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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Dongyue Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission.



DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 189)

CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



China Everbright Capital Limited

A letter from the Independent Board Committee containing its recommendation to the independent Shareholders is set out on page 8 of this circular. A letter from China Everbright Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 9 to 13 of this circular.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Calt Silicone”	高爾特硅橡膠製品(南京)有限公司 (Calt Silicone Rubber Products (Nanjing) Co. Ltd.), a limited liability company established in the PRC, which owns 45% of the equity interest in Dongyue Silicone Rubber
“China Everbright”	China Everbright Capital Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supply Agreement and the transaction contemplated thereunder
“Commencement Date”	the day on which the Supply Agreement is signed
“Company”	Dongyue Group Limited, a company incorporated in the Cayman Islands with limited liabilities, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dongyue Organic Silicone”	山東東岳有機硅材料有限公司 (Shandong Dongyue Organosilicon Material Co., Ltd.), a limited liability company established in the PRC, which is directly held as to 84% by the Company
“Dongyue Silicone Rubber”	山東東岳硅橡膠有限公司 (Shandong Dongyue Silicone Rubber Co., Ltd.), a limited liability company established in the PRC, which is directly held as to 55% by Dongyue Organic Silicone and as to 45% by Calt Silicone
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising the independent non-executive Directors to advise the Independent Shareholders in respect of the Supply Agreement and the Transactions

DEFINITIONS

“Independent Shareholder(s)”	Shareholder(s) who is/are not required to abstain from voting at the general meeting in relation to the resolution for approving the Supply Agreement and the Transactions
“Latest Practicable Date”	18 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Proposed Annual Caps”	the proposed ceiling for the aggregate amounts of the Transactions for the relevant financial periods as detailed in the section headed “Proposed Annual Caps” in this circular
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Suppliers”	Dongyue Organic Silicone and Dongyue Silicone Rubber
“Supply Agreement”	the framework supply agreement dated 3 December 2008 entered into between Dongyue Organic Silicone and Dongyue Silicone Rubber as suppliers and Calt Silicone as purchaser in relation to the supply of organic silicone intermediate and organic silicone rubber to Calt Silicone
“Transactions”	means the transactions contemplated under the Supply Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

LETTER FROM THE BOARD



DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 189)

Executive Directors

Mr. Zhang Jianhong (*Chairman*)

Mr. Fu Kwan

Mr. Liu Chuanqi

Mr. Cui Tongzheng

Mr. Zhang Jian

Mr. Yang Erning

Registered Office

Scotia Centre

4th Floor, P.O. Box 2804

George Town, Grand Cayman

Cayman Islands

Non-executive Director

Mr. Shaw Sun Kan, Gordon

Principal place of business in

Hong Kong

Room 1501

Top Glory Tower

262 Gloucester Road

Causeway Bay

Hong Kong

Independent Non-executive Directors

Mr. Yue Run Dong

Mr. Liu Yi

Mr. Ting Leung Huel, Stephen

22 December 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

The Company announced on 3 December 2008 that Dongyue Organic Silicone and Dongyue Silicone Rubber, both subsidiaries of the Company, and Calt Silicone entered into the Supply Agreement in relation to the supply of organic silicone intermediate and organic silicone rubber to Calt Silicone for the period from the Commencement Date to 31 December 2010.

Calt Silicone is a substantial shareholder of Dongyue Silicone Rubber and is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Supply Agreement constitute continuing connected transactions under the Listing Rules.

LETTER FROM THE BOARD

Application had been made to the Stock Exchange for a waiver of the requirement of the Independent Shareholders' approval to the Supply Agreement be given by a majority vote at a general meeting of the Shareholders and to accept a written Independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules and the Stock Exchange has granted such a waiver to the Company.

The purpose of this circular is to provide you with further information regarding, among other things, the Supply Agreement; the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Transactions and the Proposed Annual Caps; and the advice from China Everbright to the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the Proposed Annual Caps.

THE SUPPLY AGREEMENT

Date: 3 December 2008

Parties: Suppliers: Dongyue Organic Silicone and Dongyue Silicone Rubber, both subsidiaries of the Company

Purchaser: Calt Silicone, a substantial shareholder of Dongyue Silicone Rubber

Subject: Pursuant to the Supply Agreement, Calt Silicone, which is principally engaged in the production, processing and selling of organic silicone rubber products and nanocomposite insulating products, agreed to purchase organic silicone intermediate and organic silicone rubber from the Suppliers or any member of the Group from time to time.

There is no provision in the Supply Agreement requiring the Group to exclusively supply organic silicone intermediate and organic silicone rubber to Calt Silicone.

Term: A term for the period from the Commencement Date to 31 December 2010 and, subject to compliance with the Listing Rules, the Supply Agreement shall be capable of renewal.

Purchase price: The purchase prices for the organic silicone intermediate and organic silicone rubber payable by Calt Silicone to the Group shall be paid by means of cheque or remittance on normal commercial terms which will be determined after arm's length negotiation between the parties with reference to the then prevailing market price of organic silicone intermediate and organic silicone rubber.

LETTER FROM THE BOARD

PROPOSED ANNUAL CAPS

The Proposed Annual Caps for the Transactions under the Supply Agreement in respect of the relevant financial periods are set out below:

	From the Commencement Date to 31 December 2008 <i>RMB('000)</i>	For the year ending 31 December 2009 <i>RMB('000)</i>	For the year ending 31 December 2010 <i>RMB('000)</i>
The Supply Agreement	73,000	247,000	357,000

The Supply Agreement is a new agreement and there is no historical connected transaction record between the Suppliers and Calt Silicone. The anticipated Proposed Annual Caps were determined by reference to a number of factors such as the production capacity of the Group, the expected selling price of organic silicone intermediate and organic silicone rubber and the expected purchase orders of approximate 3,400 tons, 12,000 tons and 18,000 tons organic silicone intermediate and organic silicone rubber to be placed by Calt Silicone with the Group to cater for the anticipated demand of such organic silicone products for production of related products by Calt Silicone for the fourth quarter of 2008 and the years ending 2009 and 2010.

If the amount under the Transactions for any of the above years exceeds the Proposed Annual Caps, the Company will comply with the relevant requirements as stipulated under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFIT OF ENTERING INTO THE SUPPLY AGREEMENT

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

As mentioned in the 2008 interim report of the Company, Dongyue Silicone Rubber was established to engage in the production and processing of downstream organic silicone products and in line with the Group's strategy, the Group will scale up its production of downstream organic silicone products at such time as appropriate. As the Group's production capacity in producing organic silicone monomers expands, the scale of deep-processing of organic silicone also expands. The Transactions are part of the ordinary and usual course of business of the Group and the Transactions will enable the Group to utilize its production facilities, secure a source of income from trading of organic silicone intermediate and organic silicone rubber and bring reasonable return to the Group.

The Directors (including the independent non-executive Directors) consider that the Transactions have been entered into in the ordinary course of business of the Group and on normal commercial terms; and the terms of the Supply Agreement and the Proposed Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

IMPLICATIONS OF THE LISTING RULES

Calt Silicone is a substantial shareholder of Dongyue Silicone Rubber and is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Supply Agreement constitute continuing connected transactions under the Listing Rules.

Given that the relevant applicable percentage ratios for determining the value for the Transactions are expected to be 2.5% or above on an annual basis and the annual consideration is more than HK\$10,000,000, the Transactions shall constitute non-exempt continuing connected transactions and fall within Rule 14A.35 of the Listing Rules, and be subject to the disclosure and Independent Shareholders' approval requirements under the Listing Rules.

Application has been made to the Stock Exchange for a waiver of the requirement of the Independent Shareholders' approval to the Supply Agreement be given by a majority vote at a general meeting of the Shareholders and to accept a written Independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules and the Stock Exchange granted such a waiver to the Company on 5 November 2008 as (i) no Shareholder has a material interest in the Supply Agreement and is required to abstain from voting if the Company were to convene a general meeting for the approval of the Supply Agreement; and (ii) the Company has obtained a written Independent Shareholders' approval of the following closely allied Shareholders, who together hold 1,134,545,454 Shares, representing approximately 54.44% of the current issued share capital of the Company giving the right to attend and vote at the general meeting of the Company to approve the Supply Agreement. Details of the closely allied Shareholders are as follows:

Shareholders	No. of Shares held	Approximate % of the issued share capital
MACRO-LINK International Investment Co., Ltd (<i>Note 1</i>)	731,781,818	35.12%
Dongyue Team Limited (<i>Note 2</i>)	166,551,273	7.99%
Dongyue Initiator Limited (<i>Note 3</i>)	148,852,363	7.14%
Dongyue Wealth Limited (<i>Note 4</i>)	<u>87,360,000</u>	<u>4.19%</u>
	<u><u>1,134,545,454</u></u>	<u><u>54.44%</u></u>

Notes:

- These Shares are directly held by MACRO-LINK International Investment Co., Ltd which is in turn wholly owned by Macro-Link Sdn Bhd, a company which is owned as to 40% by Mr. Fu Kwan, an executive director of the Company, and as to 60% by six individuals.
- Pursuant to the disclosure of interest under the SFO, Mr. Zhang Jianhong, the Chairman of the Company, holds 100% interest in Dongyue Team Limited.
- Pursuant to the disclosure of interest under the SFO, Mr. Cui Tongzheng, an executive director of the Company, holds 100% interest in Dongyue Initiator Limited.
- Pursuant to the disclosure of interest under the SFO, Mr. Liu Chuanqi, an executive director of the Company, holds 100% interest in Dongyue Wealth Limited.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 66 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded

- (i) by the chairman of the meeting; or
- (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or
- (v) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five percent (5%) or more of the total voting rights at such meeting.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 8 of this circular. Your attention is also drawn to the letter of advice from China Everbright which contains, among other things, their advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the Proposed Annual Caps, and the principal factors and reasons considered by them in arriving at such advice. The text of the letter from China Everbright is set out on pages 9 to 13 of this circular.

The Independent Board Committee, having taken into account the advice of China Everbright, considers that the terms of the Supply Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms thereof including the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to the information contained in the appendix to this circular.

Yours faithfully,
For and on behalf of
Dongyue Group Limited
Zhang Jianhong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 189)

22 December 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 22 December 2008 (the “**Circular**”) of which this letter forms part. Unless the context otherwise defines, terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in connection with the terms of the Transactions and the Proposed Annual Caps. China Everbright has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transactions and the Proposed Annual Caps.

We wish to draw your attention to the letter from the Board as set out on pages 3 to 7 and the letter from China Everbright as set out on pages 9 to 13 of the Circular respectively.

Having considered the principal factors and reasons considered by, and the advice of China Everbright as set out in its letter of advice, we consider that the terms of the Supply Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms thereof including the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Supply Agreement and the transaction contemplated thereunder, we would recommend the Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,

Independent Board Committee

Mr. Yue Run Dong

Independent

Non-executive Director

Mr. Liu Yi

Independent

Non-executive Director

Mr. Ting Leung Huel, Stephen

Independent

Non-executive Director

LETTER FROM CHINA EVERBRIGHT

The following is the text of the “Letter from China Everbright” to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



22 December 2008

*To the Independent Board Committee and
the independent Shareholders of Dongyue Group Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions (the “**Transactions**”) pursuant to the Supply Agreement. Details of the Supply Agreement and the Proposed Annual Caps are contained in the Letter from the Board (the “**Letter from the Board**”) of the Circular to the Shareholders dated 22 December 2008 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

As Calt Silicone is a substantial shareholder of Dongyue Silicone Rubber, which is a non-wholly-owned subsidiary of the Company, Calt Silicone is a connected person to the Company under the Listing Rules. The sales contemplated under the Supply Agreement constitute continuing connected transactions of the Company.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management (the “**Management**”) of the Company and have assumed that such information, facts and opinions are true and accurate. We have also sought and received confirmation from the Directors that no material factors have been omitted from the information supplied and opinions expressed to us. However, we have not conducted any independent investigation into the business, operations or financial condition of the Group and Calt Silicone. We have assumed that all statements and presentations made or referred to in the Circular were accurate at the time when they were made and are true at the date of the Circular.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby China Everbright will receive any benefits from the Group, Calt Silicone or any of their respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our view on the Transactions, we have taken into consideration the principal factors and reasons as set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

(1) Background of and reasons for the Transactions

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

As stated in the Letter from the Board, Dongyue Silicone Rubber and Dongyue Organic Silicone are engaged in the production and processing of downstream organic silicone products (“**Organic Silicone Products**”), including organic silicone intermediate and organic silicone rubber. As advised by the Management, Dongyue Organic Silicone commenced to produce organic silicone intermediate in December 2007, and the production line of Dongyue Silicone Rubber for organic silicone rubber is expected to commence operation in the second half of 2009.

As Calt Silicone, which is principally engaged in the production, processing and selling of organic silicone rubber products and nanocomposite insulating products, has a need to procure Organic Silicone Products as raw materials for production process on a recurring basis, it is advised that the sales of Organic Silicone Products by the Group to Calt Silicon are normal and in the ordinary course of business for both Calt Silicone and the Group.

In addition, we are advised that, through the recurring sales under the Supply Agreement, the Transactions will enable the Group to (i) secure a source of stable income from Calt Silicone and bring reasonable return to the Group; and (ii) enhance the utilization rate of the production facility of the Group.

Having considered the aforesaid, together with (i) business nature of Calt Silicone and the Group; and (ii) the non-exclusive nature of the Supply Agreement, we are of the view that the entering into of the Supply Agreement falls within the ordinary and usual course of business of the Group; and it is in the interests of the Group and its Shareholders as a whole.

(2) Principal terms of the Supply Agreement and comparison with independent third parties

Pursuant to the Supply Agreement, (i) Dongyue Organic Silicone and Dongyue Silicone Rubber (both subsidiaries of the Company) have agreed to sell; and (ii) Calt Silicone has agreed to purchase Organic Silicone Products for a term from the Commencement Date to 31 December 2010.

The purchase prices for Organic Silicone Products payable by Calt Silicone to the Group shall be paid by means of cheque or remittance on normal commercial terms which will be determined after arm’s length negotiation between the parties with reference to the then prevailing market price of Organic Silicone Products.

LETTER FROM CHINA EVERBRIGHT

In view of the above, the Directors consider that the pricing basis of the Supply Agreement is determined on normal commercial terms and with reference to the market prices of Organic Silicone Products, which is mainly driven by the market supply and demand situation from time to time.

To assess the reasonableness of the pricing basis and payment term under the Supply Agreement relating to the supply of Organic Silicone Products to Calt Silicone, we have reviewed, on a sample basis, sales contracts entered into between the Group and its independent customers in relation thereto. Having reviewed the aforesaid documents, we found that the terms of the Supply Agreement and the selling prices of Organic Silicone Products offered to Calt Silicone are comparable to and no less favourable than that offered to independent third parties. Therefore, we concur with the view of the Management that the terms of Supply Agreement are fair and reasonable and on normal commercial terms.

Shareholders should note that there is no provision in the Supply Agreement requiring the Group to supply Organic Silicone Products to Calt Silicone exclusively. In other words, the Group is not obligated to supply Organic Silicone Products to Calt Silicone and would only do so if it is in the commercial interests of the Group, and it does not restrict the Group from selling Organic Silicone Products to third parties. Therefore, we consider the Supply Agreement provide commercial flexibility to the Group to transact with other potential customers in the event that the Group might not be able to agree with any terms or pricing with Calt Silicone.

(3) Proposed Annual Caps

The table below sets forth the Proposed Annual Caps for the period from the Commencement Date to 31 December 2010.

	Proposed Annual Caps (RMB'million)
For the period from the Commencement Date to 31 December 2008	73
For the year ending 31 December 2009	247
For the year ending 31 December 2010	357

In assessing the reasonableness of the Proposed Annual Caps, we have discussed with the Management regarding the relevant underlying principal assumptions and the bases adopted for the determination of the Proposed Annual Caps, and understand that the Company has taken into account the following factors:

(A) *The production capacity of the Suppliers*

Dongyue Silicone Rubber is a newly established producer of organic silicone rubber products. Its production line for organic silicone rubber will not commence operation until the second half of 2009. As a result, it limits the anticipated sales by the Suppliers to Calt Silicone during the period from the Commencement Date to 31 December 2008.

LETTER FROM CHINA EVERBRIGHT

Taking into account that (i) the production line of Dongyue Silicone Rubber for organic silicone rubber with annual production capacity of approximately 20,000 tonnes is expected to commence operation in the second half of 2009; and (ii) new production line of Dongyue Organic Silicone for organic silicone intermediate with annual production capacity of approximately 45,000 tonnes is planned to commence operation in the second half of 2010, the production capacity of the Suppliers will be further expanded, and therefore, the Suppliers will be capable to supply more Organic Silicone Products to Calt Silicone during the two years ending 31 December 2010.

(B) Anticipated purchase orders from Calt Silicone

As advised by the Management, the Group had discussed the Proposed Annual Caps with Calt Silicone. As indicated by Calt Silicone, the expected purchase orders of approximate 3,400 tons, 12,000 tons and 18,000 tons of Organic Silicone Products will be placed by Calt Silicone in order to cater for the anticipated demand of such raw materials by Calt Silicone for the fourth quarter of 2008 and the two years ending 2010.

(C) Anticipated selling price of Organic Silicone Products

As advised by the Management, it is expected that the selling price of Organic Silicone Products will decrease by approximately 3% in 2009 and 2010, respectively due to the increase in market supply. Therefore, the increase in the Proposed Annual Caps will be mainly driven by the growth in the quantities of Organic Silicone Products sold to Calt Silicone.

In view of the above, we concur with the view of the Management that the Proposed Annual Caps are reasonably determined and are fair and reasonable and on normal commercial terms.

However, Shareholders should note that the Proposed Annual Caps relate to future events and they do not represent a forecast of turnover to be generated from the Transactions. Consequently, we express no opinion as to how closely the actual amounts to be generated under the above transactions correspond with the Proposed Annual Caps.

(4) Requirements of the Listing Rules

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
 - 1. in the ordinary and usual course of business of the Group;
 - 2. either on normal commercial terms or, if there are not sufficient comparable continuing connected transaction to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - 3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM CHINA EVERBRIGHT

- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Transactions:
 - 1. have received the approval of the Board;
 - 2. are in accordance with the pricing policies of the Group;
 - 3. have been entered into in accordance with the relevant agreements governing the Transactions; and
 - 4. have not exceeded the Proposed Annual Caps;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Transactions to allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Annual Caps; (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Supply Agreement and the Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to regulate the Transactions and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that Transactions are on normal commercial terms, in the ordinary and usual course of business of the Company, and in the interests of the Company and the Independent Shareholders as a whole and the terms of the Supply Agreement and the Proposed Annual Caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Therefore, we would advise the Shareholders and the Independent Board Committee to recommend the Shareholders to approve the Transactions if a general meeting of the Shareholders were to be convened.

Yours faithfully,
For and on behalf of
China Everbright Capital Limited
Jacky Ho
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, 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 for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate % of issued share capital as at the Latest Practicable Date
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:

- 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, as at the Latest Practicable Date, 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 the Latest Practicable Date, 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 as at the Latest Practicable Date
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)

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares	Approximate % of issued share capital as at the Latest Practicable Date
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)	5.18(L)
Bank of China Limited	Corporate interest ⁵	108,000,000(L)	5.18(L)
Central SAFE Investments Limited	Corporate interest ⁵	108,000,000(L)	5.18(L)
Fulland Enterprises Corp.	Beneficial interest ⁵	108,000,000(L)	5.18(L)

Notes:

- 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.
- 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.
- 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.
- 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.
- 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.
- L: Long Position

(ii) *Interests in other members of the Group*

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
Shandong Dongyue Fluo-Silicon Materials Co. Ltd.	Shandong Hi Tech Investment Co. Ltd.	Corporate	16.78%
Zibo Dongyue Chlorine Co., Ltd.	Shandong Hi Tech Investment Co. Ltd. (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%
Dongyue Silicone Rubber	Calt Silicone	Corporate	45%

Note: Shandong Hi Tech Investment Co. Ltd. is a 16.78% equity holder in Shandong Dongyue Fluo-Silicon Materials Co. Ltd. which, in turn, owns 100% of Zibo Dongyue Chlorine Co., Ltd. Consequently, Shandong Hi Tech Investment Co. Ltd. indirectly owns more than 10% of Zibo Dongyue Chlorine Co., Ltd.

Save as disclosed above, as the Latest Practicable Date, 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.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed services contracts with the Company or any member of the Group which does not expire or which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of Directors or their respective associates had any interests in a business which is considered to compete or is likely to compete, directly or indirectly, with the business of the Group.

6. OTHER INTERESTS OF THE DIRECTORS

None of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited consolidated accounts of the Group were made up.

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting as at the Latest Practicable Date, and was significant in relation to the business of the Group.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there was no litigation or claim of material importance in which the Company is engaged or pending or which was threatened against any member of the Group.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
China Everbright	a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO.

China Everbright has given and has not withdrawn its written consent to the issue of this circular with reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, China Everbright does not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, China Everbright does not have any interest, either direct or indirect, in any assets which had been since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the following documents are available for inspection during 9:00 a.m. to 5:00 p.m. on any weekday (except for Saturdays and public holidays) at the office of the Company at Room 1501, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong up to and including 12 January 2009:

- (a) the Supply Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 8 of this circular;
- (c) the letter of advice from China Everbright, the text of which is set out on pages 9 to 13 of this circular; and
- (d) written consent of China Everbright, referred to in the paragraph headed “Expert and Consent” in this Appendix.

10. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of inconsistency.