東岳集團有限公司
DONGYUE GROUP LIMITED
Incorporated in the Cayman Islands with limited liability
(於開曼群島註冊成立之有限公司)
(Stock Code 股份代號： 0189)



Interim Report 2008
中期報告

CORPORATE INFORMATION

Registered Office

Offshore Incorporation (Cayman) Ltd.
Scotia Centre
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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

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262 Gloucester Road
Causeway Bay
Hong Kong

Website Address

www.dongyuechem.com

Company Secretary

Mr. WONG, Kwok Kuen

Qualified Accountant

Mr. WONG, Kwok Kuen

Authorized Representatives

Mr. FU Kwan
Mr. WONG, Kwok Kuen

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
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Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
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Wanchai, 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

Richards Butler

Compliance Advisor

Guotai Junan Capital Limited

Stock Code

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I. Business Overview

A leading enterprise in the PRC fluorine and silicone industry, the Group is engaged in the production of fluorine and silicone products using industry-advanced technology. These products are in great demand and widely used in fields ranging from sophisticated industries such as in airplane and astronautic equipment to daily uses such as in cosmetic, therapeutic and medicinal uses.

The Group is principally engaged in the production and sale of organic fluorine, green refrigerant, fluorochemical polymer, PVC and organic silicone products.

In the first half of 2008, with the severe rainstorm and snowstorm in southern China, various PTFE deep-processing clients in the region lost their production and processing capability, causing an impact on the sales of PTFE. The earthquake in Sichuan, one of the major silicone production bases, also affected the supply of silica, one of the major raw materials of the Company. According to the data of the National Bureau of Statistics of China, during the period from January to June 2008, the national prices of industrial products grew by 8 percentage points year-on-year, which increased the difficulty of enhancing industrial economic efficiency. Additionally, the economic situation and harsh measures adopted by the state have increased the production and operations costs of the Group. Against the backdrop of market competition with domestic and international competitors and the overall economic environment, the Group adopted a measure known as "better income on the back of lower expenses", pursuant to which production costs were lowered by means of technological upgrading and improved integration of upstream and downstream industries, and all non-production expenses were strictly managed and controlled.

With the ongoing increase in raw material prices on the market over the first half of the year, a prime objective of the Group will be to lower the costs and secure the supply of raw materials by implementing our project on coordination of raw materials within the earliest possible timeframe. Three months ahead of schedule, we increased our liquid alkali production capacity by 160,000 tons per annum in March 2008, increasing the aggregate annual capacity to 280,000 tons per annum from the original capacity of 120,000 tons per annum of liquid alkali. Chlorine used for production is all generated internally without reliance on any external supply of chlorine, with such arrangement securing the supply of chlorine for our production needs, with the added benefit of a reduction of costs. The dispensation of the need to purchase chlorine from external suppliers also cut out the transportation costs incurred in transporting externally-sourced chlorine and the accompanying risks of safety and environmental issues in the course of transportation.

In May 2008, an annual production capacity of 15,000 tons of AHF was added to Inner Mongolia Dongyue, raising the capacity provided by AHF installations at Inner Mongolia to 30,000 tons per annum, representing approximately 30% of the total demand of the Company. The strategy formulated by the Company to build plants to produce raw materials for use in its own upstream production lines and to control some upstream mineral resources have been effective.

Existing production installations underwent technological renovation in order to reduce wastage rates while maintaining product quality, which in turn reduced production costs of the respective products.

II. Business Review

1. *Refrigerants*

   Our current position in the market has made the Company an influential and authoritative player in the industry. In the first half of the year, the Company's initiatives in coordination within the industry resulted in an increase in the prices of major refrigerant products such as HCFC22. We managed to maintain a relatively high market share in the refrigerants market.

2. *Fluoropolymers*

   In the first half of the year, the swift appreciation of the Renminbi together with the substantial drop in the profit margin enjoyed by downstream customers engaged in the export of fluoropolymer product (PTFE) products manufactured from our supply of PTFE, have had a negative impact on the purchase orders received by corporations engaged in the deep-processing of PTFE, which in turn pulled down the sales of raw material producers. In view of our sales of PTFE under the aforesaid influence, the Company adopted a policy to develop new PTFE products of higher premium grades. Since May this year, our fluropolymer products have demonstrated better performance in its sales.

3. *Organic silicone*

   Otherwise known as "industrial MSG", organic silicone finds wide applications in areas such as additives in cosmetics, and in the clothing industry to enhance fabric texture, resistance to water, drying, and visual perception. It is also applied in producing medicinal products such as earplugs and dental base pads; used in anti-fogging agents for windows in automobile, airplanes and ships; joints, sealing and solidification in components of airplane devices and astronautic devices; and in anti-electric-shock devices in electronic and electrical appliances.

   As the selling prices of organic silicone products increased with the excessive demand over supply in the domestic market, the Company sold most of its organic silicone products to the domestic market. In working with customers, we always sought to be honest, trustworthy and modest, to maintain our product quality and to look to long-term strategic cooperation. These strategies have won positive comments from all of our customers, and many of them regard us as their key suppliers. In this way, the Company has secured a solid customer base in the PRC. Major clients include 東爵精細化工（南京）有限公司, 天長市榮盛有機硅科技有限公司 and 江山市富士特化工有限公司, which have an aggregate processing capability of approximately 46,000 tons. This has laid a firm foundation upon which we can grow and develop in future. Despite 2008 being the first-year of operations in our organic silicone segment, it has already generated high returns for the Company in the first half of 2008.

4. *PVC*

   Production and sale of PVC products commenced in March this year, recording a production volume of approximately 13,612 tons and a sales volume of approximately 13,040 tons of PVC products during the first half of this year, or a sale/production rate of approximately 96%.

5. *Other products*

Our 32% liquid alkali was primarily sold to the domestic market. The overall price level remained stable compared with the corresponding period of last year.

Our 48% liquid alkali was primarily sold to the international market. With the strong demand from the international market, the first half of the year witnessed a relatively large increase in export volume and export prices.

The commencement in 2007 of production of our additional 80,000-ton annual capacity of methane chloride has raised the production volume of dichloromethane as well as its sales volume compared with the corresponding period of last year.

III. Future Prospects

Our business is under the pressure of supply and costs in respect of upstream raw materials, which are highly sought after, especially resource-based raw materials. Given the rapid growth in economy and investment, there was fierce competition in the product market. To secure its leading position in the industry and to strengthen the competitiveness of its products, the Company will:

(I) continue its efforts in the research and development of organic silicone:

1. Our cooperation with prestigious institutions in the PRC in respect of production technology of organic silicone monomers has brought our technology in this field to a relatively advanced level as compared with its domestic competitors. The current technological cooperation is aimed at enhancing stability and conversion rate in our products, improve product workmanship and bring our monomer production technology to an internationally-advanced level.

2. In line with its strategy, the Company will scale up its production of downstream organic silicone products at such time as appropriate. On 30 July 2008, the Company established, on a joint investment basis, 山東東岳硅橡膠有限公司 with 東爵有機硅集團 to engage in the production and processing of downstream organic silicone products. 山東東岳硅橡膠有限公司 has a registered capital of RMB20 million, of which the Company holds 55% and 高爾特硅橡膠製品（南京）有限公司, which is wholly-owned by 東爵有機硅集團, holds 45%. 東爵有機硅集團 has its core strengths in the industry of deep-processing of organic silicone in the PRC, as well as strengths in technological areas and in their branding. The cooperation combines the strengths of both parties in technology, brand strength, raw material supply and costs. As the Company's production capacity in producing organic silicone monomers expands, the scale of deep-processing of organic silicone will also expand. This will potentially become a key profit centre for the Company in future.

3. The Company actively works with scientific research institutions in the PRC to engage in the research and development of deep-processing and integrated application of by-products as well as enhancement of their added value, with a view to lowering the production costs of organic silicone products and enhancing their market competitiveness.

(II) actively explore the mineral resources industry, which represents the basis for the development of fluoride-related chemicals. From a strategic perspective, the Company will actively seek to forge cooperation in various regions in the PRC where fluorite is abundant and to integrate local resources of fluorite minerals by way of, amongst other things, construction of plants, restructuring and acquisition. The Company's plants located in Jinfeng, Inner Mongolia, which is principally engaged in the production of AHF, reached a scale of 30,000 tons as of May this year. As Inner Mongolia has a rich reserve of fluorite resources, the Company's strategy in integrating mineral resources in Inner Mongolia has also proved to be effective.

(III) continue its in the research and development of polymers:

1. On the basis of our existing production scale, the Company will seek to enhance the grading and added value of our PTFE products to bring them in line with the Company's approach towards more high-end products, under which high-end PTFE products including series 2040 and series 2046 have been developed.

2. Further technology cooperation will be forged with internationally renowned players in the industry to enhance the quality and added value of our products by leveraging the advancement attained by our industry peers.

3. Using PTFE monomers as raw materials, we will expand our development of new products such as refined fluorochemicals and medicinal fluoride intermediates, extend the scope of application of polymers and develop new markets and new areas. In short, for our polymer products, the focus will be changed to the pursuit of high-end and high-tech elements as well as a broad area of development, with a view to enhancing the technological contents and profit margin of our products.

(IV) further maintain its share in the domestic market of organic silicone, by commencing the feasibility study and process design work on its 100,000-ton per annum organic silicone monomers project in the second half of the year. It is expected that the project will be completed and production will commence in 2010. Commencement of production of the 100,000-ton per annum organic silicone monomers project will not only satisfy the expansion of our silicon rubber operations, but also enlarge our share of the organic silicone market.

Financial Review

Results Highlights

For the six months ended 30 June 2008, the Group recorded a turnover of approximately RMB2,086,515,000, representing an increase of 86% over the corresponding period of last year. The gross profit margin was 17% (corresponding period of 2007: 22%). During the period, the Group recorded an operating profit of approximately RMB78,286,000 (corresponding period of 2007: RMB73,768,000), and the profit attributable to equity holders was approximately RMB60,737,000 (corresponding period of 2007: RMB60,222,000), representing an increase of 0.9% over the last year. Basic earnings per share were RMB0.03 (corresponding period of 2007: RMB0.05).

Operating Result by Products

Set out below is the comparison by products of the Group's turnover, gross profit and gross profit margin for the six months ended 30 June 2008 and 2007:

	Six months ended 30 June 2008			Six months ended 30 June 2007		
	Turnover (RMB'000)	Gross Profit (RMB'000)	Gross Profit Margin	Turnover (RMB'000)	Gross Profit (RMB'000)	Gross Profit Margin
Refrigerants(1)	1,162,144	199,785	17.19%	634,230	107,013	16.87%
Fluoropolymer Materials	373,370	32,738	8.77%	275,843	67,442	24.45%
Other products(2)	551,001	122,745	22.28%	211,041	74,837	35.46%
	2,086,515	355,268	17.03%	1,121,114	249,292	22.24%

(1) *It included PVC for the period from January to June 2008.*

(2) *Other products mainly included dichloromethane and liquid alkali. For the period from January to June 2008, it also included organic silicone.*

Analysis of Sales and Gross Profit

During the period under review, the refrigerants business was still the largest contributor of the turnover of the Group, contributing approximately RMB1,162,144,000 and accounting for approximately 56% of the turnover of the Group. The turnover increased by 83% from RMB634,230,000 compared to last year. The increase was primarily driven by HCFC22, other refrigerants and the CDM project. The business growth was primarily due to (i) an increase in the sales volume of HCFC22; (ii) an increase in the unit selling price of HCFC22 for the period from January to June in 2008; and (iii) our CDM project, which contributed to both our turnover and gross profit.

In the six months ended 30 June 2008, the turnover of the fluoropolymers business increased by 35% to approximately RMB373,370,000 from last year's RMB275,843,000. The increase was mainly driven by PTFE, a large contributor to the fluoropolymers business.

For other products, the segment turnover increased by 161% to RMB551,001,000 from last year's RMB211,041,000 and accounted for 26% of the total turnover of the Group. The increase was mainly due to the introduction of organic silicone, a new product, which contributed to 42% of the total turnover of other products.

With regard to the gross profit, the total gross profit of the Group was 17% (corresponding period of 2007: 22%), decreasing by 5 percentage points from the corresponding period of last year. The decrease was mainly attributable to (i) the relatively large decrease of the gross profit margin of fluoropolymers namely PTFE and HFP which was in turn due to the increase in raw material prices and the significant decrease in the rate of tax rebate for exported products; (ii) a drop in gross profit of liquid alkali and dichloromethane due to the increase in raw material prices and the decrease in the rate of tax rebate for exported products.

The contribution to the total gross profit attributable to the other products accounted for 35% (corresponding period of 2007: 30%). The gross profit margin decreased from 35% in the corresponding period of last year to 22%. The decrease was mainly attributable to a drop in gross profit of liquid alkali and dichloromethane, which was primarily due to an increase in raw material prices, the relatively high level of wastage of materials during the trial-run of the expanded installations in view of the expansion of the liquid alkali projects, and the decrease in the rate of tax rebate for exported products.

The contribution made by fluoropolymers business accounted for about 9% (corresponding period of 2007: 27%) of the total gross profit of the Group. The gross profit margin of fluoropolymers business decreased to 9% from last year's 24%, primarily due to the significant decrease in the rate of tax rebate for exported products under relevant policy as well as the increase in raw material prices.

The gross profit of the refrigerants business contributed to 56% (correspond period of 2007: 43%) of the total gross profit of the Group. The gross profit margin was 17%, which remained stable compared with the corresponding period of last year. Our current position in the market has made the Company an influential and authoritative player in the industry. In the first half of the year, the Company faced the pressure of increased costs and its initiatives in directly coordinating within the industry have resulted in an increase in the prices of major refrigerant products such as HCFC22. In addition, our CDM project also contributed to our gross profit.

Capital expenditure

For the six months ended 30 June 2008, the capital expenditure was approximately RMB394,253,000, which was mainly used in the acquisition of fixed assets including equipment and facilities in our Industrial Park.

Liquidity and Financial Resources

As at 30 June 2008, the total assets of the Group amounted to approximately RMB6,386,319,000 (2007: RMB6,536,552,000), comprising shareholders' funds of approximately RMB1,825,501,000 (2007: RMB1,845,560,000), minority interests of approximately RMB266,548,000 (2007: RMB235,437,000), and long-term and current liabilities of approximately RMB4,294,270,000 (2007: RMB4,455,555,000). The current ratio of the Group*(Note 1)* was 0.8 (2007: 0.9).

The cash and cash equivalents of the Group amounted to RMB692,643,000 (2007: RMB1,455,583,000) as at 30 June 2008.

As at 30 June 2008, the borrowings of the Group were approximately RMB2,594,034,000 (2007: RMB2,139,597,000). The gearing ratio(Note 2) of the Group was 48% (2007: 25%). The Group had no financial leasing assets during the period.

Notes:

(1) *Current Ratio = Current Assets/Current Liabilities*

(2) *Gearing Ratio = Net Debt/Total Capital*

Net Debt = Total Borrowings – Cash and Cash Equivalent

Total Capital = Net Debt + Total Equity

The Group had no particular seasonality in respect of its borrowing requirements. The Group's borrowings as of 30 June 2008 comprised of a non-current portion (over 1 year) and a current portion (1 year or less). Non-current portion of the Group's borrowings amounted to approximately RMB689 million and is repayable within 5 years, and approximately RMB223 million is repayable at a time which is 5 years or more later. Currently RMB1,682 million of the Group's borrowings is repayable within 1 year. The Group's borrowings are in fixed interest rate and floating rate with weighted average interest rates of 7.34% per annum. The Group's borrowings comprised of RMB and USD, being RMB2,189 million and approximately USD59.05 million (equivalent to RMB405 million) respectively.

USD 1 = RMB6.8591

Exchange rate is taking the rate on 30 June 2008.

Contingent liabilities

The Group was advised that Dongyue F&S and Dongyue Organic Silicone, subsidiaries of the Company (collectively, "Subsidiaries"), have been named as defendants in a legal proceeding. It was alleged that the Subsidiaries' silicone business had infringed the intellectual property rights of China Bluestar (Group) Limited and Bluestar Chemical New Materials Limited (collectively, "China Bluestar Group"), and that as a result the Subsidiaries should pay damages to the China Bluestar Group which they estimated would be RMB100 million or more (the "Alleged Claims").

The Company has announced on 18 May 2008 that it received a judgment from the High People's Courts of Beijing Municipality (北京市高級人民法院) dismissing the actions filed by China Bluestar Group against Dongyue Organic Silicone, stating that Dongyue Organic Silicone was not the appropriate defendant. On 29 May 2008 an appeal against such judgment was filed by China Bluestar Group and is pending a decision from the court. On 25 June 2008, the review committee (覆審委員會) of the State Intellectual Property Office of the People's Republic of China issued four decisions in response to the Subsidiaries' application for a ruling that the subject intellectual property rights alleged to be held by China Bluestar Group were invalid. Such decisions have concluded that certain parts of the relevant intellectual property rights were validly held by China Bluestar Group whilst other parts were invalid. Parties have 3 months from the date of such rulings to appeal but as at the date of this report, the Company is not aware that any parties to the litigation has appealed to such rulings.

The senior management of the Company considers that the likelihood of the Subsidiaries suffering material loss as a result of the aforesaid proceedings 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 30 June 2008. The Group had no material contingent liabilities as at 30 June 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 trade receipts from overseas customers.

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

Employees

The Group employed 3,898 employees in total as at 30 June 2008. The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Company and its employees. In addition, the Group provided benefits such as medical insurance and pensions to ensure competitiveness.

Proposed Dividend

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

OTHER INFORMATION

Issue and Listing of Shares

The Shares were listed on the Stock Exchange on 10 December 2007 by way of public offer and placing.

On 3 January 2008, the Company further issued 3,623,000 over-allotment Shares.

As at 30 June 2008, a total of 2,083,623,000 Shares had been issued at a price of HK$2.16 per Share pursuant to the public offer and placing.

Use of Net Proceeds from the IPO

As of 10 December 2007, the Company offered Shares at a price of HK$2.16 per Share in the manner set out in the prospectus (the "Prospectus") of the Company dated 20 November 2007. On 3 January 2008, the Company further issued 3,623,000 over-allotment Shares.

As at 30 June 2008, the Company had 2,083,623,000 Shares in issue. Net proceeds after deduction of relevant costs were approximately HK1,051,549,270.

As of 30 June 2008, the Group had utilized the aforesaid proceeds in such a way as disclosed in the Prospectus, namely:

- approximately HK$295.9 million (equivalent to approximately RMB268.6 million) was used to finance our expansion plans, including the expansion of production capacities of our existing plants and diversification into new product lines, of which:
  - approximately HK$154.9 million (equivalent to approximately RMB140.6 million) was used for our refrigerants business;
  - approximately HK$141.0 million (equivalent to approximately RMB128 million) will be used for our liquid alkali business;
- approximately HK$12.1 million (equivalent to approximately RMB11 million) was used to finance the construction plans for our organic silicone products, which included construction of new manufacturing facilities for the production of organic silicone monomers and intermediates in our industrial park;
- approximately HK$145.3 million (equivalent to approximately RMB131.9 million) was used for equipment upgrades and purchases of advanced production equipment and facilities (including enhancement of our research and development capabilities) in our industrial park; and
- approximately HK$47.7 million (equivalent to approximately RMB43.3 million) was used to provide funding for our working capital and other general corporate purposes.

We have yet to utilise any of the listing proceeds for our fluoropolymers business during the period under review. As of 30 June 2008, any of our net proceeds that were not applied immediately to the above purposes were deposited into short-term demand deposits with licensed banks in Hong Kong and/or the PRC and/or financial institutions in Hong Kong.

HKD1=RMB0.9078

The exchange rate is taking the average of the first half of 2008.

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

The Company has not repurchased any of its Shares during the six months ended 30 June 2008. Save as aforesaid, during the period, neither the Company nor any of its subsidiaries and jointly controlled entities has purchased, redeemed or sold any listed securities of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2008 and all Directors confirmed that they have fully complied with the relevant requirements set out in the Model Code during the period.

Audit Committee

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

The Audit Committee met with the management and external auditors on 20 September 2008, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting (including the interim results before proposing them to the Board for approval). The Audit Committee has reviewed the results announcement and this interim report of the Company for the six months ended 30 June 2008.

Remuneration Committee

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

Compliance with the Code on Corporate Governance Practices

Since the listing of its Shares on the Stock Exchange, save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

Code Provision A.2.1

There was a deviation from provision A 2.1.1 of the Code:

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

Share Options

Pre-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 our 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 our Group. The principal terms of the Pre-IPO Share Option Scheme, as approved and amended by written resolutions of all the Shareholders of our Company dated 16 November 2007 are similar to the terms of the Share Option Scheme:

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

(b) grants of options are subject to the Listing Committee 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 Hong Kong Stock Exchange.

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 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

The following options have been granted on 10 December 2007 with an exercise price of HK$2.16 per share to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme. None of the options are capable of exercise until after the first anniversary of the Listing Date (i.e. on 10 December 2007) and further details are set out below:

Grantee	Outstanding at 1 January 2008
Directors	
Zhang Jianhong	10,210,909
Liu Chuanqi	9,076,364
Cui Tongzheng	7,374,544
Yang Erning	1,701,818
Zhang Jian	567,273
Other employees	26,888,728
Total	55,819,636

As at 30 June 2008, no share options have been exercised yet and 55,819,636 options remain outstanding. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$2.16 per share and the grantees may exercise the share options during the period from 10 December 2008 to 9 December 2011, both days inclusive.

The weighted average fair value of options granted during the period determined using the Black-Scholes Option Pricing Model was HK$0.70 per option share. The significant inputs into the model were the exercise price shown above, volatility of 35.2%, dividend yield of 2.9%, an expected option life of three years and on annual risk-free interest rate of 3.6%. Such options will vest in tranches beginning on the first anniversary of the Listing Date as to 30%; a further 30% vesting on the second anniversary of the Listing Date; and the remaining 40% vesting on the third anniversary of the Listing Date. During the six months ended 30 June 2008, Mr. Zhang Zhefeng, Mr. Wang Heng and Mr. Wu Kean ceased to be employees of the Group, the 907,637 share options originally held by them lapsed in accordance with the Pre-IPO share option scheme of the Company.

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 ("**Scheme**"), the Company may grant to, among others, the directors and employees of the Company and its subsidiaries, for the recognition of their contribution of the Group, options to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for shares of the Company, which when aggregated with any other share option scheme, shall not exceed 30% of the Shares in issue from time to time. The total number of Shares which may 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 ("**Offer**") must be taken up within 28 days form the date of offer, with a payment of HK$1.00 as consideration. The exercise price of the share option will be determined at the higher of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date on the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of 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 million Shares which represents 10% of the total issued share capital as at the listing date unless further shareholder 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.

There were no post-IPO share options outstanding on 1 January 2008 and during the period under review, no Post-IPO share options were granted under the Scheme.

Directors

The directors during the six months ended 30 June 2008 and up to 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
Mr. Ting Leung Huel, Stephen
Mr. Yue Run Dong
Mr. Liu Yi

Non-Executive Director
Mr. Shaw Sun Kan, Gordon

Director's Rights to Acquire Shares

Apart from the Scheme disclosed above, at no time during the six months ended 30 June 2008 was the Company, its holding company or any 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 in any other body corporate.

DISCLOSURE OF INTERESTS

Interests of Directors

As at 30 June 2008, 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 any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange 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 under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate % of issued share capital
Zhang Jianhong	Corporate interest[1]	166,551,273 (L)	7.99 (L)
	Beneficial interest	10,210,909 (L)	0.49 (L)
Fu Kwan	Corporate interest[2]	731,781,818 (L)	35.12 (L)
Cui Tongzheng	Corporate interest[3]	148,852,363 (L)	7.14 (L)
	Beneficial interest	7,374,544 (L)	0.35 (L)
Liu Chuanqi	Corporate interest[4]	87,360,000 (L)	4.19 (L)
	Beneficial interest	9,076,364 (L)	0.44 (L)
Yang Erning	Beneficial interest	1,701,818 (L)	0.08 (L)
Zhang Jian	Beneficial interest	567,273 (L)	0.03 (L)

Notes:

1. *Pursuant to the SFO, as Mr. Zhang Jianhong held 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. *Pursuant to the SFO, as Mr. Cui Tongzheng held 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. *These Shares are 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.*

5. *L: Long Position*

Save as disclosed above, 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 corporation(s) (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange 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 under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of Substantial Shareholders

As at 30 June 2008, so far as is known to the Directors and the chief executive of the Company, the following persons (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) *Interests in the Shares of the Company*

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	Approximate % 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)
Baring Private Equity Asia GP III Limited	Corporate interest[2]	283,636,364 (L)	13.61 (L)
Baring Private Equity Asia GP III, L.P.	Corporate interest[2]	283,636,364 (L)	13.61 (L)
Baring Private Equity Asia III Holding (9A) Limited	Beneficial interest[2]	283,636,364 (L)	13.61 (L)
Salata Jean	Corporate interest[2]	283,636,364 (L)	13.61 (L)
The Baring Asia Private Equity Fund III, L.P.1	Corporate interest[2]	207,943,080 (L)	9.98 (L)
International Finance Corporation	Beneficial interest	141,818,182 (L)	6.81 (L)
Dongyue Team Limited	Beneficial interest[3]	166,551,273 (L)	7.99 (L)
Dongyue Initiator Limited	Beneficial interest[4]	148,852,363 (L)	7.14 (L)
Bank of China Group Investment Limited	Corporate interest[5]	108,000,000 (L)	5.19 (L)
Bank of China Limited	Corporate interest[5]	108,000,000 (L)	5.19 (L)
Central SAFE Investments Limited	Corporate interest[5]	108,000,000 (L)	5.19 (L)
Fulland Enterprises Corp.	Beneficial interest[5]	108,000,000 (L)	5.19 (L)

Notes:

1. *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.*

2. *Baring Private Equity Asia GP III Limited is the general partner of a limited partnership (Baring Private Equity Asia GP III, L.P.), which is the general partner of another limited partnership (The Baring Asia Private Equity Fund III, L.P.1), which is one of the limited partnerships comprising Baring Fund and which controls more than one-third of the issued shares in Baring Private Equity Asia III Holding (9A) Limited. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP III Limited. Each of Baring Private Equity Asia GP III Limited and Jean Eric Salata is therefore deemed to be interested in the Shares held by Baring Private Equity Asia III Holding (9A) Limited. Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.*

3. *Pursuant to the SFO, as Mr. Zhang Jianhong held 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.*

4. *Pursuant to the SFO, as Mr. Cui Tongzheng held 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. *The 108,000,000 shares were held directly 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.*

6. *L: Long Position*

(ii) *Interests in other members of the Group as at 30 June 2008*

Name of the Company's subsidiary	Name of shareholder of such subsidiary	Nature of interest	Approximate % of issued share capital/ registered capital of the member
Dongyue F & S	Shandong Hi Tech Investment	Corporate	16.78%
Zibo Dongyue Chlorine Co., Ltd.	Shandong Hi Tech Investment *(Note)*		
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. (內蒙古東岳金峰氟化工有限公司)	Chifeng Peak Copper Co., Ltd. (赤峰金峰銅業有限公司)	Corporate	29%
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd. (內蒙古東岳金峰氟化工有限公司)	Xilin Haote Tonghe Mining Company Limited (錫林浩特通和礦業有限責任公司)	Corporate	20%
Shandong Dongyue Organosilicon Material Co., Ltd	Hong Da Mining Industry	Corporate	16%
Guangdong Dongyue Fluorine Chemical Co., Ltd	Xiamen Hui Guong Yuan	Corporate	40%

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

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

Connected Transactions

(1) *CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING 16.78% EQUITY INTEREST IN SHANDONG DONGYUE FLUO-SILICON MATERIALS CO. LTD.*

On 29 July 2008, Shandong Dongyue Polymers Co., Ltd.("**Dongyue Polymers**") and Shandong Hi Tech Investment Co. Ltd.("**Shandong Hi Tech Investment**") entered into an agreement pursuant to which Dongyue Polymers agreed to acquire 16.78% equity interest in Shandong Dongyue Fluo-Silicon Materials Co., Ltd.("**Dongyue F & S**") from Shandong Hi Tech Investment at the consideration of RMB117,500,000, which shall be satisfied by Dongyue Polymers in cash at completion.

Immediately prior to the entering into the agreement, the Company owned 69.79% direct equity interest in Dongyue F & S and owned another 13.43% equity interest through its interest in Dongyue Chemicals. Shandong Hi Tech Investment owned the remaining 16.78% equity interest in Dongyue F & S and is a substantial shareholder of Dongyue F & S. The entering into the agreement constituted a connected and discloseable transaction for the Company under the Listing Rules which required the approval of Independent Shareholders pursuant to Rule 14A.18 of the Listing Rules.

After the completion, the Company will own approximately 99.46% effective equity interest in Dongyue F & S and the accounts of Dongyue F & S will be consolidated into the consolidated accounts of the Company.

The Group is principally engaged in manufacture and sale of refrigerants, fluoropolymers and other chemical and petrochemical products such as dichloromethane and liquid alkali whilst Dongyue F & S is engaged in the manufacture and sale of methane chloride (including CFM, dichloromethane and chloromethane), which are essential raw materials for the Group's refrigerant production. The Directors are of the view that the acquisition was a good opportunity for the Company to increase its effective interest of Dongyue F & S from 82.79% to 99.46% and thus, enable the Group to have larger share of return in Dongyue F & S and enhance its vertically-integrated production value chain and production capabilities and facilities for ranging from the upstream raw materials, such as chlorine and CFM, to downstream refrigerants and fluoropolymers.

As no Shareholder was required to abstain from voting and a written Independent Shareholders' approval had been obtained from the closely allied Shareholders, who together hold 1,134,545,454 Shares representing approximately 54.44% of the current issued share capital of the Company, an application was made to the Stock Exchange for a waiver of the requirement of holding a general meeting and to accept the written Independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules.

(2) *REVISED ANNUAL CAP FOR CONTINUOUS CONNECTED TRANSACTIONS*

As disclosed in the Prospectus, the Company obtained the waivers from the Stock Exchange from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the Chifeng Peak Copper Purchase Agreement, Xilin Tonghe Purchase Agreement and Dongying Macrolink Salt Purchase Agreement ("**Purchase Agreements**").

Due to the rapid growth of the Group's business, the Directors expected that some of the annual caps in respect of the continuing connected transactions under the Purchase Agreements would be exceeded. As such, the Directors revised, or set, where applicable, the previously obtained annual caps of the transactions contemplated under each and any of the Purchase Agreements for the three years ending 31 December 2009 ("**Existing Annual Caps**") under the Purchase Agreements and the Group entered into the Revised Chifeng Peak Copper Purchase Agreement, the Revised Xilin Tonghe Purchase Agreement and the Revised Dongying Macrolink Salt Purchase Agreement ("**Revised Purchase Agreements**") on 3 May 2008 in place of the Purchase Agreements.

Chifeng Peak Copper Co., Ltd. ("**Chifeng Peak Copper**") and Xilin Haote Tonghe Mining Company Limited (錫林浩特通和礦業有限責任公司) ("**Xilin Tonghe**") are substantial shareholders of Dongyue Peak. Dongying Macrolink Salt is an associate of Mr. Fu Kwan, an executive Director and Macrolink International, the controlling shareholder of the Company. The transactions contemplated under the Revised Purchase Agreements and the Revised Annual Caps constituted continuing connected transactions under the Listing Rules.

The Revised Annual Caps for each of the three years ending 31 December 2010 are set out below:

	For the year ending 31 December		
	2008 RMB('000)	2009 RMB('000)	2010 RMB('000)
Revised Chifeng Peak Copper Purchase Agreement	155,000	271,000	330,000
Revised Xilin Tonghe Purchase Agreement	52,000	59,000	66,700
Revised Dongying Macrolink Salt Purchase Agreement	22,000	33,000	46,000

The Revised Chifeng Peak Copper Purchase Agreement, the Revised Annual Caps and all matters contemplated thereunder (the "**Ordinary Resolution**") was duly passed (as proposed) by the Independent Shareholders by way of poll at the extraordinary general meeting of the Company held on 30 May 2008 (the "**EGM**").

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE BOARD OF DIRECTORS OF DONGYUE GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 22 to 46, which comprise the condensed consolidated balance sheet of Dongyue Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with 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.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2008

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2008 RMB'000 Unaudited	As at 31 December 2007 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	3,425,946	3,200,309
Lease prepayments	*5*	203,684	204,409
Intangible assets	*5*	9,183	10,693
Interest in an associate		13,537	9,633
Available-for-sale financial assets		6,000	6,000
Deferred income tax assets		55,140	54,513
		3,713,490	3,485,557
Current assets			
Inventories	*6*	543,961	455,601
Trade and bill receivables	*7*	785,070	305,597
Prepayments, deposits and other receivables		279,015	227,767
Pledged bank deposits	*8*	372,140	606,447
Cash and cash equivalents	*9*	692,643	1,455,583
		2,672,829	3,050,995
Total assets		6,386,319	6,536,552
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*10*	197,854	197,515
Other reserves		1,407,951	1,415,133
Retained earnings		219,696	232,912
		1,825,501	1,845,560
Minority interests in equity		266,548	235,437
Total equity		2,092,049	2,080,997

	Note	As at 30 June 2008 RMB'000 Unaudited	As at 31 December 2007 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	911,754	892,768
Deferred income		180,224	168,789
		1,091,978	1,061,557
Current liabilities			
Trade and bill payables	*11*	1,142,816	1,575,173
Accruals and other payables	*12*	354,858	523,297
Borrowings	*13*	1,682,280	1,246,829
Current income tax liabilities		22,338	48,699
		3,202,292	3,393,998
Total liabilities		4,294,270	4,455,555
Total equity and liabilities		6,386,319	6,536,552
Net current liabilities		(529,463)	(343,003)
Total assets less current liabilities		3,184,027	3,142,554

Zhang Jianhong
Director

Cui Tongzheng
Director

The notes on pages 27 to 46 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Six months ended 30 June 2008 RMB'000 Unaudited	2007 RMB'000 Audited
Revenue	*4*	2,086,515	1,121,114
Cost of sales		(1,731,247)	(871,822)
Gross profit		355,268	249,292
Selling and marketing expenses		(82,689)	(55,585)
Administrative expenses		(107,425)	(70,733)
Other income		6,944	9,094
Other (losses)/gain — net	*14*	(2,425)	2,558
Operating profit	*15*	169,673	134,626
Finance income		16,629	4,124
Finance costs		(81,288)	(50,482)
Finance costs — net	*16*	(64,659)	(46,358)
Share of loss of an associate		(96)	(453)
Profit before income tax		104,918	87,815
Income tax expense	*17*	(26,632)	(14,047)
Profit for the period		78,286	73,768
Attributable to:			
Equity holders of the Company		60,737	60,222
Minority interests		17,549	13,546
		78,286	73,768
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
— basic	*18*	0.03	0.05
— diluted	*18*	0.03	0.05
Dividend	*19*	—	—

The notes on pages 27 to 46 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 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 period	—	—	60,222	60,222	13,546	73,768
Acquisition of further interest in subsidiaries from minority shareholders	—	(445)	—	(445)	(50,755)	(51,200)
Issue of shares to equity holders for cash	57,954	306,767	—	364,721	—	364,721
Contributions from minority shareholders	—	—	—	—	24,500	24,500
Dividends declared by subsidiaries of the Company	—	—	—	—	(8,479)	(8,479)
Dividends declared by the Company	—	—	(32,500)	(32,500)	—	(32,500)
Balance at 30 June 2007 (Audited)	216,272	361,145	125,997	703,414	192,459	895,873
Balance at 1 January 2008	197,515	1,415,133	232,912	1,845,560	235,437	2,080,997
Profit for the period	—	—	60,737	60,737	17,549	78,286
Issue of new shares upon listing *(note 10)*	339	6,966	—	7,305	—	7,305
Transactions with minority shareholders arising from acquisition of further interest in subsidiaries	—	(24,248)	—	(24,248)	24,248	—
Share issue expenses	—	(202)	—	(202)	—	(202)
Share options granted to directors and employees	—	10,302	—	10,302	—	10,302
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	(10,686)	(10,686)
Dividend relating to 2007 paid in June 2008	—	—	(73,953)	(73,953)	—	(73,953)
Balance at 30 June 2008 (Unaudited)	197,854	1,407,951	219,696	1,825,501	266,548	2,092,049

The notes on pages 27 to 46 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Note	Six months ended 30 June 2008 RMB'000 Unaudited	2007 RMB'000 Audited
Cash flows from operating activities			
Cash generated from operations		(90,409)	205,114
Interest paid		(110,901)	(64,192)
Income tax paid		(53,621)	(13,530)
Net cash from operating activities		(254,931)	127,392
Cash flows from investing activities			
Investment in an associate		(4,000)	—
Acquisition of further interests in subsidiaries		—	(51,200)
Purchases of property, plant and equipment (PPE)		(893,941)	(648,662)
Proceeds from disposal of PPE		101	1,277
Purchases of land use rights and intangible assets	5	(2,466)	(26,622)
Interest received		14,990	4,124
Net cash used in investing activities		(885,316)	(721,083)
Cash flows from financing activities			
Cash proceeds from issuing shares in subsidiaries to minority shareholders		—	24,500
Proceeds form issuance of			
— redeemable preference shares		—	268,135
— ordinary shares (net of share issue expenses)		7,102	—
Proceeds from borrowings		1,300,533	1,092,864
Repayments of borrowings		(823,661)	(735,815)
Dividends paid		(73,953)	—
Dividends paid to minority shareholders of subsidiaries		(8,727)	—
Net cash from financing activities		401,294	649,684
Net increase in cash and cash equivalents		(738,953)	55,993
Cash and cash equivalents at start of the period		1,455,583	315,159
Exchange losses		(23,987)	—
Cash and cash equivalents at end of the period	9	692,643	371,152

The notes on pages 27 to 46 form an integral part of this condensed interim financial information.

1. General information

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 Company and its subsidiaries (collectively the "**Group**") are principally engaged in the manufacturing, distribution and sales of refrigerants, fluoropolymers, and 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 in 2007.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on 10 December 2007.

This condensed consolidated interim financial information was approved for issue on 20 September 2008.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with IAS 34, "**Interim financial reporting**". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with IFRSs.

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- IFRIC-Int 11, "IFRS 2 — Group and treasury share transactions"
- IFRIC-Int 12, "Service concession arrangements"
- IFRIC-Int 14, "IAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction"

3. Accounting policies (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.

- IAS 23 (revised), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs.

- IFRS 2 (amendment) "Share-based payment", effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of changes to vesting conditions and cancellations on the Group's Pre-IPO Share Option Scheme.

- IFRS 3 (revised), "Business combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates" and IAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

- IAS 1 (revised), "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.

- IAS 32 (amendment), "Financial instruments: presentation", and consequential amendments to IAS 1, "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.

- IFRIC-Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.

- IFRS 1 and IAS 27 (revised) "Cost of an investment in a subsidiary, jointly controlled entity or associate", and consequential amendments to IAS 18 "Revenue", IAS 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 36 "Impairment of Assets", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group is not a first-time adopter of IFRS.

4. Segment information

4.1 Primary reporting format — business segments

The Group is organised into three main business segments: (i) manufacture and sales of refrigerants and its side products and by-products (the "**Refrigerants Segment**"); (ii) manufacture and sales of polymer materials (the "**Polymer Segment**"), (iii) manufacture and sales of organic silicone (the "**Organic silicone Segment**"), and (iv) others (the "**Other Segment**"). Other segment refers to the product lines which produce fluoride such as Ammonium bifluoride. Refrigerants are mainly used for air-conditioners and refrigerators. Polymer materials are mainly used for the production of plastics. Organic silicones are mainly used in construction, automotive, electrical and electronics industries, and Ammonium bifluoride is mainly used in metallurgic industry and ceramic production.

Inter-segment sales were conducted at prices comparable to sales to third parties.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

The segment revenue (representing turnover of the Group) and results for the six months ended 30 June 2008 and 2007 are as follows:

Six months ended 30 June 2008

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Total gross segment revenue	1,723,258	373,463	231,110	43,734	(285,050)	2,086,515
Inter-segment revenue	(285,050)	—	—	—	285,050	—
Revenue*	1,438,208	373,463	231,110	43,734	—	2,086,515
Segment result	167,865	5,564	59,489	1,812	(19,616)	215,114
Unallocated costs						(45,441)
Finance costs — net *(note 16)*						(64,659)
Share of loss of an associate						(96)
Profit before income tax						104,918
Income tax expense *(note 17)*						(26,632)
Profit for the year						78,286
Other segment items						
Depreciation *(note 5)*	105,677	36,907	20,072	478	—	163,134
Amortisation *(note 5)*	2,904	611	1,186	—	—	4,701
Provision for impairment of trade and other receivables	853	889	—	—	—	1,742

* *Revenue in a segment also includes the sales of by-products and scraps. The CERs sales amount of RMB76,708,000 (2007: Nil) and the impact on segment result of RMB65,384,000, (2007: Nil) are included in the Refrigerants segment.*

4. Segment information (continued)

4.1 Primary reporting format — business segments (continued)

Six months ended 30 June 2007

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Total gross segment revenue	998,282	275,843	—	20,958	(173,969)	1,121,114
Inter-segment revenue	(173,969)	—	—	—	173,969	—
Revenue*	824,313	275,843	—	20,958	—	1,121,114
Segment result	115,338	24,366	(2,294)	687	(886)	137,211
Unallocated costs						(2,585)
Finance costs — net *(note 16)*						(46,358)
Share of profit of an associate						(453)
Profit before income tax						87,815
Income tax expense *(note 17)*						(14,047)
Profit for the year						73,768
Other segment items						
Depreciation *(note 5)*	62,273	21,687	—	393	—	84,353
Amortisation *(note 5)*	1,453	319	—	—	—	1,772
Provision for impairment of trade and other receivables	4,187	998	—	—	—	5,185

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 (note 5).

4. Segment information (continued)

4.1 Primary reporting format — business segments (continued)

Six months ended 30 June 2007

The segment assets and liabilities at 30 June 2008 and capital expenditure for the six months then ended are as follows:

	Refrigerants RMB'000	Polymer RMB'000	Organic silicon RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	4,354,555	1,019,640	1,572,398	131,625	(766,576)	6,311,642
Interest in an associate						13,537
Unallocated assets						61,140
Total assets						6,386,319
Segment liabilities	1,807,124	286,983	290,035	47,108	(753,352)	1,677,898
Unallocated liabilities						2,616,372
Total liabilities						4,294,270
Capital expenditure	352,995	23,911	16,448	899	—	394,253

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

	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
Capital expenditure	1,100,277	249,328	552,091	892	—	1,902,588

4. Segment information (continued)

4.2 Secondary reporting format — geographical segments

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

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
PRC	1,409,482	689,555
Japan	107,184	77,497
Korea	59,129	46,499
India	35,601	29,671
The United Arab Emirates	24,846	7,560
Thailand	23,215	11,192
Singapore	50,443	32,550
Malaysia	13,706	7,619
Africa	29,906	12,747
Europe	126,936	72,868
America	115,459	74,988
Other countries/regions	90,608	58,368
Total	2,086,515	1,121,114

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

5. Property, plant and equipment, lease prepayments and intangible assets

	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000
Six months ended 30 June 2008			
Opening net book amount 1 January 2008	3,200,309	204,409	10,693
Additions	391,787	2,466	—
Depreciation and amortisation charge	(163,134)	(3,191)	(1,510)
Disposals	(3,016)	—	—
Closing net book amount 30 June 2008	3,425,946	203,684	9,183
Six months ended 30 June 2007			
Opening net book amount 1 January 2007	1,598,198	108,488	7,833
Additions	872,816	26,545	4,021
Depreciation and amortisation charge	(84,353)	(1,007)	(765)
Disposals	(1,056)	—	—
Closing net book amount 30 June 2007	2,385,605	134,026	11,089

(a) As at 30 June 2008, bank borrowings and borrowings from independent third parties are secured by certain property, plant and equipment and lease prepayments with an aggregate carrying value of approximately RMB1,571,095,000 (31 December 2007: RMB960,472,000) (note 13).

6. Inventories

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Raw materials	286,054	230,921
Work in progress	65,216	35,846
Finished goods	192,691	188,834
	543,961	455,601

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,058,510,000 (six months period ended 30 June 2007: RMB528,473,000).

7. Trade and bill receivables

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Trade receivables	413,897	220,098
Bill receivables	384,889	97,473
	798,786	317,571
Less: provision for impairment	(13,716)	(11,974)
Trade and bill receivables — net	785,070	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 are as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Within 90 days	772,786	288,569
91 to 180 days	10,692	16,575
181 to 365 days	5,421	3,064
1 to 2 years	1,313	1,416
2 to 3 years	1,064	2,349
Over 3 years	7,510	5,598
	798,786	317,571

Bill receivables do not have any significant credit risk as the settlement of which has been guaranteed by reputable banks or state-owned banks. Trade receivables within credit period are normally not considered impaired.

As at 30 June 2008, bank borrowings are secured by certain account receivables with an aggregate carrying value of approximately RMB17,065,000 (31 December 2007: Nil) (note 13).

8. Pledged bank deposits

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Deposits placed in banks as collaterals against trade finance facilities granted by banks	372,140	606,447
Denominated in:		
— RMB	354,853	606,014
— USD	17,287	433
	372,140	606,447
Maximum exposure to credit risk	372,140	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 3.78% (6 months ended 30 June 2007: 2.61%) per annum.

9. Cash and cash equivalents

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Cash at bank and in hand	692,643	1,455,583
Denominated in:		
— RMB	506,742	286,256
— USD	172,561	174,297
— HKD	9,127	995,030
— EURO	4,213	—
	692,643	1,455,583
Maximum exposure to credit risk (net of cash in hand)	690,081	1,454,061

10. Share capital

	Number of shares (thousands)	Ordinary shares RMB'000	Preference shares RMB'000	Total RMB'000
Opening balance 1 January 2008	2,080,000	197,515	—	197,515
Issue of additional ordinary shares upon listing *(note a)*	3,623	339	—	339
At 30 June 2008	2,083,623	197,854	—	197,854
Opening balance 1 January 2007	200,000	158,318	—	158,318
Proceeds from shares issued — preference shares	75,000	—	57,954	57,954
At 30 June 2007	275,000	158,318	57,954	216,272

(a) On 3 January 2008, the Company issued and allotted 3,623,000 additional 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 issuing of the 3,623,000 additional ordinary shares, of which paid up capital was approximately RMB339,000 and share premium was approximately RMB6,966,000.

(b) Share options outstanding at the end of the period have the following commencement dates of the relevant exercise periods and exercise price:

Date of commencement of exercise period	Exercise price HK dollar per share	Share options (thousands) 30 June 2008	Share options (thousands) 31 December 2007
10 December 2008	2.16	16,746	16,848
10 December 2009	2.16	16,746	16,848
10 December 2010	2.16	22,328	22,464
		55,820	56,727

907,637 share options were lapsed in the six months period ended 30 June 2008.

11. Trade and bill payables

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Trade payables		
— third parties	725,976	761,902
— related parties *(note 20)*	11,470	—
	737,446	761,902
Bill payables		
— third parties	405,370	813,271
	1,142,816	1,575,173

The carrying amounts of trade and bill 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 are as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Within 30 days	242,352	903,892
31 to 90 days	452,130	403,934
91 to 180 days	254,389	228,615
181 to 365 days	172,347	30,165
1 year to 2 years	18,032	8,567
Over 2 years	3,566	—
	1,142,816	1,575,173

12. Accruals and other payables

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Deposits and advance from customers	124,494	114,373
Salaries and bonus payable	17,442	43,851
Social contribution payable	39,810	37,216
Export related expense payable	14,356	14,105
Interest payable	2,656	391
Water and electricity fee	14,147	7,838
Welfare payable	7,485	5,252
Due to a related party *(note 20)*	594	781
Auditor's remuneration payable	2,000	3,430
CDM payable*	80,223	250,827
Advance from local government	38,000	38,056
Dividend payable to minority shareholders of subsidiary	2,938	979
Others	10,713	6,198
Total	354,858	523,297

The carrying amounts of accruals and other payables approximate their fair value.

* *According to PRC regulation, 65% of the proceeds from sales of CERs belongs to PRC government and the Group has collected this portion on behalf of the PRC government.*

13. Borrowings

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Non-current	911,754	892,768
Current	1,682,280	1,246,829
Total	2,594,034	2,139,597

Movements in borrowings is analysed as follows:

Six months ended 30 June 2008	
Opening amount 1 January 2008	2,139,597
Proceed from borrowings	1,300,533
Repayments of borrowings	(846,096)
Closing amount as at 30 June 2008	2,594,034
Six months ended 30 June 2007	
Opening amount 1 January 2007	1,455,352
Proceed from borrowings	1,092,864
Repayments of borrowings	(832,402)
Closing amount as at 30 June 2007	1,715,814

As at 30 June 2008, borrowings included secured liabilities of RMB768,451,000(31 December 2007: RMB859,258,000) which were secured by Group's property, plant and equipment of net book value of approximately RMB1,476,721,000 (31 December 2007: RMB872,249,000) and lease prepayments with net book amount of approximately RMB94,374,000(31 December 2007: RMB88,223,000) (note 5),and trade receivables with net book amount of approximately RMB17,065,000 (31 December 2007: nil) (note 7).

14. Other (losses)/gains, net

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Net foreign exchange losses	(2,526)	(821)
Gain on disposals of property, plant and equipment, net *(note 15)*	101	220
Gains on financial guarantee contracts	—	3,159
	(2,425)	2,558

15. Operating profit

The following items of unusual nature, size or incidence have been credited/charged to the operating profit during the period:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Provision for impairment of receivables	1,742	5,185
Gain on disposal of property, plant and equipment *(note 14)*	(101)	(220)
Government grants	(5,594)	(8,411)
Gain on financial guarantee contracts	—	(3,159)

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Financial assets were reviewed for impairment as at 30 June 2008. The impairment of receivables has been disclosed in note 7.

16. Finance income and costs

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Gross interest expenses on		
— bank borrowings	77,680	52,864
— other borrowings	10,961	6,205
	88,641	59,069
Less: interest expenses capitalised in property, plant and equipment	(8,905)	(8,587)
Net interest expenses	79,736	50,482
Foreign exchange loss on cash and bank in foreign currency	23,986	—
Less: Foreign exchange gain on borrowings	(22,434)	—
	1,552	—
Finance costs	81,288	50,482
Finance income		
— interest income on short-term bank deposits	(16,629)	(4,124)
Net finance costs	64,659	46,358

The borrowing costs have been capitalised at the weighted average interest rate of 7.30% (6 months ended 30 June 2007: 6.96%) per annum.

17. Income tax expense

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Current income tax	27,259	23,062
Deferred income tax		
— Credit for the period	(627)	(9,015)
	26,632	14,047

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average tax rate used for the first-half of 2008 is 26% (the estimated tax rate for the first-half of 2007 was 18%).

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.

Under the Enterprise Income Tax Law ("EIT Law"), an enterprise incorporated in a foreign country or region may be classified as either a "non-resident enterprise" or a "resident enterprise." If any enterprise incorporated in the foreign countries or regions has its "de facto management organization" located within the PRC, such enterprise will be recognized as a PRC tax resident enterprise ("TRE") and thus will normally be subject to enterprise income tax at the rate of 25% on its worldwide income. The Implementing Rules provide that "de facto management organization" means the body which exercises substantial and comprehensive control over the production and operation, personnel, accounting, property, etc., of an enterprise. Substantially all of the members of our management are currently located in the PRC and we expect them to continue to be located in the PRC in the foreseeable future. Therefore, we may be deemed to be a PRC tax resident enterprise and subject to an enterprise income tax rate of 25% on our worldwide income. We did not accrue any tax that may be deemed collectible should the tax authorities determine that the Company is a TRE.

The EIT Law provides that dividend income between qualified resident enterprises is exempted income, which the Implementing Rules have clarified to mean dividend received by a resident enterprise on equity interest directly owned in another resident enterprise. It is likely, therefore, that dividends we receive from our PRC subsidiaries would be exempted income under the EIT Law and the Implementing Rules if we are deemed to be a "resident enterprise."

17. Income tax expense (continued)

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

Applicable EIT rate

	Six months ended 30 June	
	2008	2007
Shandong Dongyue Chemicals Co., Ltd. ("**Dongyue Chemicals**")	25%	24%
Shandong Dongyue Polymers Co., Ltd. ("**Dongyue Polymers**")	18%	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%
Guangdong Dongyue Fluorine Chemicals Co., Ltd.	25%	N/A
Shandong Dongyue Organosilicon Material Co., Ltd. ("**Dongyue Organosilicon**")	0%	N/A

18. 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.

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Profit attributable to equity holders of the Company	60,737	60,222
Weighted average number of ordinary shares in issue	2,083,563,280	1,320,241,085
Basic earning per share (RMB per share)	0.03	0.05

On 10 December 2007, the Company issued and allotted 1,285,000,000 ordinary shares of HK$0.1 each at par to the shareholders whose names appear on the register of members of the Company on 15 November 2007 by the capitalisation of the share premium accounts.

The capitalisation lead to the ordinary shares outstanding increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented, and the calculation of earning per share for six months ended 30 June 2007 presented is adjusted retrospectively.

18. Earnings per share (continued)

(b) *Diluted*

Diluted earning per share is calculated 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 six months ended 30 June 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.

19. Dividends

A dividend that relates to the period to 31 December 2007 and that amounts to RMB73,953,000 was paid in June 2008 (2007: RMB32,500,000).

The Directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil)

20. Related party transactions

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. The remaining 46% of the shares are widely held.

The following transactions were carried out with related parties:

(a) *Purchases of goods and services*

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
— Minority shareholders of a subsidiary	45,210	7,154
— Associate	3,253	801

(b) *Acceptance of financial guarantee*

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
— Macro-Link SDN. BHD	—	56,000

20. Related party transactions (continued)

(c) Borrowings

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
— Minority shareholders of a subsidiary	5,000	—

(d) Key management compensation

Details of the directors' emoluments for the six months ended 30 June 2008 and 2007 are set out below:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Fees	354	—
Salary	4,220	435
Discretionary bonus	—	—
Pension scheme contributions	32	55
Other benefits	5,895	45
Total	10,501	535

(e) Period-end balances

	As at	
	30 June 2008 RMB'000	31 December 2007 RMB'000
Due from related parties		
— Prepayment for raw materials to a minority shareholder of a subsidiary	1,049	—
— associate	426	2,000
Due to a related party		
— a minority shareholder of a subsidiary *(note 11)*	11,470	—
— Macro-link SDN, BHD *(note 12)*	594	781
Borrowings		
— minority shareholders of a subsidiary	5,000	—

The related receivable and payable balances with related parties are unsecured, interest free and have no fixed repayment terms.

21. Commitments

Capital expenditure contracted for but not yet incurred is as follows:

	As at	
	30 June 2008 RMB'000	31 December 2007 RMB'000
Property, plant and equipment	59,795	48,775

22. 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 that as a result the Group should pay to the China Bluestar Group damages which they estimated would be RMB100 million or more (the "Alleged Claims").

The Company has announced on 18 May 2008 that the High People's Courts of Beijing Municipality issued a judgment dismissing the actions filed by China Bluestar Group against Dongyue Organic Silicone and that Dongyue Organic Silicone is not the appropriate defendant. On 29 May 2008 an appeal against such judgment was filed by China Bluestar Group and is pending decision from the court.

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 30 June 2008.

23. Events occurring after the balance sheet date

The Group acquired an additional interest of 16.78% in the share capital of Dongyue F&S from a minority shareholder for a cash consideration of RMB117,500,000 on 18 July 2008. After the acquisition, the Company has 99.46% equity interests in Dongyue F&S.

24. Seasonality

Sales of refrigerants are affected by seasonality. The period from March to July is generally the peak season of sales of refrigerants due to the higher temperature in the PRC. Sales of refrigerants in the first quarter of the year is usually the lowest during the whole year due to the lower temperature in the PRC, the New Year's holiday, the Chinese spring holiday and annual inspection on production facilities. Other products generally are not affected by seasonality factors.

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