東岳集團有限公司
Dongyue Group Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

Announcement of Annual Results for 2008

- Turnover amounted to approximately RMB3,962 million (approximately HK$4,493 million), representing an increase of approximately 48% over previous year.
- Profit attributable to equity holders of the Company was approximately RMB121 million (approximately HK$137 million), representing a decrease of approximately 42% over previous year.
- Earnings per share was approximately RMB0.06 (approximately HK$0.07).
- Final dividend of HK$0.025 per share was proposed.

Note: HKD : RMB = 1 : 0.8819.

CHAIRMAN'S STATEMENT

Business Review

In 2008, drastic market changes and economic decline resulted from the global financial crisis had imposed tremendous impact on the Group's production, operation and project implementation. The Group's management team and staff faced with unprecedented challenges. With challenges and difficulties ahead, management team and staff of the Group dedicated themselves to secure the Group's leading position in the industry. The year of 2008 represents a year that Dongyue has successfully created new brands and corporate image, and acquired new resources as well. State and Party leaders Li Keqiang and Li Yuanchao had paid their visits at offices and factories of Dongyue to inspect and direct the Group's work. The Group was awarded with numerous accreditations, such as "Chinese Well-known Mark (中國馳名商標)" and "State-Level Enterprise Technology Centre (國家級企業技術中心)" during 2008. Moreover, the Group has successfully organized its "Win-Win 2009" Annual Customers Meeting. The above have all turned into Dongyue's new strengths for future development.

2008 project implementation progress:

The 60,000-ton organic silicone monomer project invested by the Group came into full production in 2008 after successful trial production at the end of 2007. Currently, the project operates smoothly and has achieved better economic efficiency in the first half of 2008.

120,000-ton PVC project invested by the Group has commenced production in 2008. By adopting an integrated approach, the project is able to utilize the Group's by-products and is currently under normal operation.

Several projects on coordination of raw materials invested by the Group had put into operation in the first half of 2008 and they are now under smooth operation. Construction works of the 160,000-ton liquid alkali project had completed in March 2008 and commenced operation. The Group's annual production capacity of liquid alkali has increased to 280,000 tons from the original level of 120,000 tons, which is able to meet all of the Group's demand in its raw material Chlorine. The AHF project with annual production capacity of 15,000 tons constructed at Inner Mongolia raw material base commenced production in May. Annual production capacity of AHF of the Inner Mongolia raw material base has reached 30,000 tons. The abundant supply of fluorite in Inner Mongolia will serve as a secure source of raw material for the Group.

Product market analysis:

Looking back the year 2008, there was an obvious difference in operating environment before and after the Beijing Olympic Games. From January to August 2008, the Group experienced significant surge in prices of its major raw materials and finished products. However, the prolonged global financial crisis emerged in 2008 had slowed down the worldwide economic growth, resulting in serious inadequate market demands, sudden decrease in prices of raw materials and finished products, as well as abrupt drop in sales volume.

As to the PRC market, substantial increase in prices of industrial products across the nation was noted in the first half of 2008. During January to August 2008, prices of the Group's major raw materials and energy rose aggressively. Apart from fluoropolymers, selling prices and sales volume of other major products recorded growth with different magnitudes when compared with figures of last year. The Group is still having the largest market share in the PRC market.

Since the commencement of production of the Group's organic silicone, and being the Group's new product this year, selling price of the Group's organic silicone had been rising constantly due to inadequate supply to meet with demand in the PRC market and the surge in raw material prices, the highest price of which represented an approximate increment of 40% when compared with its price at initial production stage. Most of the Group's organic silicone products are supplied to the mainland market. We have established and consolidated solid and loyal customer base in China as we always sought to be faithful and trustworthy in business dealings with customers. In addition, we strive to strengthen our services and regard our relationship with customers as long-term strategic partnership in which we uphold stringent quality standards and exercise due care. Our customers are mainly based in Jiangsu and Guangdong, with the remaining based in Ningbo and Shanghai. Many customers have regarded us as their key suppliers. In particular, our strategic collaboration with Calt Silicone Rubber Products (Nanjing) Co. Ltd. (高爾特矽橡膠製品(南京)有限公司) combines the strength of both parties in terms of raw material supply, cost structure, brands and technology, in order to achieve a win-win synergy from the partnership. The collaboration has also laid down a solid foundation for the Group's future development.

Starting from September 2008, the mainland economy had been greatly affected by the economic decline and inadequate demand resulted from the global financial crisis. All of the Group's products experienced drastic market slowdown, drop in selling prices and sales volume as well. Prices of raw materials plummeted following a sharp rising trend that lasted for eight months during the year, bringing dramatic changes to the entire operating environment of the industry.

The performance of overseas markets was almost the same as the domestic market. Taking the full year into account, having affected by financial crisis since September, sales of the Group's key products, such as R22, PTFE and liquid alkali, in overseas markets represented a growth of 5%, 19% and 87% respectively when compared with the corresponding period in 2007. This is mainly benefited from the Group's outstanding export performance recorded during the period from January to August 2008. However, starting from September, export sales volume tumbled and resulted in continuous downward adjustment in prices.

Future Prospect

The prevailing situation suggests that the impact of the global financial crisis is still spreading vertically and horizontally, together with the emergence of trade protectionism among developed countries, greater challenges would be faced by the global and domestic economy and market competition would be intensified. Despite the challenges from the financial crisis lying ahead in 2009, we have made preparations to cope with the crisis and challenges. Not only be fully aware of how serious and complicated the situation maybe, we have to be mentally sound and well-equipped to tackle with long-term difficulties. At the same time, we also put our eyes on the economy of scale achieved by the Group's production facilities, the Group's brand name and reputation established over the last 22 years and our strong team built after years of survival in such a highly competitive environment. In 2009, the State and governments at all levels have introduced an array of effective initiatives for fueling domestic demand with investments, boosting exports and cutting interest rates in order to mitigate the impact of the global financial crisis. If we can capitalize on our existing strengths and bring them into full play, and improve our inadequacy with determination and confidence ahead of difficulties, we must be able to turn crisis into opportunities in the year of 2009 and lead the Group into a brand new phase of development.

In 2009, the Group will continuously stick to its target of enhancing operating profits, focus on market competition, put in efforts to reduce resource consumption and expenses, identify potential areas and enhance efficiency, in order to further implement its reform on assessment scheme and give full play to its integrated strengths and synergetic effects. By adhering to the strategy of large market, high output, low cost and stable profit margins, and the target of maintaining leading position within the sector, the Group will, starting from its own efforts in technology advancement, realize its upgrade and transformation from a giant enterprise to a powerful enterprise.

Major work measures in 2009

1. Gives full play to its leading sales position in order to boost operational efficiency throughout the entire production chain. The Group will continue to maintain its leading position in the industry, increase the market share of its products and ensure smooth sales channels. This could immediately help maintaining the normal operation of facilities and achievement of operation efficiency. For this reason, the Group will: firstly, be persistent in adopting market oriented approach, make every endeavor to retain the Group's customers, acquire more orders, maintain sales volume and market share; secondly, continue to recover trade receivables, so as to minimize operational risk; thirdly, strive to enhance its market influence and operational quality, in order to maximize its sales profit margins. In the coming year, the Group will keep itself fully informed of accurate market information; acquire an understanding of the movements of competitors and the market, control market initiative; and fully capitalize on its economy of scale and brand influence by taking proactive initiatives, in order to acquire greater market share, sales volume and profits.

2. Focuses on product technology advancement, strives for better production line management and smooth operation, so as to minimize resource consumption. Low product prices have become the strongest competitive edge under current market situation. Enterprises with low resource consumption and stringent cost structure will be able to control an initiative in market competition. Moreover, the Group will make key technological breakthrough for high value-added products with good marketability, and launch new generation products. The Group will place great emphasis on the enhancement of conversion rate of raw materials and return rate of key products, exploration of possibilities for energy saving and wastage reduction related to its skills and equipments and identification of efficiency in deep-processing for key products and conversion of by-products. The Group will identify key focuses on skills and technological advancement, followed by investment of manpower, resources and monies in skills improvement and technological progress. Each of the Group's products should benchmark with the best technology and lowest resources consumption of competitors from both domestic and international markets before product launching. The Group will make good use of its incentive scheme to reward personnel who have made concrete contribution to the Group's technology innovation and skills advancement, and allow them to be rewarded on a timely basis, so as to signify Dongyue's human resources philosophy of "Realizing value with value and rewarding wealth with wealth".

3. Secures stable supply and procurement, making stable supply as the most important guarantee for low cost structure and source of profits. In 2009, the Group will strengthen its supply and procurement management, intensify price and quality control, as well as its series of reforms, such as zero-inventory control. Firstly, the Group will capitalize on its strengths in bulk procurement, in order to carry out procurement activities at low costs after making perfect price comparison. Secondly, the Group will strictly abide quality standards for raw materials before making any procurement decision, and improve the quality and prices monitoring system. Thirdly, the Group will select suppliers with guaranteed quality at competitive prices for establishment of long-term co-operation relationship based on mutual trust.

4. Strengthens the control of the management team and builds a quality management team with loyalty, high efficiency and good discipline. Affected by the global financial crisis, 2009 will be a year of competition among enterprises, relatively more reorganization exercises will be seen within the industry. Sluggish demand, severe market competition and price wars will be the overall market background in 2009, which will result in greater challenges for enterprises, even more for management team of enterprises. Strong collaboration among all staff will be crucial when coping with difficulties. Our management team will build up its confidence and unite all staff in overcoming adversity. Starting from itself, the management team will aim at reducing technological consumption, lowering costs, enhancing sales volume and maximizing the efficiency of technological facilities to make our products profitable and maximize our profits.

5. Enhances the management of safety and environmental protection to ensure safety, environmental awareness and no accident. The Group will regard safety and environmental protection as their top value and top priority. Starting from making every staff accountable for their efforts in safety and environmental protection, the Group will install intelligence devices and alarm system, advise all staffs to handle operation with extra care, put an end to any operational malpractices, prevent the occurrence of serious accidents, and bear in mind safety and environmental protection are important values of Dongyue.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Revenue	3	**3,962,159**	2,684,721
Cost of sales	4	**(3,286,355)**	(2,050,044)
Gross profit		**675,804**	634,677
Selling and marketing expenses	4	**(162,946)**	(120,356)
Administrative expenses	4	**(245,387)**	(157,360)
Other income	5	**25,119**	25,038
Other losses - net	6	**(27,097)**	(13,908)
Operating profit		**265,493**	368,091
Finance income		**21,069**	18,210
Finance costs		**(155,398)**	(94,946)
Finance costs - net		**(134,329)**	(76,736)
Share of profit/(loss) of an associate		**425**	(214)
Profit before income tax		**131,589**	291,141
Income tax expense	7	**6,789**	(42,311)
Profit for the year	8	**138,378**	248,830
Attributable to:			
Equity holders of the Company		**120,747**	208,306
Minority interests		**17,631**	40,524
		138,378	248,830
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	9	**0.06**	0.14
– diluted	9	**0.06**	0.14
Dividend	10	**45,939**	78,044

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	**2008** *RMB'000*	2007 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,421,976**	3,200,309
Lease prepayments		**212,177**	204,409
Intangible assets		**8,789**	10,693
Interest in an associate		**14,058**	9,633
Available-for-sale financial assets		**6,000**	6,000
Deferred income tax assets		**96,723**	54,513
		3,759,723	3,485,557
Current assets			
Inventories		**487,257**	455,601
Trade and bill receivables	*11*	**479,579**	305,597
Prepayments, deposits and other receivables		**218,240**	227,767
Pledged bank deposits	*12*	**82,938**	606,447
Cash and cash equivalents	*13*	**567,200**	1,455,583
		1,835,214	3,050,995
Total assets		**5,594,937**	6,536,552

CONSOLIDATED BALANCE SHEET *(Continued)*
As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**197,854**	197,515
Retained earnings			
– Proposed final dividend		**45,939**	78,044
– Others		**1,655,113**	1,570,001
		1,898,906	1,845,560
Minority interests in equity		**264,951**	235,437
Total equity		**2,163,857**	2,080,997
LIABILITIES			
Non-current liabilities			
Borrowings		**838,992**	892,768
Deferred income		**180,281**	168,789
Deferred income tax liabilities		**3,629**	–
		1,022,902	1,061,557
Current liabilities			
Trade and bill payables	*14*	**569,659**	1,575,173
Accruals and other payables		**400,474**	523,297
Borrowings		**1,430,800**	1,246,829
Current income tax liabilities		**7,245**	48,699
		2,408,178	3,393,998
Total liabilities		**3,431,080**	4,455,555
Total equity and liabilities		**5,594,937**	6,536,552
Net current liabilities		**(572,964)**	(343,003)
Total assets less current liabilities		**3,186,759**	3,142,554

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company					
	Share capital *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2007	158,318	54,823	98,275	311,416	213,647	525,063
Profit for the year	–	–	208,306	208,306	40,524	248,830
Transfer	–	41,169	(41,169)	–	–	–
Acquisition of further interests in subsidiaries from minority shareholders	–	(445)	–	(445)	(50,755)	(51,200)
Proceeds from issue of preference shares	57,954	306,767	–	364,721	–	364,721
Repurchase and new issue of shares	(189,996)	189,996	–	–	–	–
Capitalisation of share premium	121,895	(121,895)	–	–	–	–
Issue of new shares upon listing	49,344	1,016,483	–	1,065,827	–	1,065,827
Share issue expenses	–	(74,422)	–	(74,422)	–	(74,422)
Contributions from minority shareholders	–	–	–	–	40,500	40,500
Share options granted to directors and employees	–	2,657	–	2,657	–	2,657
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	(8,479)	(8,479)
Dividend relating to 2006	–	–	(32,500)	(32,500)	–	(32,500)
Balance at 31 December 2007	197,515	1,415,133	232,912	1,845,560	235,437	2,080,997
Profit for the year	–	–	120,747	120,747	17,631	138,378
Transfer	–	12,271	(12,271)	–	–	–
Premium paid to increase share holding in subsidiaries	–	(19,604)	–	(19,604)	19,604	–
Proceeds from shares issued	339	6,966	–	7,305	–	7,305
Share issue expenses	–	(202)	–	(202)	–	(202)
Contributions from minority shareholders	–	–	–	–	4,068	4,068
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	(11,789)	(11,789)
Share options granted to directors and employees	–	19,053	–	19,053	–	19,053
Dividend relating to 2007	–	–	(73,953)	(73,953)	–	(73,953)
Balance at 31 December 2008	197,854	1,433,617	267,435	1,898,906	264,951	2,163,857

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations		**315,398**	794,049
Interest paid		**(192,886)**	(142,286)
Income tax paid		**(73,246)**	(34,613)
Net cash from operating activities		**49,266**	617,150
Cash flows from investing activities			
Available-for-sale financial assets – reduction and return of capital		**–**	6,000
Acquisition of further interests in subsidiaries		**–**	(51,200)
Investment in associate		**(4,000)**	–
Purchases of property, plant and equipment (PPE)		**(994,003)**	(1,302,403)
Proceeds from disposal of PPE		**630**	1,815
Purchases of land use rights and intangible assets		**(1,289)**	(169,730)
Interest received		**21,069**	18,210
Net cash used in investing activities		**(977,593)**	(1,497,308)
Cash flows from financing activities			
Cash proceeds from issuing shares in subsidiaries to minority shareholders		**4,068**	40,500
Proceeds form issuance of			
– redeemable preference shares		**(202)**	268,135
– ordinary shares (net of share issue expenses)		**7,305**	991,405
Proceeds from borrowings		**1,965,713**	2,153,398
Repayments of borrowings		**(1,810,957)**	(1,372,566)
Dividends paid		**(73,953)**	(32,500)
Dividends paid to minority shareholders of subsidiaries		**(11,416)**	(7,500)
Net cash from financing activities		**80,558**	2,040,872
Net (decrease)/increase in cash and cash equivalents		**(847,769)**	1,160,714
Cash and cash equivalents at beginning of the year		**1,455,583**	315,159
Exchange losses on cash		**(40,614)**	(20,290)
Cash and cash equivalents at end of the year		**567,200**	1,455,583

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND REORGANIZATION

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.

As at 31 December 2008, the Company is jointly controlled by Macro-Link SDN. BHD. and three senior management members of the Group, Mr. Zhang Jianhong, Mr. Liu Chuanqi, and Mr. Cui Tongzheng (hereinafter collectively referred to as the "Management Shareholders" based on their act-in-concert agreements, which own 54.44% of the Company's shares. The remaining 45.56% of the shares are widely held.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the manufacturing, and sales of refrigerants, fluoropolymers, organic silicone, PVC other fluorine silicone products. 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 16 April 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements of Dongyue Group Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the audited report. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of event and actions, actual results ultimately may differ from those estimates.

(a) Amendment and interpretations effective in 2008 and adopted by the Group

The IAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

IFRIC - Int 11, 'IFRS 2 - Group and treasury share transactions, 'provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

IFRIC - Int 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has no defined benefit plan.

(b) Interpretations effective in 2008 but not relevant to the Group's operations

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

IFRIC - Int 12 'Service Concession arrangements'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

IAS 1 (Revised) 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

IAS 23 (Amendment) 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS (Revised) from 1 January 2009.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IAS 32 (Amendment) 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 (Amendment) and IAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply IAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

IFRS 3 (Revised) 'Business Combination' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IFRS 8 'Operating segments '(effective from 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis and consistent with the internal reporting provided to the chief operating decision-maker.

IFRIC - Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC - Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

IASB's annual improvements project published in May 2008

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009)

The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

The Group has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group's significant accounting policies or presentation of the consolidated financial statements will be resulted.

3. SEGMENT INFORMATION

3.1 Primary reporting format - business segments

The segment revenue (representing turnover of the Group), results and capital expenditure for the years ended 31 December 2008 and 2007 are as follows:

Year ended 31 December 2008

	Refrigerants	Polymer	Organic silicon	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total gross segment revenue	4,276,221	745,988	430,514	97,246	(1,587,810)	3,962,159
Inter-segment revenue	(1,587,810)	–	–	–	1,587,810	–
Revenue*	2,688,411	745,988	430,514	97,246	–	3,962,159
Segment result	267,307	54,449	6,527	7,671	(13,998)	321,956
Unallocated costs						(56,463)
Finance costs - net						(134,329)
Share of profit of an associate						425
Profit before income tax						131,589
Income tax expense						6,789
Profit for the year						138,378
Other segment items						
Depreciation	231,319	72,836	41,986	1,338	–	347,479
Amortisation	5,016	943	2,446	–	–	8,405
Capital expenditure	489,963	47,789	44,115	122	–	581,989

* *Revenue in a segment also includes the sales of by-products and scraps. The CERs sales amount of RMB211,823,000 (2007: RMB135,061,000) are included in the Refrigerants segment. The corresponding CERs results included in Refrigerants segment is RMB180,171,000 in 2008 (2007: RMB126,077,000).*

Year ended 31 December 2007

	Refrigerants *RMB'000*	Polymer *RMB'000*	Organic silicon *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Total gross segment revenue	2,398,214	676,070	6,573	52,757	(448,893)	2,684,721
Inter-segment revenue	(448,893)	–	–	–	448,893	–
Revenue*	1,949,321	676,070	6,573	52,757	–	2,684,721
Segment result	365,035	51,903	(13,816)	5,668	(10,129)	398,661
Unallocated costs						(30,570)
Finance costs - net						(76,736)
Share of profit of an associate						(214)
Profit before income tax						291,141
Income tax expense						(42,311)
Profit for the year						248,830
Other segment items						
Depreciation	132,596	50,844	4,013	1,008	–	188,461
Amortisation	5,146	640	1,757	–	–	7,543
Capital expenditure	1,100,277	249,328	552,091	892	–	1,902,588

Segment assets consist primarily of property, plant and equipment, intangible assets, lease prepayment, inventories, receivables, prepayments and deposits, pledged bank deposits, and cash and cash equivalents. Unallocated assets comprise deferred income tax assets, available-for-sale financial assets and investment in an associate.

Segment liabilities comprise operating liabilities and mainly exclude current income tax liabilities and borrowings.

Capital expenditure comprises mainly additions to property, plant and equipment, lease prepayments and intangible assets, including additions resulting from acquisitions through business combination.

The segment assets and liabilities at 31 December 2008 and 2007 and capital expenditure for the years then ended are as follows:

As at 31 December 2008

	Refrigerants *RMB'000*	**Polymer** *RMB'000*	**Organic silicon** *RMB'000*	**Others** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Segment assets	**4,007,634**	**912,709**	**1,433,440**	**45,124**	**(920,751)**	**5,478,156**
Interest in an associate						**14,058**
Unallocated assets						**102,723**
Total assets						**5,594,937**
Segment liabilities	**1,632,710**	**220,826**	**208,603**	**8,563**	**(920,288)**	**1,150,414**
Unallocated liabilities						**2,280,666**
Total liabilities						**3,431,080**

As at 31 December 2007

	Refrigerants *RMB'000*	Polymer *RMB'000*	Organic silicon *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Segment assets	3,847,770	1,172,475	1,616,804	223,480	(394,123)	6,466,406
Interest in an associate						9,633
Unallocated assets						60,513
Total assets						6,536,552
Segment liabilities	1,635,679	566,115	435,611	12,947	(383,093)	2,267,259
Unallocated liabilities						2,188,296
Total liabilities						4,455,555

3.2 Secondary reporting format - geographic segments

The Group operates principally in one geographic segment - the PRC. Substantially all of the Group's assets were located in the PRC. Geographic segment is presented based on the countries in which the customers are located:

	2008	2007
	RMB'000	*RMB'000*
PRC	**2,480,630**	1,569,921
Japan	**240,736**	101,850
Korea	**122,359**	96,793
India	**38,593**	53,485
The United Arab Emirates	**50,964**	17,858
Thailand	**40,237**	23,637
Singapore	**66,488**	54,296
Malaysia	**21,867**	20,578
Africa	**62,948**	51,497
Europe	**213,977**	313,114
America	**266,081**	202,169
Other countries/regions	**357,279**	179,523
Total	**3,962,159**	2,684,721

Other countries/regions include Philippines, Indonesia, Taiwan, Iran, Saudi Arabia, etc.

4. EXPENSES BY NATURE

	2008	2007
	RMB'000	*RMB'000*
Raw materials and consumables used	**2,003,092**	1,406,876
Changes in inventories of finished goods and work in progress	**(44,639)**	(130,596)
Energy and fuel	**842,649**	496,457
Depreciation and amortisation	**355,616**	196,004
Inventory provision	**25,897**	–
Employee benefit expenses	**178,800**	141,391
Transportation expenses	**124,764**	90,925
Maintenance fee	**65,750**	35,698
Office expenditures	**39,236**	35,704
Travel expenses	**7,249**	5,260
Research and development expenses	**11,471**	11,832
Provision/(reversal of provision) for impairment of receivables	**2,119**	(2,263)
Entertainment	**11,247**	9,726
Handling charges	**6,979**	1,090
Rental	**10,415**	8,360
Consultant fee	**6,570**	898
Auditor's remuneration	**4,105**	4,438
Advertising costs	**4,792**	2,831
Insurance	**6,761**	3,502
Stamp duty and property tax	**8,712**	2,922
Others	**23,103**	6,705
Total	**3,694,688**	2,327,760

5. OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Government grants	**20,259**	20,655
Others	**4,860**	4,383
	25,119	25,038

Government grants mainly represented supporting funds granted by local government to the Group.

6. OTHER LOSSES, NET

	2008	2007
	RMB'000	*RMB'000*
Net foreign exchange losses	**27,003**	24,147
Loss on disposals of property, plant and equipment, net	**94**	3,877
Gains on financial guarantee contracts	**–**	(14,116)
	27,097	13,908

7. INCOME TAX EXPENSE

	2008	2007
	RMB'000	*RMB'000*
Current income tax	**31,792**	81,936
Deferred income tax		
– Effect of change in applicable tax rate due to the new CIT law	**–**	(3,862)
– Credit for the year	**(38,581)**	(35,763)
	(38,581)	(39,625)
	(6,789)	42,311

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1 January 2008.

The subsidiaries established in Mainland China are subject to Enterprise Income Tax ("EIT") at the following rates:

Applicable EIT rate

	2008	2007
Shandong Dongyue Chemicals Co., Ltd. ("Dongyue Chemicals")	**25%**	24%
Shandong Dongyue Polymers Co., Ltd. ("Dongyue Polymers")	**15%**	7.5%
Shandong Dongyue Fluo-Silicon Material Co., Ltd. ("Dongyue F&S")	**12.5%**	12%
Zibo Dongyue Lvyuan Co., Ltd. ("Zibo Dongyue Chlorine")	**25%**	33%
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	**25%**	33%
Shandong Dongyue Organosilicon Material Co., Ltd.	**0%**	0%
Guangdong Dongyue Fluorine Chemicals Co., Ltd	**25%**	N/A
Shandong Dongyue Silicone rubber Co.,Ltd	**25%**	N/A
Chifeng Hua Sheng Mining Co., Ltd	**25%**	N/A

Subsidiaries incorporated as foreign investment enterprises in Mainland China have obtained approvals from the relevant tax authorities in Mainland China for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

Dongyue Chemicals has passed its tax exemption/reduction period and was subjected to an EIT rate of 25% in 2008. Dongyue F&S was set up in late 2004 and was subject to tax exemption in 2005 and 2006 and a 50% reduction in 2008. Dongyue Polymers is qualified as 'Technology Intensive or Knowledge-Intensive Enterprise' and is subject to an EIT rate of 15%.

Zibo Dongyue Lvyuan Co., Ltd. ("Zibo Dongyue Chlorine"), Guangdong Dongyue Fluorine Chemicals Co., Ltd. and Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. were set up as domestic company in the PRC and were subject to an EIT rate of 25% without preferential tax treatment.

Shandong Dongyue Organosilicon Material Co., Ltd. was set up in late 2006 and exempted from income tax in 2007 as foreign investment enterprises.

Shandong Dongyue Silicone rubber Co., Ltd was set up in 2008 as domestic company in the PRC and was subject to an EIT rate of 25%.

Chifeng Hua Sheng Mining Co., Ltd is domestic company in the PRC and the applicable EIT rate is 25%.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to consolidated profits of the Group as follows:

	2008	2007
	RMB'000	*RMB'000*
Profit before income tax	**131,589**	291,141
Tax calculated at rates based on the different tax status of the companies	**30,029**	67,956
Expenses and losses not deductible for tax purposes	**14,897**	620
Income not subject to tax	**(320)**	(2,689)
Effect of change in applicable tax rate for calculation of deferred income taxation resulted from the new CIT law	**(285)**	(3,862)
Effect of tax exemptions	**–**	(19,714)
Investment tax credit	**(50,715)**	–
Others	**(395)**	–
Income tax expense	**(6,789)**	42,311
Weighted average tax rates	**23%**	23%

The weighted average tax rate is calculated by dividing profit before income tax with tax calculated based on the different tax status of the companies. Group companies are subject to different tax rate, tax exemption or tax reduction according to their tax status as described above.

8. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company presented in the financial statements of the Company amounts to RMB64,438,000 (2007: RMB10,361,000).

9. EARNINGS PER SHARE

(a) Basic

Basic earning per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	2007
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**120,747**	208,306
Weighted average number of ordinary shares in issue (thousands)	**2,083,603**	1,469,858
Basic earning per share (RMB per share)	**0.06**	0.14

(b) Diluted

Diluted earning per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

During the year ended 31 December 2008, those share options granted have no dilution effect on earnings per share in 2008 and diluted earnings per share is therefore same as basic earnings per share.

10. DIVIDENDS

The dividends paid in 2008 and 2007 were RMB73,953,000 (HK$ 0.04 per share) and RMB32,500,000 (RMB 0.1625 per share) respectively.

The Directors of the Company recommend the payment of a final dividend of HK$0.025 per share for the year ended 31 December 2008.

11. TRADE AND BILL RECEIVABLES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**190,069**	220,098
Bills receivable	**303,871**	97,473
	493,940	317,571
Less: provision for impairment	**(14,361)**	(11,974)
Trade and bill receivables - net	**479,579**	305,597

Customers are generally granted with credit period less than 90 days. Bill receivables are generally due in 90 days or 180 days. Aging analysis of trade and bill receivables at respective balance sheet dates is as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Within 90 days	**406,572**	288,569
91 to 180 days	**69,741**	16,575
181 to 365 days	**8,984**	3,064
1 to 2 years	**680**	1,416
2 to 3 years	**138**	2,349
Over 3 years	**7,825**	5,598
	493,940	317,571

Bills receivable do not have any significant credit risk as the settlement has been guaranteed by reputable banks. Trade receivables within credit period are normally not considered impaired.

12. PLEDGED BANK DEPOSITS

	2008	2007
	RMB'000	*RMB'000*
Deposits placed in banks as collaterals against trade finance facilities granted by banks	**82,938**	606,447
Denominated in:		
– RMB	**82,512**	606,014
– USD	**426**	433
	82,938	606,447
Maximum exposure to credit risk	**82,938**	606,447

The corresponding trade finance facilities mainly represent bank guarantees for bills payable to suppliers and letters of credit for import. The weighted average interest rate on pledged bank deposits is 1.99% (2007: 3.78%) per annum.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**567,200**	1,455,583	**35,498**	1,042,651
Denominated in:				
– RMB	**461,666**	286,256	**–**	47,622
– USD	**96,158**	174,297	**31,090**	–
– HKD	**4,463**	995,030	**4,408**	995,029
– EUR	**4,913**	–	**–**	–
	567,200	1,455,583	**35,498**	1,042,651
Maximum exposure to credit risk (net of cash in hand)	**566,535**	1,454,061	**35,498**	1,042,651

The weighted average interest rates on demand deposits were 0.49% (2007: 0.38%) per annum.

RMB is not a freely convertible currency in the international market. The remittance of these RMB funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

14. TRADE AND BILL PAYABLES

	Group	
	2008	2007
	RMB'000	*RMB'000*
Trade payables	**498,779**	761,902
Bills payable	**70,880**	813,271
	569,659	1,575,173

The carrying amounts of trade and bills payables approximate their fair values.

The credit period granted by the creditors generally ranged from 30 to 180 days.

Ageing analysis of trade and bills payables at respective balance sheet dates is as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Within 30 days	**246,164**	903,892
31 to 90 days	**148,536**	403,934
91 to 180 days	**123,143**	228,615
181 to 365 days	**43,172**	30,165
1 year to 2 years	**8,644**	8,567
	569,659	1,575,173

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results Highlights

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB3,962,159,000, representing an increase of approximately 48% from last year. The gross profit margin was approximately 17% (2007: 24%). During the year, the Group reported an operating profit of approximately RMB265,493,000 (2007: RMB368,091,000), and profit attributable to shareholders was approximately RMB120,747,000 (2007: RMB208,306,000), representing a decrease of approximately 42% from last year. Basic earnings per share were RMB0.06 (2007: RMB0.14).

Segment Information

Set out below is the comparison, by business segment, of the Group's turnover, gross profit and gross profit margin for the years ended 31 December 2008 and 2007:

	Year ended 31 December 2008			Year ended 31 December 2007		
	Turnover ***(RMB'000)***	**Gross profit** ***(RMB'000)***	**Gross profit margin**	Turnover *(RMB'000)*	Gross profit *(RMB'000)*	Gross profit margin
Refrigerants	**2,070,705**	**396,116**	**19%**	1,424,142	300,584	21%
Fluoropolymer materials	**745,988**	**86,020**	**12%**	646,140	129,862	20%
Other products[(1)]	**1,145,466**	**193,668**	**17%**	614,439	204,231	33%
	3,962,159	**675,804**	**17%**	2,684,721	634,677	24%

[(1)] *Other products mainly include organic silicone products, dichloromethane and liquid alkali*

Analysis of Sales and Gross Profit

During the year under review, the refrigerants business remained to be the largest contributor to the Group's turnover, contributing approximately RMB2,070,705,000 which represented approximately 52% of the Group's turnover. The turnover increased by approximately 45% as compared with the same period of last year.

During the year, the turnover of the fluoropolymers business increased by 15% to approximately RMB745,988,000 from last year's approximately RMB646,140,000. The increase was mainly driven by increasing in turnover of PTFE, a large contributor to the fluoropolymers business. Compared with the same period of last year, the turnover of PTFE increased by 7%. The growth in the business was due to the increase of 1,366 tons in product sales volume in 2008 as compared with 2007 as a result of sales staff's aggressive efforts in opening up market channels.

For other products, the turnover increased by 86% to approximately RMB1,145,466,000 from last year's approximately RMB614,439,000, representing 29% of the Group's total turnover. The growth in the business was due to (i) organic silicone, being a new product commencing production and launch to the market in 2008, has a great contribution to the turnover of other product business; and (ii) the increase in other products sales.

With regard to gross profit, the Group's total gross profit margin was approximately 17% (2007: 24%), a decrease of 7% from last year. The decrease was mainly attributable to (i) the substantial fall in the gross profit of PTFE, a large contributor to the turnover of the fluoropolymers business, which was approximately 9% in 2008 (2007: 20%); (ii) the low gross profit margin of organic silicon products in other product business, which diluted the gross profit of other product business, and the substantial fall in the gross profit of dichloromethane, which was approximately 16% in 2008 (2007: 37%); and (iii) higher raw materials costs in the first half of 2008 than those in the second half, and more inventory accumulation in the first half of the year. Some inventories with high costs were not digested by the market in the first half. Prices fell as the financial tsunami impacted the sales market in the second half, resulting in a substantial fall in the gross profit of products with high inventory costs.

The contribution to the Group's total gross profit attributable to the other products accounted for approximately 29%. The gross profit margin dropped from last year's 33% to approximately 17% mainly due to (i) the substantial fall in the gross profit of dichloromethane as a result of the rise in costs due to changes in the prices of raw materials; and (ii) the low gross profit margin of organic silicon products in other product business, which diluted the gross profit of other product business.

The contribution made by the fluoropolymers business and the refrigerants business accounted for approximately 13% and 59% of the Group's total gross profit respectively.

The gross profit margin of the refrigerants business decreased from last year's 20% to 19% as a result of the substantial fall in the gross profit margin of HFC134a and other refrigerants due to (i) the sharp fall in product prices as a result of decreased demand for products under the impact of the economic crisis; (ii) high costs of 134A as a result of insufficient stream efficiency of the 10,000 ton-134 plant and increased costs of overhaul; (iii) high costs of 152A as a result of insufficient stream efficiency of the 10,000 ton-152A plant and the rise in calcium carbide prices, then leading to the rise in the costs of mixed refrigerants produced with 142B, first with the use of 142B and subsequently 152A; and (iv) increase in production cost of F22 due to the procurement price of major raw material hydrofluoric acid used in producing F22 rose by 37% in 2008 from 2007.

The gross profit margin of the fluoropolymers business decreased to approximately 12% from last year's 21% mainly due to (i) the decrease of around RMB723 in the sales prices in 2008, down 1.8% from 2007 as a result of market competition in the same trade; and (ii) the rise in cost of fluoropolymer resulting from the reasons mentioned in (iv) in the above since F22 is the major raw material used in producing fluoropolymer.

Capital expenditure

For the year ended 31 December 2008, the capital expenditure was approximately RMB581,989,000 (2007: RMB1,902,588,000), which was mainly used to purchase fixed assets and land use rights.

Liquidity and Financial Resources

As at 31 December 2008, the total assets of the Group amounted to approximately RMB5,594,937,000 (2007: RMB6,536,552,000), comprising shareholders' funds of approximately RMB1,898,906,000 (2007: RMB1,845,560,000), minority interests of approximately RMB264,951,000 (2007: RMB235,437,000) and long-term and current liabilities of approximately RMB3,431,080,000 (2007: RMB4,455,555,000). The current ratio of the Group was 0.8 (2007: 0.9).

The Group had a sound financial position. The cash and cash equivalents of the Group amounted to approximately RMB567,200,000 (2007: RMB1,455,583,000) as at 31 December 2008.

As at 31 December 2008, the bank loans of the Group were approximately RMB2,269,792,000 (2007: RMB2,139,597,000). The gearing ratio was 44% (2007: 25%). The Group had no financial leasing assets during the year.

Note:
(1) Current ratio = current assets/current liabilities
(2) Gearing Ratio = Net Debt/Total Capital
Net Debt = Total Borrowings - Cash and Cash Equivalents
Total Capital = Net Debt + Total Equity

The Group had no particular borrowing behavior due to seasonality. As at 31 December 2008, the Group's borrowings comprised non-current portion (more than 1 year) and current portion (within 1 year). The non-current portion of borrowings amounting to approximately RMB685,071,000 are wholly repayable within 5 years, and approximately RMB153,921,000 are repayable in more than 5 years. At present, borrowings amounting to RMB1,430,800,000 are repayable within 1 year. The Group's borrowings are made at a fixed interest rate and a floating rate with a weighted average rate of 7.61% per annum. The Group's borrowings are denominated in Renminbi and US dollars, amounting to approximately RMB1,783,026,000 and approximately US$71,221,000 (equivalent to approximately RMB486,766,000) respectively.

US$1 = RMB6.8346
Exchange rate was based on the numerical value on 31 December 2008.

Contingent liabilities

The Group was advised on 19 December 2007 that Dongyue F&S and Dongyue Organosilicone, subsidiaries of the Company, have been named as defendants in a legal case. It was alleged that the Group's silicone business had infringed the intellectual property rights of China Bluestar (Group) Limited and Bluestar Chemical New Materials Limited (collectively, "China Bluestar Group"), and as a result, the Group shall pay to the China Bluestar Group damages which they estimated would be RMB 100 million or more (the "Alleged Claims").

Beijing High Court issued a judgment on 18 May 2008 dismissing the actions filed by China Bluestar Group against Dongyue Organic Silicone and that Dongyue Organic Silicone is not the appropriate defendant. China Bluestar Group brought the case to China Supreme Court and China Supreme Court made the adjudication on 8 October 2008. The Court withdrew Beijing High Court's judgement and required Beijing High Court to retrial. Beijing High Court made the adjudication on 12 December 2008 and stated that Bejing High Court has the jurisdiction on this litigation. The Alleged Claims are still in process till the reporting date.

Based on the legal advice of the Group's legal counsel, management have reviewed the facts and circumstances and are of the view that the Alleged Claims are unfounded. It is considered that the likelihood of the Group suffering material loss is low. Consequently, no provision for any loss arising from this pending litigation has been provided in the Group's consolidated financial statements as at 31 December 2008.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's foreign exchange exposures comprise trading and non-trading foreign currency translation exposures. Foreign exchange trading exposures mainly arise from the trade receipts from overseas customers.

In order to mitigate the potential impact of currency movements, the Group closely monitors its foreign exchange exposures and makes suitable hedging arrangements against significant foreign currency exposures where necessary. No forward exchange contract was entered into by the Group during the year under review.

Employees

The Group employed 3,649 employees in total as at 31 December 2008. The Group implemented a remuneration policy as well as bonus and share option schemes based on its profit results and the performance of employees. In addition, the Group provided benefits such as medical insurance and pensions to maintain its competitiveness.

Proposed Dividend

The Board declared a final dividend for 2008 of HK$0.025 per share to the shareholders whose names appear on the Register of Members on 22 May 2009 (Friday). Such final dividend will be paid on 26 June 2009 (Friday).

The Register of Members of the Company will be closed from 22 May 2009 to 29 May 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4 p.m. on 21 May 2009.

Issue and Listing of Shares

On 10 December 2007, the Company's Shares were listed on the Stock Exchange by way of public offer and placing.

On 3 January 2008, the Company issued another 3,623,000 over-allotment shares.

As at 31 December 2008, the Company had a total of 2,083,623,000 shares in issue by way of public offer and placing, at a price of HK$2.16 per share.

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

For the year ended 31 December 2008, the Company had not repurchased any of its shares. Neither the Company nor any of its subsidiaries and jointly controlled entities thereof has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2008.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). Specific enquiries have been made of all of the Directors, and all of the Directors had confirmed that they had complied with all the relevant provisions set out in the Model Code during the year ended 31 December 2008.

Audit Committee

The Company's audit committee was established on 16 November 2007 pursuant to Appendix 14 of the Listing Rules. The committee is currently composed of Mr. Ting Leung Huel, Stephen (Chairman), Mr. Yue Run Dong and Mr. Liu Yi. All the members of the committee are Independent Non-Executive Directors.

The audit committee met the management and external auditors on 16 April 2009 to review the accounting standards and practices adopted by the Group and discuss matters concerning internal control and financial reports (including the interim and annual results prior to submission of the same to the Board for approval). The audit committee has reviewed the results announcement of the Company for the year ended 31 December 2008.

Remuneration Committee

The Company has established a remuneration committee to determine the emoluments of the Company's Directors and members of the senior management. Members of the remuneration committee are Independent Non-Executive Directors, Mr. Liu Yi (Chairman), Mr. Ting Leung Huel, Stephen and Mr. Zhang Jianhong.

Compliance with the Code on Corporate Governance Practices

The Company has, since the listing of its shares on the Stock Exchange, complied with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules, only with the following deviation from the Code:

A 2.1 Mr. Zhang Jianhong is the chairman and chief executive officer of the Company.

Publication of Annual Results and Annual Report

This results announcement is published on the website of the Company at www.dongyuechem.com and the website of the Hong Kong Exchanges and Clearing Limited ("Stock Exchange") at www.hkexnews.hk. The Annual report will also be published on the websites of the Company and the Stock Exchange and will be dispatched to the Company's shareholders by the end of April 2009.

By order of the board
Dongyue Group Limited
Zhang Jianhong
Chairman

Hong Kong, 16 April 2009

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