results

During the year under review, the refrigerants segment remained to be the largest contributor to the revenue of the Group, accounting for approximately 67.44% (excluding inter-segment sales). The revenue decreased by 12.96% to RMB2,794,177,000 from RMB3,210,042,000 of last year, which was primarily caused by the decline in the sales of HCFC22 and HFC134a, the two major refrigerant products of the Group, as well as the decline in the sales of dichlormethane and liquid alkali, the Group's side products in this segment. During the year, due to the diminished demand of the refrigerants, there showed a generally significant drop of both sales volume and selling price of the refrigerants as compared to the year of 2008.

During the year, the revenue of the polymers segment decreased by 10.62% to RMB666,793,000 from RMB745,988,000 of the year of 2008. The decrease was mainly attributable to the drop of the sales of PTFE, the Group's largest polymers product.

For the organic silicone segment, the revenue decreased by 2.65% to RMB419,107,000 from RMB430,514,000 of last year, while its contribution to the Group's revenue was increased to 11.82% from 10.87% of last year. Compared to the other segments, the decrease of the organic silicone segment was the minimal, reflecting a huge market potential of the organic silicone segment.

With regard to the operating results margin, the consolidated segment operating results margin of the Group was 7.21% (2008: 8.13%), representing a decline of 0.92% from 2008.

The results of the refrigerants segment contributed 74.04% (2008: 78.68%) to the total segment results of the Group, while its operating results margin was 6.77%, compared with 7.89% in the year of 2008. With our current market position, the Group is not only influential to, but also commands a large extent of authority in the industry. In 2009, although suffered from the pressure of decreased selling price, the Group, with its initiative coordination and dedicated effort, as well as its stringent control on the raw materials and production cost during the year, had been able, to a great extent, to stabilize the operating results of this segment. In addition, the CDM project and PVC also contributed to the results of this segment. However, as the result of the recession of both the international and domestic market, the selling price of liquid alkali and dichlormethane dropped substantially, leading to the overall decrease in the operating results margin of this segment.

The polymers segment contributed approximately 24.55% (2008: 16.91%) to the total segment results of the Group, while its operating results margin increased to 9.41% from 7.30% of last year. It was mainly due to the successful reinforcement of its sales efforts in the face of the shrinking market of the relevant industries, thereby leading to the increase of the market share and its bargaining power. In addition, the export tax rebate rate applicable to this segment had been increased. The operating results margin of PTFE and HFP, the two major products of this segment, were increased during the current year.

The contribution made by the organic silicone segment accounted for about 1.09% (2008: 2.03%) of the total segment results of the Group. The operating results margin of the segment drastically decreased to 0.67% from 1.52% of last year, primarily due to the decline of product selling prices as a result of the unfavourable market as well as the soaring material prices.

Capital Expenditure

For the year ended 31 December 2009, the Group's capital expenditure was approximately RMB219,103,000 (2008: RMB584,139,000), which was mainly used in the acquisition of fixed assets including equipment and facilities of the Group's Industrial Park.

Liquidity and Financial Resources

The Group's financial position is sound with strong operational cash flow. As at 31 December 2009, the Group's total equity amounted to RMB2,245,273,000, representing an increase of 3.76% compared with 31 December 2008. As at 31 December 2009, the Group's bank balances and cash totaled RMB853,509,000 (31 December 2008: RMB567,200,000). During the current year under review, the Group generated a total of RMB880,672,000 (year ended 31 December 2008: cash outflow of RMB489,143,000 (restated)) cash inflow from its operating activities. The current ratio(1) of the Group as at 31 December 2009 was 0.77 (31 December 2008: 0.72 (restated)).

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

Capital Structure

During the year under review, there has been no change in the share capital of the Company.

As at 31 December 2009, the borrowings of the Group totaled RMB2,227,580,000 (31 December 2008: RMB2,269,792,000). The gearing ratio(2) of the Group was 37.96% (31 December 2008: 44.04%).

The Group had no particular borrowing behaviour due to seasonality. As at 31 December 2009, the Group's borrowings comprised non-current portion (more than 1 year) and current portion (within 1 year). The non-current portion of borrowings amounted to approximately RMB626,220,000, of which approximately RMB523,798,000 are repayable more than 1 year but not more than 5 years and approximately RMB102,422,000 are repayable more than 5 years. The current portion of borrowings amounted approximately to RMB1,601,360,000. The Group's borrowings were made at fixed interest rates and floating rates. The weighted average effective interest rates on floating rate borrowings and fixed rate borrowings at 31 December 2009 were 5.33% (2008: 6.84%) and 5.76% (2008: 7.18%) per annum, respectively. As at 31 December 2009, 70% (2008: 56%) of the Group's borrowings bear fixed interest rates.

Management Discussion and Analysis

As at 31 December 2009, the Group's borrowings were denominated in Renminbi ("RMB") and US dollars, amounting to approximately RMB1,790,365,000 and approximately US$63,202,000 (equivalent to approximately RMB437,215,000) respectively.

Group Structure

During the current year under review, the Group has purchased the 3.18% equity interest in Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals") from an independent third party. After the purchase, Dongyue Chemicals became a wholly-owned subsidiary of the Group.

Save as disclosed above, there has been no material change in the structure of the Group during the year ended 31 December 2009.

Notes:

(1) Current Ratio = Current Assets/Current Liabilities

(2) Gearing Ratio = Net Debt/Total Capital

Net Debt = Total Borrowings – Bank Balances and Cash

Total Capital = Net Debt + Total Equity

Charge on Assets

As at 31 December 2009, the Group had certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,027,628,000 (31 December 2008: RMB1,508,959,000), and bank deposits of RMB213,309,000 (31 December 2008: RMB82,938,000), which were pledged to secure the Group's borrowings and the bill payables of the Group.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

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

Employees and Emolument Policy

The Group employed 3,829 employees in total (31 December 2008: 3,649) as at 31 December 2009. The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as medical insurance and pensions to ensure competitiveness.

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

Management Discussion and Analysis

Use of Net Proceeds from the Initial Public Offering

Shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 December 2007 with a total of 523,623,000 offer shares and the net proceeds for the new shares issue of approximately HK$1,051,549,270 (the "Net Proceeds"). As at 31 December 2009, the Net Proceeds have been utilized as follows:

- approximately HK$420.6 million (equivalent to approximately RMB370.8 million) was used to finance the expansion plans, including the expansion of production capacities of the existing plants and development of new product lines, of which:
    - approximately HK$168.2 million (equivalent to approximately RMB148.3 million) was used for the Group's refrigerants products;
    - approximately HK$189.3 million (equivalent to approximately RMB166.9 million) was used for the Group's liquid alkali products;
    - approximately HK$63.1 million (equivalent to approximately RMB55.6 million) was used for polymers products;
- approximately HK$59.1 million (equivalent to approximately RMB52.1 million) was used to finance the construction plans for the Group's organic silicone products, which included construction of new manufacturing facilities for the production of organic silicone monomers and intermediates in the Group's Industrial Park;
- approximately HK$157.7 million (equivalent to approximately RMB139.1 million) was used for equipment upgrades and purchases of advanced production equipment and facilities (including enhancement of the research and development capabilities) in the Group's Industrial Park; and
- approximately HK$52.6 million (equivalent to approximately RMB46.4 million) was used for the working capital and other general corporate purposes.

As at 31 December 2009, any of the Net Proceeds that were not applied immediately to the above purposes were deposited as short-term demand deposits with licensed banks in Hong Kong and/or the People's Republic of China and/or with financial institutions in Hong Kong.

HK$1 = RMB0.8819

Directors' and Senior Management's Profile

Directors

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

Executive Directors

Mr. ZHANG Jianhong, aged 50, was appointed as the chairman, chief executive officer and executive director of the Company in July 2006. He has been with the Company and its subsidiaries (collectively the "Group") and its predecessors since October 1986 and has over 20 years of experience in the chemical industry. He is also the chairman of Dongyue Chemicals, Dongyue Polymers, Dongyue F&S and Dongyue Organic Silicone, all of which are the Company's subsidiaries. Mr. Zhang is a senior officer of political affairs with a postgraduate degree in economics. He had served the People's Liberation Army Navy from 1978 to 1982. He has obtained the honorary titles of National Youth Spark Leader and Model, Powerful Figure of China Petroleum and Chemical Industry (First Session), Top 10 Outstanding Figures of Chinese Brands in the International Market, the Shandong Labour Model, Top 10 News Figures of Shandong Province in 2006 and the most outstanding CEO of the Year chosen by a Hong Kong magazine "資本才俊 Capital CEO". Mr. Zhang has also been the vice chairman of executive board of China Association of Organic Fluorine and Silicone Material Industry (中國氟硅有機材料工業協會) since September 2006 and will continue to serve as the vice chairman until September 2010.

Mr. FU Kwan, aged 53, was appointed as the executive director of the Company in July 2006. He has been with the Group since December 1996 and is formerly a director of Dongyue Chemicals, Dongyue Polymers, Dongyue Organic Silicone and currently a director of Dongyue F&S. Mr. Fu is the chairman of the board of directors and the president of Macro-Link Group Limited and is a director of Macro-Link Sdn. Bhd.. Through his various investments in a variety of businesses, Mr. Fu has over 25 years of experience in corporate management and business strategy planning. Mr. Fu was the deputy director of the Economic Committee of Liling City, Hunan Province, head of the Foreign Trade Bureau of Liling City, Hunan Province, deputy general manager of Hunan Arts & Crafts Import & Export Corporation, and is a committee member of the Chinese People Political & Consultative Conference ("CPPCC"), the vice chairman of the China Federation of Industry & Commerce, and the chairman of Chamber of Commerce of Beijing and Hunan Enterprises (北京湖南企業商會). Mr. Fu has also been awarded the "Top 10 Outstanding Entrepreneurs in China Certificate" in 2003 by the China Professional Managers Association, "Top 10 Excellent Leaders of Chinese Private Enterprises Certificate" in 2003 by 21st Century Economic News Association, and was defined as "Outstanding Builder for Socialism Task with Chinese Characteristics" (中國特色社會主義事業優秀建設者) by the nation. Mr. Fu is a non-executive director of Wang-Zheng Sdn. Bhd., a company listed on the Kuala Lumpur Stock Exchange. Mr. Fu owns a 40% interest in Macro-Link Sdn. Bhd., which wholly owns Macro-Link International Investment Co., Ltd. ("Macro-Link International"). Macro-Link International is a substantial shareholder of JLF Investment Company Limited, a company listed on the Stock Exchange of Hong Kong Limited (the "HKSE").

Directors' and Senior Management's Profile

Mr. LIU Chuanqi, aged 60, was appointed as the executive director of the Company in July 2006. He has been with the Group and its predecessors since October 1986. Mr. Liu has over 20 years of experience in the chemical industry and is a director of Dongyue Chemicals, Dongyue Polymers, Dongyue F&S, Dongyue Organic Silicone and was a director of Zibo Dongyue Lvyuan, all of which are the Company's subsidiaries. He is also formerly the general manager of Dongyue Chemicals and currently the president of the Group. He is a senior officer of political affairs, and was awarded "Medal for Enhancing the Labour Force of Zibo City" in 2002 by the Zibo City Labour Union.

Mr. CUI Tongzheng, aged 48, was appointed as the executive director, vice president and chief financial officer of the Company in July 2006. He has been with the Group and its predecessors since November 1988. Mr. Cui has over 20 years of experience in the chemical industry and is a director of Dongyue Chemicals and Dongyue F&S. Mr. Cui is also the vice president of the Group and is formerly the deputy general manager of Dongyue Chemicals. Mr. Cui holds a bachelor degree from China Statistics Cadre College as well as a MBA diploma from Shanghai Jiao Tong University.

Mr. YANG Erning, aged 49, was appointed as the executive director and vice president of the Company in July 2006. He has been with the Group since October 2003, and has over 5 years of experience in the chemical production industry and was a director of Dongyue Chemicals, Dongyue Polymers, Dongyue F&S, Dongyue Organic Silicone, Dongyue Peak, all of which are the Company's subsidiaries, and Dongying Macrolink Salt (the Company's associate). He is formerly the general manager of Dongyue F&S and the deputy president of the Group. He has been a departmental head and vice president of Changsha Aerospace Industry School, a manager and a member of the reform committee of Hunan Aerospace Authority, president of Hunan Aerospace Electromagnetics (Group) Co., Ltd. and a standing member of No. 68 China Aerospace Technological and Industrial Group. Mr. Yang is a senior economist and holds a General Management Program Certificate from the National University of Singapore.

Mr. ZHANG Jian, aged 37, was appointed as the executive director of the Company in July 2006 and has been with the Group since February 2006. Mr. Zhang has more than 10 years of experience in the investment banking and corporate finance. Mr. Zhang holds a bachelor degree in Economics and Law from Jiangxi University of Finance and Economics and a Master degree in Business Administration from The Chinese University of Hong Kong. He is also an executive director of JLF Investment Company Limited.

Non-executive Director

Mr. SHAW Sun Kan, Gordon, aged 45, was appointed as the non-executive director of the Company in April 2007 and had been with the Group since then until 31 December 2009. Mr. Shaw has years of experience in private equity and the finance industry in Asia. Prior to joining Baring Private Equity Asia Limited, he worked for Citibank in Hong Kong and was a director at AIG Investment Corp (Asia) Ltd. and an Assistant Vice President of the Direct Investment Department at Nan Shan Life Insurance in Taiwan. He was also a Senior Design Engineer at Schlumbereger Technologies in San Jose, California. He is a corporate representative of a corporate shareholder of Depo Auto Parts Industrial Co., Ltd., a company listed on the Taiwan Stock Exchange. Mr. Shaw holds a Bachelor of Science degree in Electrical Engineering from Massachusetts Institute of Technology and a Master of Business Administration from the Columbia University.

Directors' and Senior Management's Profile

Independent non-executive Directors

Mr. YUE Run Dong, aged 70, was appointed as an independent non-executive director of the Company in November 2007 and has been with the Group since then. Mr. Yue has more than 40 years of experience in the chemical industry. He was the dean and a technician of Shen Yang Chemical Research Institute, the dean of Chen Guang Chemical Research Institute and the dean of Chengdu Silicone Research Centre. Recently, he has taken the post of the manager of the technology department of China National Bluestar Group and the dean as well as the chairman of Bluestar Institute of Chemical Technology. Mr Yue is also the chairman of China Association of Organic Fluorine and Silicone Material Industry (中國氟硅有機材料工業協會). Mr. Yue is currently an independent director of Chengdu Guibao Science and Technology Co., Ltd., (成都硅寶科技股份有限公司), a company listed on the Growth Enterprises Board of the Shenzhen Stock Exchange.

Mr. LIU Yi, aged 64, was appointed as an independent non-executive director of the Company in November 2007 and has been with the Group since then. Mr. Liu had previously worked in the Chinese Research Academy of Environmental Sciences as a department head and in the State Environment Protection Administration as a standing member where he retired in January 2006. He has many years of experience in handling environmental protection issues. Mr. Liu does not have any other directorships in listed companies.

Mr. TING Leung Huel, Stephen MH, FCCA, FCPA (PRACTISING), ACA, FTIHK, FHKIoD, aged 56, was appointed as an independent non-executive director of the Company in November 2007. Mr. Ting is a certified public accountant and has been the managing partner of Messrs Ting Ho Kwan & Chan, Certified Public Accountants (Practising) since 1987. Mr. Ting is a member of the 9th and 10th CPPCC, Fujian Province. Mr. Ting is formerly an independent non-executive director of eForce Holdings Limited, and currently a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of seven companies listed on the HKSE, namely Tong Ren Tang Technologies Company Limited, Tongda Group Holdings Limited, Minmetals Resources Limited, JLF Investment Company Limited, Computer and Technologies Holdings Limited, Texhong Textile Group Limited and China SCE Property Holdings Limited. Save for the aforesaid, Mr. Ting does not have any other directorships in listed companies during the past 3 years.

Senior Management

Mr. ZHOU Guangsheng, aged 54, is the deputy president of the Group. He has been serving the Group since March 1988 and is responsible for production, safety and environmental protection. He served as a deputy head of production plant and deputy production general manager from April 1989 to March 2004. He served as the deputy general manager of Dongyue Chemicals from March 2004 to March 2006. He has been serving as the vice president of the Group since March 2006 until now.

Mr. ZHANG Heng, aged 42, is an engineer and had obtained an undergraduate degree in economics from the China Petroleum University. He has been serving the Group since November 1988 and is formerly the general manager of Dongyue Polymers and the deputy general manager of Dongyue Chemicals. Mr. Zhang is currently the vice president of the Group and a director of Dongyue Polymers. He has pioneered several research projects which had twice been awarded the Shandong Science and Technology Spark Award, and had several times been awarded the Zibo City Science and Technology Improvement Award and the Zibo City Spark Award.

Directors' and Senior Management's Profile

Mr. WANG Weidong, aged 46, has worked for the Group since September 1996 and is responsible for technical matters and projects. He is currently the general manager and a director of Dongyue Organic Silicone, and the general manager of Dongyue F&S. In 2005, he was awarded the title of "Outstanding Scientific Researcher of National Chemical Industry" and in 2006, he obtained the award for "Outstanding Worker of National Chlor-alkali Industry". Mr. Wang holds a bachelor degree in Chinese Literature.

Mr. YU Xiuyuan, aged 44, is the chief engineer and the head of the technology department of the Group. He had been working with the Group since February 1987. He is also a committee member of the China Association of Organic Fluorine and Silicone Material Industry (中國氟硅有機材料工業協會) and a committee member of the organic chemical technology committee of China National Standardization Technology Committee. He is an engineer and obtained professional qualifications in chemistry. In 1994, he was awarded the Provincial Science and Technology Advance Prize (Third Prize) and in 1999, he was awarded the Provincial Spark Science and Technology Prize (Second Prize).

Qualified Accountant and Company Secretary

Mr. NG Kwok Choi, aged 38, is a full time qualified accountant, company secretary and financial controller of the Company. He joined the Group on 3 July 2009. Mr. Ng is primarily responsible for the overall financial reporting and company secretarial matters of the Company. Mr. Ng has over 15 years of experience in the fields of finance, auditing and accounting. Prior to joining the Group, he had been the group financial controller of two companies listed on the Main Board of the HKSE from July 2000 to September 2008, and had worked for more than five years in an international accounting firm in Hong Kong. Mr. Ng graduated from the Hong Kong University of Science and Technology majoring in Accounting in 1994. Mr. Ng is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The Directors present their report together with the audited financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and an associate are set out in notes 35 and 18, respectively to the financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 32.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

The Directors now recommend the payment of a final dividend of HK$0.035 per share (approximately equivalent to RMB0.031 per share) (2008: HK$0.025 per share, approximately equivalent to RMB0.022 per share), in respect of the year 2009, to the shareholders whose name appear on the register of members of the Company on 26 May 2010.

According to the dividend declaration of the Company's subsidiaries, Shandong Dongyue Polymers Co. Ltd. ("Dongyue Polymers") and Shandong Dongyue Fluo-Silicon Materials Co. Ltd. ("Dongyue F&S"), Dongyue Polymers and Dongyue F&S will distribute dividends of RMB56,480,000 and RMB11,460,000, respectively, out of the realized profits before 31 December 2007. Based on the Company's direct equity interests in Dongyue Polymers and Dongyue F&S, the Company will receive cash dividends of RMB56,480,000 and RMB7,997,934, respectively.

Closure of register of members

The register of members of the Company will be closed from 19 May 2010 to 26 May 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 18 May 2010.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of change in equity on page 35.

Property, Plant and Equipment

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

Share Capital

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

Report of the Directors

Distributable Reserves

As at 31 December 2009, the Company's reserves available for distribution to shareholders as computed in accordance with the Companies Law (2003 Revision) of the Cayman Islands amounted to RMB1,358,485,000, of which HK$72,927,000 (approximately equivalent to RMB64,212,000) has been proposed as a final dividend for the year.

Pre-emptive Right

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

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

Share Options

(a) Pre-Initial Public Offering ("IPO") Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency and attract and retain participants whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved and amended by written resolutions of all the shareholders of the Company dated 16 November 2007, are similar to the terms of the Post-IPO Share Option Scheme:

(a) the subscription price per Share shall be the IPO's Offer Price per Share;

(b) grants of options are subject to the Listing Committee of the Stock Exchange of Hong Kong Limited (the "HKSE") granting the approval of the listing of, and permission to deal in, the Shares which fall to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;

(c) save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of Shares on the HKSE.

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

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

As at 31 December 2009, particulars of the options granted to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme are set out below:

	Number of options							
Name or Category of participant	Balance as at 1 January 2009	Lapsed during the year	Exercised during the year	Balance as at 31 December 2009	Exercise price HK$	Date of Grant	Exercisable from	Exercisable until
Directors:								
Mr. Zhang Jianhong	10,210,909	3,063,273	–	7,147,636	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Liu Chuanqi	9,076,364	2,722,910	–	6,353,454	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Cui Tongzheng	7,374,544	2,212,364	–	5,162,180	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Yang Erning	1,701,818	510,546	–	1,191,272	2.16	16 November 2007	10 December 2008	10 December 2011
Mr. Zhang Jian	567,273	170,182	–	397,091	2.16	16 November 2007	10 December 2008	10 December 2011
Employees:								
In aggregate	26,605,092	7,981,525	–	18,623,567	2.16	16 November 2007	10 December 2008	10 December 2011
	55,536,000	16,660,800	–	38,875,200				

Valuation of the share options granted under the Pre-IPO Share Option Scheme and its related accounting policy are set out in notes 29 and 3 to the financial statements, respectively. As any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the valuation model for the share options does not necessarily provide a reliable single measure of the fair value of the share options.

Subsequent to the balance sheet date, a total of 453,818 share options under the Pre-IPO Share Option Scheme lapsed.

(b) Post-IPO Share Option Scheme

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

The offer for the grant of options (the "Offer") must be taken up within 28 days from the date of the Offer, with a payment of HK$1.00 as consideration. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the HKSE's daily quotations sheets for the five trading days immediately preceding to the date of the Offer; (ii) the closing price of Shares as stated in the HKSE's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The total number of Shares which may fall to be issued under the Scheme and any other scheme must not, in aggregate, exceed 208,362,300 which represents 10% of the total issued share capital as at the Listing Date unless further shareholders' approval is obtained. The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years from 16 November 2007.

No option had been granted or agreed to be granted to any person under the Scheme since its adoption.

Report of the Directors

Directors

The Directors during the year ended 31 December 2009 and up to the date of this report were:

Executive Directors

Mr. Zhang Jianhong *(Chairman)*
Mr. Fu Kwan
Mr. Liu Chuanqi
Mr. Cui Tongzheng
Mr. Yang Erning
Mr. Zhang Jian

Independent Non-Executive Directors (the "INEDs")

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

Non-Executive Director

Mr. Shaw Sun Kan, Gordon (resigned on 31 December 2009)

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

Directors' Service Contracts

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

Directors' Interests in Contracts

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

Director's Rights to Acquire Shares

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

Biographical Details of Directors and Senior Management

Brief biographical details of Directors of the Company and senior management of the Group are set out on pages 10 to 13.

Disclosure of Interests

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

As at 31 December 2009, the interests or short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the HKSE were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Mr. Zhang Jianhong	Corporate interest[1]	166,551,273 (L)	7.99 (L)
	Benefical interest	7,147,636 (L)	0.34 (L)
Mr. Fu Kwan	Corporate interest[2]	731,781,818 (L)	35.12 (L)
Mr. Liu Chuanqi	Corporate interest[3]	87,360,000 (L)	4.19 (L)
	Beneficial interest	6,353,454 (L)	0.30 (L)
Mr. Cui Tongzheng	Corporate interest[4]	148,852,363 (L)	7.14 (L)
	Beneficial interest	5,162,180 (L)	0.25 (L)
Mr. Yang Erning	Beneficial interest	1,191,272 (L)	0.06 (L)
Mr. Zhang Jian	Beneficial interest	397,091 (L)	0.02 (L)

Notes:

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

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

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

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

(5) L: Long Position

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the HKSE.

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

As at 31 December 2009, so far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of shares or underlying Shares	% of issued share capital
Macro-Link International Investment Co., Ltd.	Beneficial interest(1)	731,781,818 (L)	35.12 (L)
Macro-Link Sdn. Bhd.	Corporate interest(1)	731,781,818 (L)	35.12 (L)
International Finance Corporation	Beneficial interest	141,818,182 (L)	6.81 (L)
Dongyue Team Limited	Beneficial interest(2)	166,551,273 (L)	7.99 (L)
Dongyue Initiator Limited	Beneficial interest(3)	148,852,363 (L)	7.14 (L)
Bank of China Group Investment Limited	Corporate interest(4)	108,000,000 (L)	5.18 (L)
Bank of China Limited	Corporate interest(4)	108,000,000 (L)	5.18 (L)
Central SAFE Investments Limited	Corporate interest(4)	108,000,000 (L)	5.18 (L)
Fulland Enterprises Corp.	Beneficial interest(4)	108,000,000 (L)	5.18 (L)

Notes:

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

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

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

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

(5) L: Long Position

(c) Interests in other members of the Group as at 31 December 2009

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

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of Interest	% of issued share capital/registered capital of such subsidiaries
Dongyue F&S	Shandong Hi Tech Investment Co., Ltd.	Corporate	16.78%
Zibo Dongyue Lvyuan Co., Ltd	Shandong Hi Tech Investment Co., Ltd. (Note)		
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd ("Dongyue Peak")	Chifeng Peak Copper Co., Ltd. ("CPC")	Corporate	49%
Shandong Dongyue Organosilicon Material Co., Ltd ("Dongyue Organic Silicone")	Zibo Hong Da Mining Industry Co., Ltd.	Corporate	16%
Guangdong Dongyue Fluorine Chemicals Co., Ltd	Xiamen Hui Guong Yuan	Corporate	40%
Shandong Dongyue Silicone Rubber Co., Ltd ("Dongyue Silicone Rubber")	Calt Silicone Rubber Products (Nanjing) Co., Ltd ("Calt Silicone")	Corporate	45%
Chifeng HuaSheng Mining Co., Ltd	CPC	Corporate	20%

Note: Shandong Hi Tech Investment Co., Ltd. is a 16.78% equity holder in Dongyue F&S which, in turn, owns 100% of Zibo Dongyue Lvyuan Co., Ltd.. Consequently, Shandong Hi Tech Investment Co., Ltd. indirectly owns more than 10% of Zibo Dongyue Chlorine Co., Ltd.

Saved as disclosed above, the Directors and the chief executive of the Company are not aware of any person who, as at 31 December 2009, had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Directors' Interests in Competing Business

During the year ended 31 December 2009, none of the Directors of the Company was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Management Contracts

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

Major Suppliers and Customers

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

Purchases	
— the largest supplier	15.24%
— five largest suppliers combined	39.37%
Sales	
— the largest customer	8.03%
— five largest customers combined	19.26%

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

Connected Transactions

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

Continuing connected transactions for the year 2009			**Annual Cap (RMB million)**	**Actual (RMB million)**
(I)	Framework agreement for the purchase of sulphuric acid, electricity and steam from CPC ("CPC Agreement")	(i)	271	25
(II)	Framework agreement for the purchase of industrial salt from Dongying Macrolink Salt Co., Ltd. ("Dongying Macrolink Salt") ("DMS Agreement")	(ii)	33	16
(III)	Framework agreement for the supply of organic silicone intermediate and organic silicone rubber to Calt Silicone	(iii)	247	26

Note:

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

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

(ii) The purpose of DMS Agreement is for the purpose of the Group's production of liquid alkali. Dongying Macrolink Salt is a connected person by virtue of it being an associate of one of the Company's executive Directors, Mr. Fu Kwan and an associate of one of the Company's controlling shareholders, Macro-Link International Investment Co., Ltd. Dongying Macrolink Salt entered into the Revised DMS Agreement dated 3 May 2008 with Dongyue F&S, pursuant to which Dongying Macrolink Salt has agreed to supply industrial salt to the Group for a period up to 31 December 2010.

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

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

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

Dongyue Silicone Rubber was established to engage in the production and processing of downstream organic silicone products and in line with the Group's strategy, the Group will scale up its production of downstream organic silicone products at such time as appropriate. As the Group's production capacity in producing organic silicone monomers expands, the scale of deep-processing of organic silicone also expands. The transactions contemplated under the Supply Agreement will enable the Group to utilize its production facilities, secure a source of income from trading of organic silicone intermediate and organic silicone rubber and bring reasonable return to the Group.

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

Report of the Directors

The Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the aforesaid continuing connected transactions. The auditor has reported its factual findings on these procedures to the Board in accordance with Rule 14A.38 of the Listing Rules.

On 3 May 2008, Dongyue Peak and Xilin Haote Tonghe Mining Company Limited ("XT") entered into the revised framework agreement (the "Revised XT Agreement"), pursuant to which XT has agreed to supply fluorspar to the Group for a period up to 31 December 2010. The transactions (the "Transactions") contemplated under the Revised XT Agreement constituted the Group's continuing connected transactions under the Listing Rules as XT was a substantial shareholder of Dongyue Peak. The details of the Revised XT Agreement were set out in the announcement of the Company dated 5 May 2008.

During the year ended 31 December 2009, the Transactions ceased to be the Group's continuing connected transactions under the Listing Rules, since (a) after the disposal of its equity interests in Dongyue Peak to CPC during the year, XT no longer owned any equity interests in Dongyue Peak; and (b) the Group did not enter into any of the Transactions with XT before the relevant disposal.

Sufficiency of Public Float

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

Subsequent Events

No significant events occurred after the reporting period.

Auditors

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

On behalf of the Board

Zhang Jianhong
Chairman

The People's Republic of China, 15 April 2010

Report on Corporate Governance Practices

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

The Stock Exchange of Hong Kong Limited (the "HKSE") has promulgated the Hong Kong Code on Corporate Governance Practices (the "Code") which came into effect for listed issuers' first financial year commencing on or after 1 January 2005. The Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has adopted and complied with the code provisions of the Code during the year ended 31 December 2009, except for a deviation regarding the roles of chairman and chief executive officer, the details of which have been disclosed in the relevant paragraph below in this report.

The Board

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

During the year ended 31 December 2009, except that Mr. Shaw Sun Kan, Gordon resigned from his office as the Company's Non-executive Director with effect from 31 December 2009, there was no change in the structure of the Board, which currently comprises nine Directors and its composition is set out as follows:

Executive Directors:

Mr. Zhang Jianhong *(Chairman)*
Mr. Fu Kwan
Mr. Liu Chuanqi
Mr. Cui Tongzheng
Mr. Yang Erning
Mr. Zhang Jian

Independent Non-executive Directors ("INEDs"):

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

The brief biographical details of the Directors are set out in the "Directors' and Senior Management's Profile" section on pages 10 to 12 of this annual report.

The Company has three INEDs representing more than one-fourth of the Board (and more than one-third of the Board on and after 31 December 2009). At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"). The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Report on Corporate Governance Practices

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

	Number of Board meetings attended/held
Executive Directors:	
Mr. Zhang Jianhong *(Chairman)*	5/5
Mr. Fu Kwan	0/5
Mr. Liu Chuanqi	2/5
Mr. Cui Tongzheng	5/5
Mr. Yang Erning	2/5
Mr. Zhang Jian	3/5
Non-executive Director:	
Mr. Shaw Sun Kan, Gordon	3/5
INEDs:	
Mr. Ting Leung Huel, Stephen	3/5
Mr. Yue Run Dong	3/5
Mr. Liu Yi	1/5

During the year ended 31 December 2009, the Board has dealt with matters covering mainly the Group's overall strategy, annual and interim results, internal control, dividend policies, capital and financial matters. The Board has delegated the day-to-day operations of the Group to the senior management under the supervision of the Board.

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

Directors' Securities Transactions

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

Report on Corporate Governance Practices

Roles of Chairman and Chief Executive Officer

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

Appointment and Re-election of Directors

The Board does not establish a nomination committee at present. The appointment of new Director(s) is therefore a matter for consideration and decision by the full Board. The Board considers that the new Director(s) is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company. However, during the year under review, no new Director was appointed by the Board.

There are fixed terms of appointment for the Directors. Each of the Executive Directors entered into a service contract with the Company for a term of approximately three years ending on 31 December 2010. The Non-executive Director and each of the INEDs signed a letter of appointment with the Company for a term of approximately two years ending on 31 December 2009. Upon the expiry of the appointment letters on 31 December 2009, all the INEDs signed new letters of appointment with the Company for a term of two years commencing from 1 January 2010.

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

Board Committees

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

Remuneration Committee

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

During the year ended 31 December 2009, a meeting of the Remuneration Committee was held. The attendance of each member is set out as follows:

	Number of Committee meeting attended/held
Committee member:	
Mr. Liu Yi	0/1
Mr. Ting Leung Huel, Stephen	1/1
Mr. Zhang Jianhong	1/1

During the meeting, the remuneration of the Executive Directors and the Group's senior management for the financial year ended 31 December 2008 was approved. In addition, the members discussed and reviewed the Group's policy and structure for the remuneration for the Directors and the Group's senior management.

Audit Committee

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

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

The Audit Committee held three meetings during the year ended 31 December 2009 and the attendance of each member is set out as follows:

	Number of Committee meetings attended/held
Committee member:	
Mr. Ting Leung Huel, Stephen	3/3
Mr. Liu Yi	1/3
Mr. Yue Run Dong	3/3

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

During the meetings held in the financial year ended 31 December 2009, the Audit Committee has performed the works which are set out as follows:

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

- approve the remuneration for the audit services provided by the external auditor and its relevant terms of engagement in respect of the financial year ended 31 December 2008;

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

- conduct pre-audit meeting with the external auditor in respect of the audit of the financial statements of the Group for the financial year ended 31 December 2009.

The Audit Committee met with the management and external auditor on 15 April 2010 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's annual results for the year ended 31 December 2009 before proposing to the Board for approval.

Respective Responsibilities of Directors and External Auditors

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

Internal Control

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

The Audit Committee assisted the Board in discharging its responsibilities for maintaining an effective system of internal controls on the Group's business operations. The Audit Committee completed the annual review of the Group's internal control evaluations in respect of the financial year ended 31 December 2009 through a professional accounting firm, which mainly covered certain of the Group's operations and followed up the Group's major control weaknesses in respect of the previous year. No major issues but areas of improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable period to time.

External Auditor's Remuneration

For the year ended 31 December 2009, the total remuneration for the audit services provided by the external auditor amounted to approximately HK$1,522,000 (approximately RMB1,340,000).

For the year ended 31 December 2009, the total remuneration for the permissible non-audit services provided by the external auditor amounted to HK$250,000 (approximately RMB220,000) for the review of the interim financial report of the Group.

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

On behalf of the Board

Zhang Jianhong
Chairman

The People's Republic of China, 15 April 2010

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Dongyue Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 81, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	6	**3,544,447**	3,962,159
Cost of sales		**(3,024,006)**	(3,286,355)
Gross profit		**520,441**	675,804
Other income	7	**32,347**	46,188
Distribution and selling expenses		**(154,742)**	(162,946)
Administrative expenses		**(154,442)**	(247,923)
Finance costs	8	**(113,447)**	(179,959)
Share of result of an associate		**1,016**	425
Profit before tax		**131,173**	131,589
Income tax credit	9	**22,796**	6,789
Profit and total comprehensive income for the year	10	**153,969**	138,378
Profit and total comprehensive income attributable to:			
Owners of the Company		**165,303**	120,747
Non-controlling shareholders		**(11,334)**	17,631
		153,969	138,378
Earnings per share	13		
Basic and diluted (RMB)		**0.08**	0.06

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	31 December 2009 RMB'000	31 December 2008 RMB'000 (Restated)	1 January 2008 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	15	**3,243,681**	3,421,976	3,200,309
Prepayment for purchase of property, plant and equipment		**130,366**	47,509	53,375
Prepayment for land lease		**9,716**	54,369	67,350
Prepaid lease payments	16	**207,786**	206,267	198,868
Intangible assets	17	**6,533**	8,789	10,693
Interest in an associate	18	**14,874**	14,058	9,633
Available-for-sale investments	19	**21,593**	6,000	6,000
Deferred tax assets	20	**75,293**	96,723	54,513
		3,709,842	3,855,691	3,600,741
Current assets				
Inventories	21	**430,015**	487,257	455,601
Prepaid lease payments	16	**6,182**	5,910	5,541
Trade and other receivables	22	**659,384**	595,941	412,639
Tax recoverable		**12,033**	—	—
Pledged bank deposits	23	**213,309**	82,938	606,447
Bank balances and cash	23	**853,509**	567,200	1,455,583
		2,174,432	1,739,246	2,935,811
Current liabilities				
Amount due to a shareholder	24	**—**	—	781
Trade and other payables	25	**1,213,278**	970,133	2,097,689
Borrowings	26	**1,601,360**	1,430,800	1,246,829
Tax liabilities		**9,851**	7,245	48,699
Deferred income	27	**7,535**	8,042	8,578
		2,832,024	2,416,220	3,402,576
Net current liabilities		**(657,592)**	(676,974)	(466,765)
Total assets less current liabilities		**3,052,250**	3,178,717	3,133,976

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	31 December 2009 RMB'000	2008 RMB'000 (Restated)	1 January 2008 RMB'000 (Restated)
Capital and reserves				
Share capital	28	**197,854**	197,854	197,515
Reserves		**1,816,792**	1,701,052	1,648,045
Equity attributable to the owners of the Company		**2,014,646**	1,898,906	1,845,560
Non-controlling shareholders		**230,627**	264,951	235,437
Total equity		**2,245,273**	2,163,857	2,080,997
Non-current liabilities				
Deferred income	27	**173,013**	172,239	160,211
Deferred tax liabilities	20	**7,744**	3,629	—
Borrowings	26	**626,220**	838,992	892,768
		806,977	1,014,860	1,052,979
		3,052,250	3,178,717	3,133,976

The financial statements on pages 32 to 81 were approved and authorised for issue by the Board of Directors on 15 April 2010 and are signed on its behalf by:

Mr. ZHANG Jianhong
DIRECTOR

Mr. CUI Tongzheng
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Merger reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note c)	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling shareholders RMB'000	Total RMB'000
Balance at 1 January 2008	197,515	1,168,345	2,657	(32,210)	176,952	99,389	232,912	1,845,560	235,437	2,080,997
Profit and total comprehensive income for the year	–	–	–	–	–	–	120,747	120,747	17,631	138,378
Transfer	–	–	–	–	–	12,271	(12,271)	–	–	–
Shares issued	339	6,966	–	–	–	–	–	7,305	–	7,305
Transaction costs attributable to issue of shares	–	(202)	–	–	–	–	–	(202)	–	(202)
Transactions with non-controlling shareholders arising from changes in interests in a subsidiary	–	–	–	–	(19,604)	–	–	(19,604)	19,604	–
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	4,068	4,068
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(11,789)	(11,789)
Dividends paid	–	–	–	–	–	–	(73,953)	(73,953)	–	(73,953)
Recognition of equity-settled shared-based payments	–	–	19,053	–	–	–	–	19,053	–	19,053
Balance at 31 December 2008	197,854	1,175,109	21,710	(32,210)	157,348	111,660	267,435	1,898,906	264,951	2,163,857
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**165,303**	**165,303**	**(11,334)**	**153,969**
Transfer	**–**	**–**	**–**	**–**	**–**	**28,329**	**(28,329)**	**–**	**–**	**–**
Acquisition of additional interests in a subsidiary	**–**	**–**	**–**	**–**	**(12,941)**	**–**	**–**	**(12,941)**	**(13,059)**	**(26,000)**
Capital refunded to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,080)**	**(3,080)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,851)**	**(6,851)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(45,923)**	**(45,923)**	**–**	**(45,923)**
Recognition of equity-settled shared-based payments	**–**	**–**	**9,301**	**–**	**–**	**–**	**–**	**9,301**	**–**	**9,301**
Balance at 31 December 2009	**197,854**	**1,175,109**	**31,011**	**(32,210)**	**144,407**	**139,989**	**358,486**	**2,014,646**	**230,627**	**2,245,273**

Notes:

(a) Merger reserve arose in group reorganisation completed in 2006.

(b) On 16 November 2007, the Company repurchased all of the 275,000,000 previously issued ordinary shares of US$0.1 each and these repurchased ordinary shares were cancelled with all of the authorised but unissued share capital as of that date. On the same date, the authorised share capital was increased to HK$400,000,000 by the creation of 4,000,000,000 new ordinary shares of HK$0.1 each. 275,000,000 new ordinary shares of HK$0.1 each were then issued to the shareholders existing on 15 November 2007. The excess of the repurchased amount over the nominal amount of new shares issued was credited directly to the capital reserve.

The acquisitions of additional interest from non-controlling shareholders of subsidiaries were recognised as transactions with non-controlling shareholders and the corresponding discount/premium were credited/debited directly against capital reserve.

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**131,173**	131,589
Adjustments for:			
Finance costs		**113,447**	179,959
Interest income		**(7,920)**	(21,069)
Realisation of deferred income		**(8,042)**	(8,578)
(Recovery of) impairment losses recognised on receivables		**(6,139)**	2,414
Depreciation and amortisation		**389,565**	350,343
Release of prepaid lease payments		**5,909**	5,541
Equity-settled share-based payment expenses		**9,301**	19,053
(Reversal of) write down of inventories		**(2,144)**	25,897
Share of result of an associate		**(1,016)**	(425)
Loss on disposals of property, plant and equipment		**1,759**	94
Operating cash flows before movements in working capital		**625,893**	684,818
Decrease (increase) in inventories		**59,386**	(57,553)
Increase in trade and other receivables		**(56,804)**	(185,716)
Increase (decrease) in trade and other payables		**324,874**	(684,630)
Increase in deferred income		**8,309**	20,070
Cash from (used in) operations		**961,658**	(223,011)
Interest paid		**(119,900)**	(192,886)
Refund of tax arising from Clean Development Mechanism ("CDM") project	9	**55,794**	—
Income tax paid		**(16,880)**	(73,246)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**880,672**	(489,143)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Repayment of prepayment (prepayment) for land lease		36,953	(328)
Purchase of property, plant and equipment		(368,656)	(994,003)
Purchase of intangible assets		(880)	(960)
Purchase of an available-for sale investment		(15,593)	—
Interest received		7,920	21,069
(Increase) decrease in pledged bank deposits		(130,371)	523,509
Dividend received from an associate		200	—
Interest bearing loan advances to third parties		(342,150)	—
Repayment of interest bearing loan advances to third parties		341,650	—
Acquisition of additional interest in an associate		—	(4,000)
NET CASH USED IN INVESTING ACTIVITIES		(470,927)	(454,713)
FINANCING ACTIVITIES			
Acquisition of additional interests in a subsidiary	35	(26,000)	—
Proceeds from disposal of property, plant and equipment		630	630
Contributions from non-controlling shareholders		—	4,068
Net proceeds from issuance of shares		—	7,103
Proceeds from borrowings		2,143,882	1,965,713
Decrease in amount due to a shareholder		—	(781)
Repayment of borrowings		(2,186,094)	(1,835,518)
Dividend paid		(45,923)	(73,953)
Dividend paid to non-controlling shareholders of subsidiaries		(6,851)	(11,789)
Capital refunded to non-controlling shareholders of subsidiaries		(3,080)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(123,436)	55,473
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		286,309	(888,383)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		567,200	1,455,583
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
represented by:			
Bank balances and cash		853,509	567,200

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. General

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

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

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

The Group has net current liabilities of approximately RMB657,592,000 as at 31 December 2009 (31 December 2008: RMB676,974,000). The consolidated financial statements have been prepared on a going concern basis as in the opinion of the directors of the Company, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future, taking into account the internally generated resources and the availability of its undrawn banking facilities of approximately RMB1,996,550,000 (31 December 2008: RMB1,765,300,000) (see note 26).

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

2. Application of New and Revised Accounting Standards

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

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC-Int 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 15	Agreements for the Construction of Real Estate
IFRIC-Int 16	Hedges of a Net Investment in a Foreign Operation
IFRIC-Int 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

2. Application of New and Revised Accounting Standards (Continued)

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised IFRSs affecting presentation and disclosure only

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

In addition, the adoption of IAS 1 (Revised 2007) has resulted in the presentation of a third consolidated statement of financial position as at 1 January 2008 as the Group has reclassified items in its consolidated financial statements, details of which are set out in note 36.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs May 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The application of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

2. Application of New and Revised Accounting Standards (Continued)

New and revised IFRSs affecting presentation and disclosure only (Continued)

IAS 1 (Revised 2007) Presentation of Financial Statements (Continued)

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

3. Significant Accounting Policies

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

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

Basis of consolidation

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

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

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

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

Non-controlling shareholders of subsidiaries in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling shareholders of subsidiaries in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination. Losses applicable to the non-controlling shareholders in excess of the non-controlling shareholders' interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholders has a binding obligation and is able to make an additional investment to cover the losses.

Business combination

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

The interest of non-controlling shareholders of subsidiaries in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Interests in associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. Significant Accounting Policies (Continued)

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

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

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

Government grant

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

3. Significant Accounting Policies (Continued)

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. Significant Accounting Policies (Continued)

Foreign currencies

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

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the period in which the item is derecognised.

Prepaid lease payments

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

3. Significant Accounting Policies (Continued)

Intangible assets

Intangible assets acquired separately

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

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

Research and development expenditure

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

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

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

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

– the ability to use or sell the intangible asset;

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

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

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

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

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

3. Significant Accounting Policies (Continued)

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments of which interest income is included in net gains or losses.

Loans and receivables

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Available-for-sale financial assets

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

Impairment of financial assets

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

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

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

4. Key Sources of Estimation Uncertainty

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

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

Key sources of estimation uncertainty

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

Allowance for bad and doubtful debts and other receivables

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

Useful lives of property, plant and equipment

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

Deferred tax

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

5. Capital Risk and Financial Risk Management Objectives and Policies

(a) Capital risk management

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

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

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

(b) Categories of financial instruments

	31 December		1 January
	2009	2008	2008
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including pledged bank deposits, bank balances and cash)	**1,679,326**	1,144,078	2,379,601
Available-for-sale investments	**21,593**	6,000	6,000
	1,700,919	1,150,078	2,385,601
Financial liabilities			
Amortised cost	**3,376,692**	3,146,807	3,714,770

(c) Financial risk management objectives and policies

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

5. Capital Risk and Financial Risk Management Objectives and Policies (Continued)

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

(i) Foreign currency risk management

The Group's functional currency of the PRC subsidiaries are Renminbi ("RMB") with most of the transactions settled in RMB. However, foreign currency (mainly the United States dollar "US$") were received when the Group earned revenue from overseas customers and when settling purchases of machinery and equipment from the overseas suppliers.

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

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

	Assets		Liabilities	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**298,453**	259,966	**437,215**	486,766

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

At 31 December 2008, if RMB had strengthened/weakened by 10% against US$ with all other variables held constant, post-tax profit for the year would have been RMB22,680,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of US$ denominated trade and other receivables and US$ denominated borrowings.

(ii) Interest rate risk management

The Group's fair value interest-rate risk primarily arises from its fixed-rate borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. At 31 December 2009, 70% (2008: 56%) of the Group's borrowings bear fixed interest rates.

The weighted average effective interest rates on floating rate borrowings at 31 December 2009 were 5.33% (2008: 6.84%) per annum. At 31 December 2009, if interest rates on floating rate borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB1,597,000 (2008: RMB1,741,000) lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings.

5. Capital Risk and Financial Risk Management Objectives and Policies (Continued)

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

(iii) Credit risk management

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

The Group also has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Generally, customers are granted with credit periods less than 90 days and the Group usually does not require collaterals nor any credit enhancement from its customers. An ageing analysis of trade and other receivables is set out in note 22 to the consolidated financial statements. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the customers and whether there are any trade disputes with them.

(iv) Liquidity risk management

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group has available undrawn borrowing facilities of approximately RMB1,996,550,000 (31 December 2008: RMB1,765,300,000), details of which are set out in note 26.

5. Capital Risk and Financial Risk Management Objectives and Policies (Continued)

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

(iv) Liquidity risk management (Continued)

Liquidity and interest risk tables

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

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

	Weighted average interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	4 months to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2008 RMB'000
31 December 2008								
Amount due to an associate	–	473	–	–	–	–	473	473
Amount due to a non-controlling shareholder of a subsidiary	–	3,488	–	–	–	–	3,488	3,488
Trade and other payables	–	514,476	182,880	175,698	–	–	873,054	873,054
Borrowings								
– fixed rates	7.18	67,393	402,855	715,547	151,509	–	1,337,304	1,277,516
– variable rates	6.84	16,665	99,619	176,940	644,581	167,211	1,105,016	992,276
		602,495	685,354	1,068,185	796,090	167,211	3,319,335	3,146,807

6. Revenue and Segment Information

Revenue represents revenue arising on sales of goods.

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segment. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

Segment revenues and results

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

2009

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

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

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

Note: Include the Dongyue CDM Project

6. Revenue and Segment Information (Continued)

Segment revenues and results (Continued)

2008

	Refrigerants (note) RMB'000	Polymers RMB'000	Organic silicone RMB'000	Other operations RMB'000	Eliminations RMB'000	Consolidated RMB'000
External sales	2,688,411	745,988	430,514	97,246	—	3,962,159
Inter-segment sales	521,631	—	—	—	(521,631)	—
Total revenue — segment revenue	3,210,042	745,988	430,514	97,246	(521,631)	3,962,159
SEGMENT RESULTS	253,309	54,449	6,527	7,671	—	321,956

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

Unallocated corporate expenses (net)	(10,833)
Finance costs	(179,959)
Share of results of an associate	425
Profit before taxation	131,589
Income tax credit	6,789
Profit and total comprehensive income for the year	138,378

Note: Include the Dongyue CDM Project

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the results of each segment without allocation of unallocated other income, central administration costs, directors' salaries, share of profit of an associate and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

6. Revenue and Segment Information (Continued)

Entity-wide disclosures:

Information about major customers

There was no revenue from a single customer that contribute over 10% of the total sales of the Group during each of the two years ended 31 December 2009.

Geographical information

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

	2009 RMB'000	2008 RMB'000
PRC	2,513,341	2,480,630
Japan	287,069	240,736
Korea	113,824	122,359
India	70,288	38,593
United Arab Emirates	26,353	50,964
Thailand	19,344	40,237
Singapore	44,282	66,488
Malaysia	17,003	21,867
Africa	33,153	62,948
Europe	188,825	213,977
America	137,695	266,081
Other countries/regions	93,270	357,279
Subtotal	1,031,106	1,481,529
	3,544,447	3,962,159

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

6. Revenue and Segment Information (Continued)

Entity-wide disclosures: (Continued)

Other segment information

2009

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

2008

	Refrigerants RMB'000	Polymers RMB'000	Organic silicone RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	228,910	72,077	41,986	4,506	347,479
Amortisation of intangible assets	2,367	—	434	63	2,864
Impairment losses (recovery of impairment losses) recognised on receivables	3,105	(811)	—	120	2,414
Research and development costs recognised as an expense	1,281	9,779	411	—	11,471
Write-down of inventories	3,344	—	22,496	57	25,897
Loss on disposals of property, plant and equipment	87	—	—	7	94
Release of prepaid lease payments	2,644	841	2,012	44	5,541

7. Other Income

	2009 RMB'000	2008 RMB'000
Government grants		
– related to expense items	11,129	11,681
– related to assets (note 27)	8,042	8,578
Interest income	7,920	21,069
Net foreign exchange gain	1,082	—
Others	4,174	4,860
	32,347	46,188

Note: The government grants are mainly for the expenditure on research activities which is recognised as an expense in the period in which it is incurred.

8. Finance Costs

	2009 RMB'000	2008 RMB'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	114,884	172,129
Other borrowings	5,016	21,811
Total borrowing costs	119,900	193,940
Less: amounts capitalised	(6,453)	(13,981)
	113,447	179,959

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 5.52% (2008: 7.64%) per annum to expenditure on qualifying assets.

9. Income Tax Credit

	2009 RMB'000	2008 RMB'000
PRC enterprise income tax ("EIT")		
– Current year	17,457	31,792
– Overprovision in prior years	(10,004)	—
– Refund of tax arising from EIT exemption on profit from CDM project (Note)	(55,794)	—
	(48,341)	31,792
Deferred tax charge (credit) (note 20)	25,545	(38,581)
	(22,796)	(6,789)

9. Income Tax Credit (Continued)

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

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

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

	2009 RMB'000	2008 RMB'000
Profit before tax	131,173	131,589
Tax charge at enterprise income tax rate (Note a)	32,793	32,897
Tax effect of income not taxable for tax purpose	(8,780)	(350)
Tax effect of share of result of an associate	(254)	—
Tax effect of expenses not deductible for tax purpose	2,780	16,320
Tax effect of tax exemptions (Note b)	(11,694)	(15,065)
Tax effect of tax benefit (Note c)	—	(40,495)
Tax effect of tax losses not recognised	29,467	—
Utilisation of tax losses previously not recognised	(7,310)	—
EIT exemption on profit from CDM project	(55,794)	—
Overprovision in respect of prior years	(10,004)	—
Effect of different tax rates of subsidiaries operating under other statutory income tax rates	—	(2,980)
Deferred tax on distributable earnings of PRC subsidiaries (Note d)	6,000	3,629
Others	—	(745)
Tax charge for the year	(22,796)	(6,789)

9. Income Tax Credit (Continued)

Notes:

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

(b) Shandong Dongyue Fluo-Silicon Materials Co., Ltd. and Shandong Dongyue Organosilicon Material Co., Ltd., subsidiaries of the Company, are incorporated as foreign investment enterprises in the PRC. Approvals from the relevant tax authorities were obtained in prior years for their entitlement to exemption from EIT for the two years commencing from their respective first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax of 25% for the next three years. Accordingly, in 2008, the tax rate of Shandong Dongyue Fluo-Silicon Materials Co., Ltd. was 12.5% and Shandong Dongyue Organosilicon Material Co., Ltd. was exempted from EIT. Their tax rates are 12.5% for the year ended 31 December and 2009.

(c) Tax benefit represents the tax credits on acquisition of qualified property, plant and equipment.

(d) According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui [2008] No. 1, dividend distributed out of the profits generated since 1 January 2008 held by the PRC entity shall be subject to EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax liability of RMB6,000,000 (2008: RMB3,629,000) on the undistributed earnings of subsidiaries has been charged to profit or loss in the consolidated statement of comprehensive income for the year.

10. Profit 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:

	2009 RMB'000	2008 RMB'000
Short term employee benefits	67,804	93,671
Discretionary bonus	6,350	5,440
Post-employment benefits	5,104	7,051
Equity-settled share-based payment expenses	9,301	19,053
Other staff welfare	8	—
Total staff costs (a)	88,567	125,215
Cost of inventories recognised as expenses	2,667,893	2,947,464
Depreciation of property, plant and equipment	386,429	347,479
Amortisation of intangible assets (included in cost of sales)	3,136	2,864
Auditor's remuneration	2,354	4,105
Net foreign exchange (gains) losses	(1,082)	2,442
(Recovery of) impairment losses recognised on receivables	(6,139)	2,414
Research and development costs recognised as an expense	5,807	11,471
(Reversals of) write-down of inventories	(2,144)	25,897
Release of prepaid lease payments	5,909	5,541
Loss on disposals of property, plant and equipment	1,759	94

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

11. Directors' Emoluments

The emoluments paid or payable to each of the 10 (2008: 10) directors were as follows:

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

	2008						
	Fees RMB'000	Salary RMB'000	Discretionary bonus (note) RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payment expenses RMB'000	Other benefits RMB'000	Total RMB'000
Executive Directors							
Mr. Zhang Jian Hong	120	106	2,174	20	3,781	—	6,201
Mr. Liu Chuan Qi	120	106	2,174	24	3,361	—	5,785
Mr. Cui Tong Zheng	120	68	772	12	2,736	—	3,708
Mr. Yang Er Ning	120	360	320	—	546	—	1,346
Mr. Fu Kwan	120	—	—	—	—	—	120
Mr. Zhang Jian	120	—	—	—	182	—	302
Non-executive director							
Mr. Shaw Sun Kan	120	—	—	—	—	—	120
Independent Non Executive Directors							
Mr. Ting Leung Huel	218	—	—	—	—	—	218
Mr. Yue Run Dong	120	—	—	—	—	—	120
Mr. Liu Yi	120	—	—	—	—	—	120
	1,298	640	5,440	56	10,606	—	18,040

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

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the two years ended 31 December 2009.

12. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2008: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2008: one) individuals were as follows:

	2009 RMB'000	2008 RMB'000
Salary	500	166
Discretionary bonus	1,300	657
Pension scheme contributions	17	10
Equity-settled share-based payment expenses	950	911
Other benefits	9	3
	2,776	1,747

Their emoluments were within the following bands:

	2009 No. of employees	2008 No. of employees
RMB1,000,000 to RMB1,500,000	2	—
RMB1,500,000 to RMB2,000,000	—	1

13. Earnings per Share

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

	2009 RMB'000	2008 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	165,303	120,747
Number of shares		
Weighted average number of ordinary shares ('000)	2,083,623	2,083,603

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options are higher than the average market price for shares for both 2009 and 2008.

14. Dividends

	2009 RMB'000	2008 RMB'000
Dividends recognised as distribution during the year:		
2008 final dividend HK$0.025 (2008: 2007 final dividend HK$0.04) per share	45,923	73,953

The final dividend of approximately HK$72,927,000 (HK$0.035 per share) in respect of the year ended 31 December 2009 (2008: final dividend of HK$52,091,000 (HK$0.025 per share) in respect of the year ended 31 December 2008) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fittings RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2008	518,023	2,472,208	21,311	131,364	527,822	3,670,728
Additions	86,550	101,951	3,930	4,239	373,200	569,870
Transfer	99,118	623,567	25	4,977	(727,687)	—
Eliminated on disposals	—	(1,939)	(353)	—	—	(2,292)
At 31 December 2008	703,691	3,195,787	24,913	140,580	173,335	4,238,306
Additions	16,810	40,617	3	716	152,377	210,523
Transfer	52,134	203,262	158	1,227	(256,781)	—
Eliminated on disposals	—	(1,819)	(190)	(2,269)	—	(4,278)
At 31 December 2009	772,635	3,437,847	24,884	140,254	68,931	4,444,551
ACCUMULATED DEPRECIATION						
At 1 January 2008	50,486	367,514	9,291	43,128	—	470,419
Charge for the year	39,428	280,575	2,235	25,241	—	347,479
Eliminated on disposals	—	(1,434)	(134)	—	—	(1,568)
At 31 December 2008	89,914	646,655	11,392	68,369	—	816,330
Charge for the year	31,127	332,469	2,654	20,179	—	386,429
Eliminated on disposals	—	(1,017)	(180)	(692)	—	(1,889)
At 31 December 2009	121,041	978,107	13,866	87,856	—	1,200,870
NET BOOK VALUES						
At 31 December 2009	651,594	2,459,740	11,018	52,398	68,931	3,243,681
At 31 December 2008	613,777	2,549,132	13,521	72,211	173,335	3,421,976
At 1 January 2008	467,537	2,104,694	12,020	88,236	527,822	3,200,309

As at 31 December 2009, the Company has not obtained the building ownership certificates for certain buildings with net book value of approximately RMB76,191,000 (31 December 2008: RMB35,237,000).

15. Property, Plant and Equipment (Continued)

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

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

The Group has pledged buildings and plant and equipment with carrying amount of approximately RMB82,159,000 (31 December 2008: RMB114,735,000) and RMB927,632,000 (31 December 2008: 1,295,434,000), respectively, to secure general banking facilities granted to the Group.

16. Prepaid Lease Payments

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

	31 December		1 January
	2009	2008	2008
	RMB'000	RMB'000	RMB'000
Analysed for reporting purpose as:			
Current portion	**6,182**	5,910	5,541
Non-current portion	**207,786**	206,267	198,868
	213,968	212,177	204,409

Included in the balance is an amount of RMB14,095,000 (31 December 2008: nil) prepaid lease payment which the Group is in the process of obtaining the land use right certificate for the medium-term leasehold land.

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

The Group has pledged prepaid lease payment with the aggregate carrying amount of approximately RMB17,837,000 (31 December 2008: RMB98,790,000) to secure general banking facilities granted to the Group.

17. Intangible Assets

	Proprietary technologies RMB'000	Software RMB'000	Total RMB'000
COST			
At 1 January 2008	18,159	77	18,236
Additions	960	—	960
At 31 December 2008	19,119	77	19,196
Additions	880	—	880
At 31 December 2009	19,999	77	20,076
AMORTISATION			
At 1 January 2008	7,535	8	7,543
Charge for the year	2,856	8	2,864
At 31 December 2008	10,391	16	10,407
Charge for the year	3,133	3	3,136
At 31 December 2009	13,524	19	13,543
CARRYING VALUES			
At 31 December 2009	6,475	58	6,533
At 31 December 2008	8,728	61	8,789
At 1 January 2008	10,624	69	10,693

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

18. Interest in an Associate

	31 December		1 January
	2009 RMB'000	2008 RMB'000	2008 RMB'000
Cost of investment in an associate unlisted in the PRC	**13,633**	13,633	9,847
Share of post-acquisition profits and total comprehensive income, net of dividends received	**1,241**	425	(214)
	14,874	14,058	9,633

18. Interest in an Associate (Continued)

The details of the Group's associate at 31 December 2009 and 31 December 2008 are as follows:

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

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

	2009 RMB'000	2008 RMB'000
Total assets	105,865	105,141
Total liabilities	27,211	31,343
Net assets	78,644	73,798
Net assets attributable to owners of the associate	74,370	70,290
Revenue	31,910	36,523
Profit for the year	5,078	2,125
Group's share of profit and total comprehensive income of an associate for the year	1,016	425

19. Available-for-sale Investments

	31 December 2009 RMB'000	31 December 2008 RMB'000	1 January 2008 RMB'000
Unlisted equity securities, at cost	21,593	6,000	6,000

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

20. Deferred Taxation

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

	31 December		1 January
	2009	2008	2008
	RMB'000	RMB'000	RMB'000
Deferred tax assets	**75,293**	96,723	54,513
Deferred tax liabilities	**(7,744)**	(3,629)	—
	67,549	93,094	54,513

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

	Distributable profits of PRC subsidiaries RMB'000	Deprecation allowance RMB'000	Accrual for employee benefits RMB'000	Government grants on prepaid lease payments RMB'000	Tax credits on acquisition of qualified property, plant and equipment and tax losses RMB'00	Capitalised interests RMB'000	Others RMB'000	Total RMB'000
Deferred tax asset (liability)								
At 1 January 2008	—	11,241	9,603	38,098	—	(11,286)	6,857	54,513
(Charge) credit recognised in profit or loss (note 9)	(3,629)	2,589	670	(919)	40,495	(2,112)	1,487	38,581
At 31 December 2008	(3,629)	13,830	10,273	37,179	40,495	(13,398)	8,344	93,094
Withholding tax paid	3,629	—	—	—	—	—	—	3,629
(Charge) credit recognised in profit or loss (note 9)	(6,000)	(6,903)	(247)	(777)	(10,036)	1,277	(6,488)	(29,174)
At 31 December 2009	(6,000)	6,927	10,026	36,402	30,459	(12,121)	1,856	67,549

At 31 December 2009, the Group has unused tax losses of approximately RMB122,421,000 (31 December 2008: RMB33,793,000) available for offset against future profits. No deferred tax asset has been recognised in relation to such unused tax losses as it is uncertain whether taxable profit of the corresponding group entities will be available against which the unused tax losses can be utilised. Included in unrecognised tax losses are losses of approximately RMB4,553,000 (31 December 2008: RMB33,793,000) and RMB117,868,000 (31 December 2008: Nil) that will expire in 2014 and 2015 respectively.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries approximately amounting to RMB92,158,000 (31 December 2008: RMB54,435,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Group has no other significant deferred tax asset (liability).

21. Inventories

	31 December 2009 RMB'000	31 December 2008 RMB'000	1 January 2008 RMB'000
Raw materials and consumables	**231,071**	244,696	230,921
Work in progress	**63,956**	43,118	35,846
Finished goods	**134,988**	199,443	188,834
Total	**430,015**	487,257	455,601

22. Trade and Other Receivables

	31 December 2009 RMB'000	31 December 2008 RMB'000	1 January 2008 RMB'000
Trade receivables	**607,857**	493,940	319,571
Less: allowance for doubtful debts	**(4,744)**	(14,361)	(11,974)
	603,113	479,579	307,597
Prepayment for raw materials	**31,699**	99,791	84,019
Value added tax receivables	**5,980**	—	6,618
Deposits, prepayments and other receivables	**18,592**	16,571	14,405
	659,384	595,941	412,639

Included in the trade receivables are bills receivables amounting to RMB329,827,000 at 31 December 2009 (31 December 2008: RMB303,871,000).

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

	2009 RMB'000	2008 RMB'000
Within 90 days	**508,423**	406,572
91–180 days	**91,250**	69,741
181–365 days	**3,869**	8,984
1 to 2 years	**743**	680
2 to 3 years	**63**	138
More than 3 years	**3,509**	7,825
	607,857	493,940

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. 97% (2008: 99%) of the trade receivables that are neither past due nor impaired have the high ranking record attributable under the research on the creditworthiness.

22. Trade and Other Receivables (Continued)

Included in the Group's trade receivable balance are debtors with the aggregate carrying amount of RMB12,733,000 (31 December 2008: RMB73,007,000) 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.

	2009 RMB'000	2008 RMB'000
91–180 days	9,075	69,741
181–365 days	3,658	3,266
	12,733	73,007

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

	2009 RMB000	2008 RMB000
Balance at beginning of the year	14,361	11,974
Impairment losses recognised on receivables	—	2,414
Amounts recovered during the year	(6,139)	—
Amounts written off as uncollectible	(3,478)	(27)
Balance at end of the year	4,744	14,361

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

Included in the trade receivables is an amount due from an associate amounting to approximately RMB15,890,000 (31 December 2008: RMB nil) which is aged within 90 days. The associate is generally granted with credit period of less than 90 days. Allowance has not been made by the Group during the two years ended 31 December 2009.

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

	US$ $'000
As at 31 December 2009	20,788
As at 31 December 2008	23,905

23. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits amounting to approximately RMB213,309,000 (31 December 2008: RMB82,938,000) have been pledged to secure the bills payables and are therefore classified as current assets.

Pledged bank deposits and bank balances and cash carry variable interest rate. The weighted average effective interest rates on pledged bank deposits and bank balances and cash as at 31 December 2009 were 1.98% (2008: 3.57%) and 0.36% (2008: 0.69%) respectively.

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

	US$
	$'000
As at 31 December 2009	**22,921**
As at 31 December 2008	14,145

24. Amount Due to A Shareholder

The balances are unsecured, interest free and repayable on demand.

25. Trade and Other Payables

	31 December		1 January
	2009	2008	2008
	RMB'000	RMB'000	RMB'000
Trade payables	**827,023**	426,272	983,846
Receipt in advance	**54,855**	51,593	114,373
Payroll payable (Note a)	**96,776**	70,642	86,319
Payable for CDM project (Note b)	**115,131**	179,725	250,827
Payable for property, plant and equipments	**65,619**	147,348	591,327
Other payables and accruals	**53,874**	94,553	70,997
Total	**1,213,278**	970,133	2,097,689

Note:

(a) Included in the payroll payable is a provision for employees of the PRC subsidiaries amounting to approximately RMB40,499,000, RMB41,095,000 and RMB40,132,000 as at 31 December 2009 and 2008 and 1 January 2008, respectively. The amount of the provision is determined based on the relevant national regulations on social insurance and calculated based on the basic counting unit multiplied by the social insurance rate. The basic counting unit for social insurance shall be the average wages of an employee in the preceding year and shall not be less than the minimum limit promulgated by the local social insurance bureau each year.

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

25. Trade and Other Payables (Continued)

Included in the trade payables are bills payables amounting to RMB451,600,000 at 31 December 2009 (31 December 2008: RMB70,880,000).

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

	2009 RMB'000	2008 RMB'000
Within 30 days	**240,163**	102,777
31–90 days	**101,785**	148,536
91–180 days	**415,791**	123,143
181–365 days	**15,279**	43,172
1–2 years	**54,005**	8,644
	827,023	426,272

Included in the trade payables are an amount due to an associate amounting to approximately RMB nil (31 December 2008: RMB473,000) and an amount due to a non-controlling shareholder of a subsidiary amounting to approximately RMB5,105,000 (31 December 2008: RMB3,488,000) which are aged within 30 days. The general credit period given by them is six months.

26. Borrowings

	31 December		1 January
	2009 RMB'000	2008 RMB'000	2008 RMB'000
Unsecured bank loans	**1,449,356**	1,448,893	1,223,659
Secured bank loans	**417,526**	460,517	492,973
Unsecured other loans	**5,000**	18,509	56,680
Secured other loans	**355,698**	341,873	366,285
	2,227,580	2,269,792	2,139,597
Carrying amount repayable:			
Within one year	**1,601,360**	1,430,800	1,246,829
More than one year, but not exceeding two years	**331,163**	272,713	218,017
More than two years, but not more than five years	**192,635**	412,358	674,751
More than five years	**102,422**	153,921	—
	2,227,580	2,269,792	2,139,597
Less: Amount due within one year shown under current liabilities	**1,601,360**	1,430,800	1,246,829
Amount due after one year	**626,220**	838,992	892,768

As at 31 December 2009, borrowings included secured bank borrowings and borrowings from a shareholder which holds 6.81% equity interests of the Company of RMB431,814,000 (31 December 2008: RMB460,660,000) and RMB341,410,000 (31 December 2008: RMB341,730,000), respectively, which were secured by the Group's property, plant and equipment with the aggregate carrying amount of approximately RMB1,009,791,000 (31 December 2008: RMB1,410,169,000) and prepaid lease payments with the aggregate carrying amount of approximately RMB17,837,000 (31 December 2008: RMB98,790,000).

26. Borrowings (Continued)

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

	2009 RMB'000	2008 RMB'000
Fixed-rate borrowing		
Within one year	**1,381,959**	1,147,136
In more than one year but not more than two years	**168,900**	62,140
In more than two years but not more than three years	**—**	68,240
	1,550,859	1,277,516

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

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

	2009	2008
Effective interest rate:		
Fixed-rate borrowings	**2.59% to 8.51%**	3.31% to 9.71%
Variable-rate borrowings	**2.45% to 6.91%**	5.31% to 7.65%

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

	US$ $'000
As at 31 December 2009	**63,020**
As at 31 December 2008	71,221

During the year, the Group obtained new loans in the amount of RMB2,143,882,000 (31 December 2008: RMB1,965,713,000). The proceeds were mainly for the operations of the Group and the acquisition of property, plant and equipment.

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

	2009 RMB'000	2008 RMB'000
Expiring within one year	**1,435,550**	1,745,300
Expiring beyond one year	**561,000**	20,000
	1,996,550	1,765,300

27. Deferred Income

Deferred income represents government grants relating to research project which is recognised as internally-generated intangible asset and leasehold land prepayment.

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

	2009 RMB'000	2008 RMB'000
At 1 January	180,281	168,789
Additions	8,309	20,070
Release to profit or loss	(8,042)	(8,578)
At 31 December	180,548	180,281
Analysed for reporting purposes as:		
Current portion	7,535	8,042
Non-current portion	173,013	172,239
	180,548	180,281

28. Share Capital

	Number of shares '000	Share capital RMB'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2008 and 2009 and 31 December 2009	4,000,000	382,200
Issued and fully paid:		
At 1 January 2008	2,080,000	197,515
Issue of shares on subscription (note)	3,623	339
At 31 December 2008 and 2009	2,083,623	197,854

Note: On 3 January 2008, the Company issued and allotted 3,623,000 ordinary shares at the offer price of HK$2.16 each as a result of the exercise of the over-allotment option granted on 16 November 2007 as part of the public offering of the Company's shares.

The Company raised net proceeds of approximately RMB7,305,000 from the issue of the 3,623,000 ordinary shares, of which paid up capital was approximately RMB339,000 and share premium was approximately RMB6,966,000.

29. Share-Based Payments Transactions

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

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 38,875,200 (31 December 2008: 55,536,000), representing 1.87% (31 December 2008: 2.67%) of the shares of the Company in issue at that date.

30% of options are exercisable in a period of twelve months commencing on the first anniversary date of the listing date, 30% of options are exercisable in a period of twelve months commencing on the second anniversary date of the listing date, 40% of options are exercisable in a period of twelve months commencing on the third anniversary date of the listing date . The exercise price is HK$2.16 per share.

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

Details of specific categories of options are as follows:

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

29. Share-Based Payments Transactions (Continued)

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

Option type	Outstanding at 1.1.2009 '000	Granted during year '000	Exercised during year '000	Forfeited during year '000	Expired during year '000	Outstanding at 31.12.2009 '000
Option A	7,999	—	—	—	7,999	—
Option B	7,999	—	—	—	—	7,999
Option C	10,664	—	—	—	—	10,664
Option D	8,662	—	—	—	8,662	—
Option E	8,662	—	—	—	—	8,662
Option F	11,550	—	—	—	—	11,550
	55,536	—	—	—	16,661	38,875
Exercisable at the end of the year 2009						16,661
Weighted average exercise price	HK$2.16					HK$2.16

The following table discloses the movement of the share options during 2008:

Option type	Outstanding at 1.1.2008 '000	Granted during year '000	Exercised during year '000	Forfeited during year '000	Expired during year '000	Outstanding at 31.12.2008 '000
Option A	7,999	–	–	–	–	7,999
Option B	7,999	–	–	–	–	7,999
Option C	10,664	–	–	–	–	10,664
Option D	8,849	–	–	187	–	8,662
Option E	8,849	–	–	187	–	8,662
Option F	11,800	–	–	250	–	11,550
	56,160	–	–	624	–	55,536
Exercisable at the end of the year 2008						16,661
Weighted average exercise price	HK$2.16					HK$2.16

29. Share-Based Payments Transactions (Continued)

Options were priced using a binomial option pricing model. The inputs into the model were as follows:

	Pre-IPO Share Option Scheme
Share price	HK$2.16
Exercise price	HK$2.16
Expected volatility	35.2%
Expected life	3 years
Expected dividend yield	2.9%
Risk-free interest rate	3.6%

Expected volatility was based on 10-year weekly or longest available volatility of a set of comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the expense of RMB9,301,000 for the year ended 31 December 2009 (2008: RMB19,053,000) in relation to share options granted by the Company.

30. Capital Commitments

At 31 December 2009, the Group had outstanding capital commitments as follows:

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**116,155**	120,309

31. Lease Commitments

The Group as lessee

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases during the year:		
Property, plant and equipment	**4,059**	2,563

31. Lease Commitments (Continued)

The Group as lessee (Continued)

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

	2009 RMB'000	2008 RMB'000
Within one year	3,148	1,737
In the second to fifth years inclusive	10,977	6,947
Over five years	40,073	28,066
	54,198	36,750

Operating lease payments represent rentals payable by the Group for certain of its land. Leases are negotiated for an average term of 20 years and rentals are fixed for an average of 3 years.

32. Related Party Transactions

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

(a) Purchase of raw materials

	2009 RMB'000	2008 RMB'000
Non-controlling shareholder of a subsidiary	24,503	79,750
Associate	16,272	16,970
	40,775	96,720

(b) Sales of goods

	2009 RMB'000	2008 RMB'000
Non-controlling shareholder of a subsidiary	26,291	60,908

(c) Borrowings raised

	2009 RMB'000	2008 RMB'000
Non-controlling shareholder of a subsidiary	—	5,000

32. Related Party Transactions (Continued)

(d) Interest expenses paid and payable

	2009 RMB'000	2008 RMB'000
Shareholder of the Company which holds 6.81% equity interests of the Company	13,294	21,842

(e) Compensation of key management personnel

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

	2009 RMB'000	2008 RMB'000
Short-term employee benefits	9,153	7,378
Post-employment benefits	65	56
Share options granted to directors and employees	5,397	10,606
Other staff welfare	8	—
	14,623	18,040

33. Non-cash Transactions

During the year, the Group purchased property, plant and equipment amounting to approximately RMB210,523,000 (2008: RMB569,870,000) of which RMB65,619,000 (31 December 2008: RMB147,348,000) had not been paid in cash at the end of the reporting period and was included in trade and other payables (see note 25).

34. Retirement Benefits Plans

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

35. Particulars of Subsidiaries of the Company

Name of subsidiary	Place/country of incorporation or registration/ operations	Class of share held	Paid up issued/ registered ordinary share capital '000	Proportion ownership interest held by the Company Directly % 2009	Directly % 2008	Indirectly % 2009	Indirectly % 2008	Proportion of voting power held by the Company 2009	Proportion of voting power held by the Company 2008	Principal activities
Dongyue Polymers	PRC	Registered capital	RMB641,360	100.00	100.00	—	–	100.00	100.00	Manufacture and sale of polytetrafluoro-ethylene
Dongyue Chemicals	PRC	Registered capital	RMB340,000	—	96.82	100.00	–	100.00 (Note)	96.82	Manufacture and sale of refrigerant
Shandong Dongyue Fluo-Silicon Materials Co., Ltd.	PRC	Registered capital	RMB400,000	69.79	69.79	13.43	13.43	83.22	83.22	Manufacture and sales of methane chloride
Zibo Dongyue Lvyuan Co., Ltd.	PRC	Registered capital	RMB200,000	—	–	83.22	83.22	83.22	83.22	Manufacture and sale of liquid chlorine and alkali
Shandong Dongyue Organosilicon Material Co., Ltd.	PRC	Registered capital	RMB650,000	84.00	84.00	—	–	84.00	84.00	Manufacture and sale of organosilicon material
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	PRC	Registered capital	RMB50,000	—	–	51.00	51.00	51.00	51.00	Manufacture and sale of anhydrous fluoride
Guangdong Dongyue Fluorine Chemicals Co., Ltd.	PRC	Registered capital	RMB18,620	—	–	60.00	60.00	60.00	60.00	Manufacture and sale of anhydrous fluoride
Shandong Dongyue Siliconerubber Co., Ltd.	PRC	Registered capital	RMB20,000	—	55.00	55.00	–	55.00	55.00	Manufacture and sale of silicone rubber
Chifeng HuaSheng Mining Co., Ltd	PRC	Registered capital	RMB2,000	—	80.00	80.00	–	80.00	80.00	Manufacture and sale of fluorite

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

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

36. Comparative Figures

Certain comparative figures set out in the consolidated financial statements have been reclassified to conform with the current year's presentation:

Consolidated statement of comprehensive income

— other losses of approximately RMB27,097,000 and exchange loss of approximately RMB24,561,000 have been reclassified to administrative expenses; and

— interest income of approximately RMB21,069,000 has been reclassified to other income.

Consolidated statement of financial position

— prepayment for purchase of property, plant and equipment of approximately RMB47,509,000 under non-current assets has been reclassified from prepayment under current asset and separately disclosed in the consolidated statement of financial position;

— prepayment for land lease of approximately RMB54,369,000 under non-current assets has been reclassified from prepayment under current asset and separately disclosed in the consolidated statement of financial position;

— prepaid lease payments of approximately RMB5,910,000 under current assets has been reclassified from prepaid lease payments under non-current assets and separately disclosed in the consolidated statement of financial position; and

— deferred income of approximately RMB8,042,000 under current liabilities has been reclassified from deferred income under non-current liabilities and separately disclosed in the consolidated statement of financial position.

Five-Year Financial Summary

Assets and Liabilities

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total Assets	1,946,313	2,815,568	6,536,552	5,594,937	**5,884,274**
Total Liabilities	(1,520,010)	(2,290,505)	(4,455,555)	(3,431,080)	**(3,639,001)**
	426,303	525,063	2,080,997	2,163,857	**2,245,273**
Equity attributable to Owners of the Company	180,962	311,416	1,845,560	1,898,906	**2,014,646**
Non-controlling Shareholders	245,341	213,647	235,437	264,951	**230,627**
	426,303	525,063	2,080,997	2,163,857	**2,245,273**

Financial Results

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	1,684,761	2,005,932	2,684,721	3,962,159	**3,544,447**
Cost of sales	(1,312,896)	(1,577,483)	(2,050,044)	(3,286,355)	**(3,024,006)**
Gross profit	371,865	428,449	634,677	675,804	**520,441**
Other income	19,557	15,924	43,248	46,188	**32,347**
Distribution and selling expenses	(71,858)	(94,450)	(120,356)	(162,946)	**(154,742)**
Administrative expenses	(104,470)	(123,327)	(158,539)	(247,923)	**(154,442)**
Finance costs	(46,624)	(68,021)	(107,675)	(179,959)	**(113,447)**
Share of result of an associate	(171)	18	(214)	425	**1,016**
Profit before tax	168,299	158,593	291,141	131,589	**131,173**
Income tax credit/(expense)	(18,350)	(17,336)	(42,311)	6,789	**22,796**
Profit and total comprehensive income for the year	149,949	141,257	248,830	138,378	**153,969**
Profit and total comprehensive income attributable to:					
Owners of the Company	76,464	82,702	208,306	120,747	**165,303**
Non-controlling shareholders	73,485	58,555	40,524	17,631	**(11,334)**
	149,949	141,257	248,830	138,378	**153,969**

Five-Year Financial Summary

Notes:

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

The Group resulting from the Reorganization is regarded as a continuing entity under common control of the controlling shareholders. Accordingly, the financial information as contained in this section of the Annual Report had been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group for each of the relevant years, rather than from 7 September 2006. The results of the Group for each of the financial years ended 31 December 2005 and 31 December 2006 include the results of the Company and its subsidiaries with effect from 1 January 2005 or since their respective dates of incorporation/establishment or from the effective dates of acquisition, whichever is the shorter period. The assets and liabilities of the Group as at 31 December 2005 is a combination of assets and liabilities of the Company and its subsidiaries as at the relevant year end date.

(2) Certain comparative figures of financial results as contained in this section of the Annual Report have been reclassified to conform to the change in the current year's presentation format.

Corporate Information

Registered Office

Offshore Incorporation (Cayman) Ltd.
Scotia Centre
4th Floor, P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in the PRC

Dongyue International Fluoro
Silicone Material Industry Park
Zibo City
Shandong Province
the PRC

Principal Place of Business in Hong Kong

1501 Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Website Address

www.dongyuechem.com

Directors

Executive Directors

Mr. ZHANG Jianhong *(Chairman)*
Mr. FU Kwan
Mr. LIU Chuanqi
Mr. CUI Tongzheng
Mr. YANG Erning
Mr. ZHANG Jian

Independent Non-Executive Directors

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

Company Secretary

Mr. NG Kwok Choi

Qualified Accountant

Mr. NG Kwok Choi

Authorized Representatives

Mr. FU Kwan
Mr. NG Kwok Choi

Audit Committee

Mr. TING Leung Huel, Stephen *(Chairman)*
Mr. YUE Run Dong
Mr. LIU Yi

Remuneration Committee

Mr. LIU Yi *(Chairman)*
Mr. TING Leung Huel, Stephen
Mr. ZHANG Jianhong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

China Construction Bank Corporation
Huantai Branch
48 Heng Road
Zibo City, Huantai
Shandong Province, PRC

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

Bank of China Limited
Huantai Branch
134 Jianshe Road
Zibo City, Huantai
Shandong Province, PRC

Legal Adviser

D.S. Cheung & Co.

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Stock Code

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