

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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, licensed securities dealer or other registered institution 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, together with the accompanying form of proxy, to the purchaser or transferee(s), or to the licensed securities dealer or other registered institution in securities, bank, stockbroker or other agent through which the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 189)

- (1) PROPOSED OFF-MARKET SHARE BUY-BACK;**
- (2) PROPOSED DISPOSAL;**
- (3) MAJOR AND CONNECTED TRANSACTION; AND**
- (4) NOTICE OF EGM**

Independent Financial Adviser



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 8 to 35 of this circular. A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on pages 36 to 37 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders is set out on pages 38 to 82 of this circular.

A notice convening the EGM of the Company to be held at Event Space D, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong, on Monday, 18 December 2023 at 10 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

30 November 2023

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DEFINITIONS

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

“2023 Interim Report”	the interim report of the Company for the six months ended 30 June 2023
“acting in concert”	has the meaning as defined under the Takeovers Code
“Announcement”	the announcement of the Company dated 24 October 2023 in relation to the Transactions
“Board”	the board of Directors
“Buy-back Price”	the proposed buy-back price of HK\$7.1 per Buy-back Share
“Buy-back Share(s)”	an aggregate of 520,977,818 Shares legally and beneficially owned by the Vendors, as to 370,977,818 Shares by MACRO-LINK International and 150,000,000 Shares by Macrolink Overseas
“BVI”	the British Virgin Islands
“Charged Shares”	an aggregate of 200,000,000 Shares which are subject to share charges respectively entered into by Macrolink Overseas and MACRO-LINK International as chargors, and Huantai Xincheng Enterprise Management Partnership (Limited Partnership)* (桓台信誠企業管理合夥企業(有限合夥)) and Zibo Antai Enterprise Management Partnership (Limited Partnership)* (淄博安泰企業管理合夥企業(有限合夥)) which are independent third parties, as chargees, being part of the Buy-back Shares
“Cheung Shek”	Cheung Shek Investment Limited (長石投資有限公司), a limited liability company established under the laws of the PRC and a substantial shareholder of the Company prior to the Share Buy-back Completion

DEFINITIONS

“Circular”	this circular in relation to the EGM containing, among other things, (a) further information in relation to the Share Buy-back and the Disposal; (b) the unaudited pro-forma financial statements of the Group; (c) the business valuation report of the Target Companies; (d) the letter from the Independent Board Committee to the Independent Shareholders; (e) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Buy-back and the Disposal; (f) the letters from the auditors and the Independent Financial Adviser on the Profit Forecast; (g) other information as required under the Listing Rules; and (h) a notice of the EGM
“Companies Act”	the Companies Act (as revised) of the Cayman Islands
“Company”	Dongyue Group Limited (東岳集團有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 189)
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Equity Interests by Dongyue Fluorosilicone Technology to the Purchaser
“Disposal Completion”	completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement
“Dongyue Fluorosilicone Technology”	Dongyue Fluorosilicone Science and Technology Group Co., Ltd.* (東岳氟硅科技集團有限公司), a limited liability company established under the laws of the PRC and a direct wholly-owned subsidiary of the Company
“Dongyue Hydrogen”	Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd.* (山東東岳未來氫能材料股份有限公司), a joint stock company established under the laws of the PRC and an associated company of the Company. As at the date of this circular, Dongyue Fluorosilicone Technology (a wholly-owned subsidiary of the Company) holds 10.03% equity interest in Dongyue Hydrogen, and Dongyue Organosilicon (held as to 57.75% by Dongyue Fluorosilicone Technology as at the date of this circular) holds 5.14% equity interest in Dongyue Hydrogen

DEFINITIONS

“Dongyue Organosilicon”	Shandong Dongyue Organosilicon Materials Co., Ltd.* (山東東岳有機硅材料股份有限公司), a joint stock limited company established under the laws of the PRC and an indirect non-wholly-owned subsidiary of the Company, the shares of which is listed on ChiNext of the Shenzhen Stock Exchange (Stock Code: 300821.SZ). As at the date of this circular, the Company through its wholly-owned subsidiary Dongyue Fluorosilicone Technology, is interested in approximately 57.75% equity interest in Dongyue Organosilicon
“Dongyue Polymers”	Shandong Dongyue Polymers Co., Ltd.* (山東東岳高分子材料有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Dongyue Wealth”	Dongyue Wealth Limited, a company incorporated in the BVI with limited liability and a shareholder of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, to approve the Transactions
“Equity Interests”	collectively, approximately 23.12% equity interest in Dongyue Polymers, approximately 13.35% equity interest in Dongyue Organosilicon and approximately 2.32% equity interest in Dongyue Hydrogen, being the subject matter of the Disposal
“Equity Transfer Agreement”	the equity transfer agreement dated 23 October 2023 entered into between Dongyue Fluorosilicone Technology and the Purchaser in relation to the Disposal
“Executive”	the Executive Director of the Corporate Finance Division of the SFC, or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board established and comprising all the independent non-executive Directors, being Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Ma Zhizhong, to advise the Independent Shareholders in respect of the Share Buy-back and the Disposal
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee in respect of the Share Buy-back and the Disposal
“Independent Shareholders”	Shareholders other than the Vendors Concert Group and Shareholders who have a material interest in the Share Buy-back or the Disposal which is different from the interests of all other Shareholders
“independent third party(ies)”	person(s) or company(ies) which is/are not connected with the Company, and is/are not connected person(s) of the Company
“Last Trading Day”	20 October 2023, being the last trading day of the Shares on the Stock Exchange prior to the issue of the Announcement
“Latest Practicable Date”	27 November 2023, 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
“Long Stop Date”	30 April 2024 (or such other date as the Vendors and the Company may agree)
“Macrolink Industrial”	Macro-link Industrial Investment Limited, a company incorporated in Hong Kong with limited liability and a substantial shareholder of the Company prior to the Share Buy-back Completion
“MACRO-LINK International”	MACRO-LINK International Investment Co., Ltd., a company incorporated in the BVI with limited liability, a substantial shareholder of the Company prior to the Share Buy-back Completion and one of the Vendors

DEFINITIONS

“Macrolink Overseas”	Macrolink Overseas Development Limited, a company incorporated in the BVI with limited liability, a substantial shareholder of the Company prior to the Share Buy-back Completion and one of the Vendors
“MLH”	Macrolink Holding Limited* (新華聯控股有限公司), a limited liability company established under the laws of the PRC and a substantial shareholder of the Company prior to the Share Buy-back Completion
“Mr. Fu”	Mr. Fu Kwan, an executive Director and a substantial Shareholder of the Company prior to the Share Buy-back Completion, and a director of MLH, Macrolink Industrial and MACRO-LINK International
“Mr. Zhang”	Mr. Zhang Jianhong, the chairman of the Board, an executive Director and a substantial Shareholder of the Company
“Mr. Zhang Group”	Mr. Zhang and parties acting in concert with him, being Dongyue Team Limited (wholly-owned by Mr. Zhang), and Qixin Investment and Dongyue Wealth which have agreed to exercise the voting power of their respective shareholding interests in the Company in alignment with Mr. Zhang
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Profit Forecast”	the unaudited consolidated net loss attributable to shareholders of Dongyue Organosilicon for the nine months ended 30 September 2023 of approximately RMB285,181,000, as published in the announcement of the Company dated 20 October 2023
“Purchaser”	MLH, being the purchaser under the Equity Transfer Agreement
“Qixin Investment”	Qixin Investment Management (Zibo) Co., Ltd.* (齊信投資管理(淄博)有限公司), a limited liability company established under the laws of the PRC and a shareholder of the Company
“Relevant Period”	the period commencing on the date which is 6 months prior to the date of the Announcement (i.e. 24 April 2023) up to and including the Latest Practicable Date

DEFINITIONS

“Restructuring Plan”	the proposal for restructuring the debts of MLH and bringing in new investors as formulated by the court-appointed administrators of MLH and submitted to the creditors’ meeting and the PRC court
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Buy-back”	the proposed buy-back of the Buy-back Shares by the Company from the Vendors for cancellation
“Share Buy-back Agreement”	the share buy-back agreement dated 23 October 2023 entered into between the Vendors and the Company in relation to the Share Buy-back
“Share Buy-back Completion”	completion of the Share Buy-back in accordance with the terms and conditions of the Share Buy-back Agreement
“Share Buy-backs Code”	the Hong Kong Code on Share Buy-backs
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	collectively, Dongyue Polymers, Dongyue Organosilicon and Dongyue Hydrogen
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction(s)”	collectively, the Share Buy-back and the Disposal, or either of the transaction
“Vendors”	collectively, MACRO-LINK International and Macrolink Overseas, being the vendors under the Share Buy-back Agreement

DEFINITIONS

“Vendors Concert Group”	the Vendors and parties acting in concert with any of them, including (i) Macrolink Industrial, MLH and Cheung Shek; (ii) the respective directors (and their close relatives (as defined under the Takeovers Code) and related trusts and companies controlled by any of the directors (including but not limited to New Pacific Glory Limited, a company wholly-owned by Ms. Liu Jing, a director of the Vendors, MLH, Macrolink Industrial and Cheung Shek), their close relatives or related trusts) of the Vendors, Macrolink Industrial, MLH and Cheung Shek; (iii) the shareholders of the Vendors, Macrolink Industrial, MLH and Cheung Shek; (iv) Mr. Fu, the ultimate beneficial owner of the Vendors, Macrolink Industrial, MLH and Cheung Shek; (v) Ms. Xiao Wenhui; and (vi) Mr. Zhang Jian
“%”	per cent

In this circular, unless the context otherwise requires, the terms “associate(s)”, “close associate(s)”, “connected person(s)”, “controlling shareholder(s)”, “percentage ratios”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

The English names of Chinese entities marked with “” are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

LETTER FROM THE BOARD

**DONGYUE
FEDERATION**
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. Wang Weidong (*President*)

Mr. Zhang Zhefeng

Mr. Zhang Jian

Registered office:

Vistra (Cayman) Limited

P.O. Box 31119

Grand Pavillion, Hibiscus Way

802 West Bay Road

Grand Cayman, KY1-1205

Cayman Islands

Independent non-executive Directors:

Mr. Ting Leung Huel, Stephen

Mr. Ma Zhizhong

Mr. Yang Xiaoyong

Principal place of business

in Hong Kong:

Room 2621, 26/F, Tower 1

Admiralty Centre

18 Harcourt Road

Admiralty

Hong Kong

30 November 2023

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED OFF-MARKET SHARE BUY-BACK;
(2) PROPOSED DISPOSAL;
(3) MAJOR AND CONNECTED TRANSACTION; AND
(4) NOTICE OF EGM**

Reference is made to the Announcement. The purpose of this circular is to provide you with, among other things, (a) further information in relation to the Share Buy-back and the Disposal; (b) the unaudited pro-forma financial statements of the Group; (c) the business valuation report of the Target Companies; (d) the letter from the Independent Board Committee to the Independent Shareholders; (e) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Buy-back and the Disposal; (f) the letters from the auditors and the Independent Financial Adviser on the Profit Forecast; (g) other information as required under the Listing Rules; and (h) a notice of the EGM.

LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to the announcements of the Company dated 15 August 2022 and 19 September 2023, respectively, in relation to the judicial restructuring of MLH (which wholly-owns the Vendors and is a substantial shareholder indirectly holding approximately 23.12% of the issued share capital of the Company as at the date of this circular) and the potential change in the shareholding of MLH in the Company. As stated in such announcements, MLH has been in discussions with its creditors and the court-appointed administrators on proposals for restructuring the debts of MLH. Any such restructuring plan shall be put forward to the creditors' meeting and be approved by the PRC court before implementation.

The Restructuring Plan of MLH is formulated by the court-appointed administrators of MLH for restructuring the debts of MLH and bringing in new investors. As the shareholding of MLH in the Company held through the Vendors is part of the asset subject to the restructuring and for reasons set out in the section headed "Reasons for and benefits of the Transactions" below, on 23 October 2023 (after trading hours), (i) the Company entered into the Share Buy-back Agreement with the Vendors (each being a wholly-owned subsidiary of MLH) pursuant to which the Vendors have proposed to sell, and the Company has proposed to buy-back for cancellation, an aggregate of 520,977,818 Shares (representing approximately 23.12% of the issued share capital of the Company) at an aggregate consideration of HK\$3,698,700,646 (equivalent to RMB3,456,729,576), being approximately HK\$7.1 per Buy-back Share; and (ii) Dongyue Fluorosilicone Technology, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with MLH pursuant to which Dongyue Fluorosilicone Technology has proposed to sell, and MLH has proposed to purchase, the respective Equity Interests in the Target Companies at an aggregate consideration of RMB3,456,729,576 (equivalent to HK\$3,698,700,646, consisting RMB1,752,000,000 (with regards to Dongyue Polymers), RMB1,539,729,576 (with regards to Dongyue Organosilicon) and RMB165,000,000 (with regards to Dongyue Hydrogen). The Share Buy-back and the Disposal are inter-conditional on each other with respect to the conditions of the other Transaction becoming unconditional.

II. THE SHARE BUY-BACK AGREEMENT

Date : 23 October 2023

Parties : (i) The Vendors (as vendors), each being a wholly-owned subsidiary of MLH; and
(ii) The Company (as purchaser)

Number of Buy-back Shares

An aggregate of 520,977,818 Shares, representing approximately 23.12% of the issued share capital of the Company as at the date of this circular.

LETTER FROM THE BOARD

Consideration

The aggregate consideration for the Share Buy-back is HK\$3,698,700,646 (equivalent to RMB3,456,729,576) and is expected to be paid in cash within approximately 90 working days (which means days other than Saturday, Sunday, government recognised public holidays in Cayman Islands, the BVI, the PRC and Hong Kong) after the Restructuring Plan has been approved by the PRC court, in up to five stages at intervals and amounts to be determined subject to the procedures and time required pursuant to the relevant foreign exchange controls requirements of the banks and relevant authorities in the PRC. It is expected that the Share Buy-back Completion will not commence until the aggregate consideration for the Share Buy-back is fully paid. The consideration for the Share Buy-back was determined following arm's length commercial negotiations between the Vendors and the Company, taking into account, inter alia, the aggregate consideration of the Disposal, the movements in the market price of the Shares over a period of 180 consecutive trading days and prevailing market conditions.

Dongyue Fluorosilicone Technology (as vendor under the Equity Transfer Agreement) will receive the consideration from the sale of the respective Equity Interests in the Target Companies in cash by up to five stages and upon receiving each payment of the consideration for the Disposal, the Company will then proceed to pay an amount no more than the consideration dollar amount received for the Disposal, to the Vendors for the repurchase of the corresponding amount of the Buy-back Shares.

The Buy-back Price represents:

- (i) a premium of approximately 32.93% to the closing price of HK\$5.34 per Share as quoted on the Stock Exchange on the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement;
- (ii) a premium of approximately 31.02% to the average closing price of HK\$5.42 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement;
- (iii) a premium of approximately 22.29% to the average closing price of HK\$5.80 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement;
- (iv) a premium of approximately 9.16% to the average closing price of HK\$6.50 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement;

LETTER FROM THE BOARD

- (v) a premium of approximately 9.39% to the average closing price of HK\$6.49 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement;
- (vi) a discount of approximately 4.03% to the average closing price of HK\$7.40 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement;
- (vii) a discount of approximately 7.07% over the audited net asset value per Share attributable to Shareholders as at 31 December 2022 of approximately HK\$7.64 per Share; and
- (viii) a premium of approximately 2.60% over the unaudited net asset value per Share attributable to Shareholders as at 30 June 2023 as published in the interim report of the Company for the six months ended 30 June 2023 of approximately HK\$6.92 per Share.

Conditions to the Share Buy-back Completion

The Share Buy-back Completion is conditional upon the satisfaction or the waiver (if applicable) of the following conditions on or before the Long Stop Date:

- (i) approval of the Share Buy-back Agreement and the transactions contemplated thereunder by at least three-fourths of the votes cast on a poll by Independent Shareholders in attendance in person or by proxy at the EGM;
- (ii) the Executive having granted and not having withdrawn or revoked the approval for the Share Buy-back;
- (iii) the Restructuring Plan of MLH having been submitted to the creditors' meeting and the PRC court, and the PRC court having handed down and not having withdrawn an order approving the Restructuring Plan of MLH;
- (iv) the Equity Transfer Agreement becoming unconditional upon the satisfaction of its conditions (save as to any conditions in relation to the Share Buy-back Agreement becoming unconditional);
- (v) there is no judgment, award, order, injunction, request or demand by any law, court, arbitration institution or any governmental or other agency that would restrict, prohibit or annul the Share Buy-back Agreement and the transactions contemplated thereunder;
- (vi) all representations and warranties given by the Vendors and the Company remaining true and accurate in all material aspects and not misleading; and
- (vii) the Charged Shares have been released in full.

LETTER FROM THE BOARD

Save for condition (vi) above which is waivable by the Vendors (as to representations and warranties given by the Company) and the Company (as to representations and warranties given by the Vendors), none of the conditions above is capable of being waived by the Vendors or the Company. The Restructuring Plan of MLH is expected to be submitted to the creditors' meeting and the PRC court no later than January 2024, and condition (iii) above is expected to be fulfilled on or before 30 April 2024. As to condition (vii), the Vendors have agreed to settle the liabilities due to the chargees before the Long Stop Date and the chargees to the Charged Shares are expected to release the share charges upon settlement of liabilities thereunder.

As at the date of this circular, none of the conditions have been fulfilled. If the conditions to the Share Buy-back Completion is not fulfilled or waived (as the case may be) on or before the Long Stop Date, the Share Buy-back Agreement will lapse.

Share Buy-back Completion

The Share Buy-back Completion and the transfer of all the Buy-back Shares will take place no later than 31 December 2024, subject to fulfilment or waiver (as the case may be) of all conditions under the Share Buy-back Agreement and payment of the consideration for the Share Buy-back in full by the Company.

If the Share Buy-back is not completed on or before 31 December 2024, the Vendors undertake to refund the consideration for the Share Buy-back they received to the Company, and the Buy-back Shares which have been transferred (if any) shall be transferred back to the Vendors.

Upon the Share Buy-back Completion and the Disposal Completion, the Company shall cancel the Buy-back Shares and any rights attaching thereto shall cease with effect from such cancellation.

The Company will comply with the applicable provisions and requirements pursuant to Rule 10.06(3) to Rule 10.06(5) of the Listing Rules with respect to the Share Buy-back and the Buy-back Shares.

III. FUNDING OF SHARE BUY-BACK

Under the Companies Act, only fully paid-up Shares can be bought back, and any buy-back of Shares by the Company may only be funded out of the Company's profits, a fresh issue of Shares made for the purpose, the Company's share premium account, or if so authorised by its articles of association and subject to the Companies Act, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be bought-back must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Act, out of capital. As at 30 June 2023, the Company had share premium of approximately RMB3,935,865,000 (equivalent to approximately HK\$4,211,375,550). The Company will use its share premium to fund and effect the Share Buy-back.

LETTER FROM THE BOARD

IV. EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the date of this circular; and (ii) immediately upon the Share Buy-back Completion (assuming there will be no other change in the aggregate shareholding of Mr. Zhang Group, and the issued share capital and the shareholding structure of the Company between the date of this circular up to the Share Buy-back Completion):

Name of Shareholder	As at the date of this circular		Immediately upon the Share Buy-back Completion	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Vendors Concert Group	529,481,909	23.49	8,504,091	0.49
<i>MACRO-LINK International⁽¹⁾</i>	370,977,818	16.46	—	—
<i>Macrolink Overseas⁽¹⁾</i>	150,000,000	6.66	—	—
Directors of Vendors and Vendors' parent companies ⁽²⁾	8,504,000	0.37	8,504,000	0.49
Mr. Zhang Jian ⁽²⁾	91	0.00	91	0.00
Independent Shareholders	1,724,207,546	76.51	1,724,207,546	99.51
Mr. Zhang Group	436,941,087	19.39	436,941,087	25.22
<i>Dongyue Team Limited⁽³⁾</i>	258,948,451	11.49	258,948,451	14.94
Mr. Zhang ⁽⁴⁾	7,147,636	0.32	7,147,636	0.41
Qixin Investment ⁽⁵⁾	95,219,000	4.22	95,219,000	5.50
Dongyue Wealth ⁽⁵⁾	75,626,000	3.36	75,626,000	4.37
Mr. Zhang Zhefeng ⁽⁴⁾	750,000	0.03	750,000	0.04
Other independent Shareholders ⁽⁶⁾	<u>1,286,516,459</u>	<u>57.08</u>	<u>1,286,516,459</u>	<u>74.25</u>
Total	<u>2,253,689,455</u>	<u>100.00</u>	<u>1,732,711,637</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

- (1) The ultimate beneficial owner of MACRO-LINK International and Macrolink Overseas is Mr. Fu.
- (2) This includes shareholding of directors (and their close relatives (as defined under the Takeovers Code), related trusts and companies controlled by any of the directors, their close relatives or related trusts) of the Vendors' parent companies (being Macrolink Industrial, MLH and Cheung Shek), namely (i) Ms. Liu Jing (a director of the Vendors, MLH, Macrolink Industrial and Cheung Shek) who holds 5,847,000 Shares; (ii) Mr. Ma Chenshan (a director of MLH and Cheung Shek) who holds 528,000 Shares; (iii) Ms. Xiao Wenhui (a director of MLH and Cheung Shek) who holds 1,070,000 Shares; (iv) Ms. Zhong Ping (the spouse of Mr. Feng Jianjun, a director of MLH and Cheung Shek) who holds 15,000 Shares; (v) Ms. Fu Shuangshuang (daughter of Mr. Fu and a director of MLH) who holds 250,000 Shares; (vi) Mr. Wu Xiangdong (close relative of Mr. Fu) who holds 789,000 Shares; and (vii) Ms. Wang Yi (a director of MACRO-LINK International and Macrolink Industrial) who holds 5,000 Share. Mr. Zhang Jian is an executive Director and is a member of the Vendors Concert Group.
- (3) Dongyue Team Limited is wholly-owned by Mr. Zhang.
- (4) Each of Mr. Zhang and Mr. Zhang Zhefeng is an executive Director, who does not have a material interest in the Transactions which is different from the interests of all other Shareholders and is not a member of nor acting in concert with the Vendors Concert Group.
- (5) As at the date of this circular, Qixin Investment which holds 95,219,000 Shares and Dongyue Wealth which holds 75,626,000 Shares, are parties that have agreed to exercise the voting power of their respective shareholding interests in the Company in alignment with Mr. Zhang, and are parties acting in concert with Mr. Zhang. Mr. Zhang Group collectively holds 19.39% of the issued share capital of the Company. Each of Qixin Investment and Dongyue Wealth does not have a material interest in the Transactions which is different from the interests of all other Shareholders and is not acting in concert with the Vendors Concert Group.
- (6) These include 76,707,000 Shares, representing approximately 3.4% of the issued share capital of the Company as at the date of this circular, held by Hong Kong Tai Li International Trading Company Limited, being the trustee of the employee share scheme of the Company and a wholly-owned subsidiary of the Company whose directors are employees of the Group. Under the employee share scheme, such Shares were purchased by the trustee on the Stock Exchange to be held for the benefit of the employees of the Group and have not been granted to any employees, Directors or any member of the Vendors Concert Group as at the date of this circular. Under the rules of the employee share scheme, the trustee is not entitled to exercise any voting rights in the Shares held by it on trust for the employees. None of the members of the Vendors Concert Group, Mr. Zhang nor members of Mr. Zhang Group are directors or shareholders of the trustee and the purchase of such Shares by the trustee were not funded by them. Accordingly, the trustee is not a party acting in concert with any member of the Vendors Concert Group or Mr. Zhang Group.
- (7) Save for the 2,253,689,455 Shares in issue, the Company has no other options, convertible securities, warrants or derivatives in respect of the Shares in issue as at the date of this circular.

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V. THE EQUITY TRANSFER AGREEMENT

- Date** : 23 October 2023
- Parties** : (i) Dongyue Fluorosilicone Technology (as vendor);
and
(ii) MLH (as purchaser)
- Assets being disposed of** : Pursuant to the terms of the Equity Transfer Agreement, Dongyue Fluorosilicone Technology has proposed to sell, and the Purchaser has proposed to purchase, the respective Equity Interests in the Target Companies comprising (i) approximately 23.12% equity interest in Dongyue Polymers; (ii) approximately 13.35% equity interest in Dongyue Organosilicon; and (iii) approximately 2.32% equity interest in Dongyue Hydrogen.
- The proportion of the respective Equity Interests in the Target Companies to be sold is the corresponding 23.12% equity interest held by the Company via Dongyue Fluorosilicone Technology in each of the Target Companies, which was determined based on and corresponds to the 23.12% Shares subject to the Share Buy-back.
- Consideration** : The aggregate consideration for the Disposal is RMB3,456,729,576 (equivalent to HK\$3,698,700,646), comprising RMB1,752,000,000 (equivalent to HK\$1,874,640,000, with regards to Dongyue Polymers), RMB1,539,729,576 (equivalent to HK\$1,647,510,646, with regards to Dongyue Organosilicon) and RMB165,000,000 (equivalent to HK\$176,550,000, with regards to Dongyue Hydrogen).

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Due to the large amount involved, it was agreed by the parties following arm's length commercial negotiation, such consideration will be payable and settled by the Purchaser in cash within approximately 90 working days (which means days a bank in the PRC is open for business to the public, including a Saturday or Sunday that is a government recognised compensated day, but excluding public holidays under the law and Saturday or Sunday that does not constitute such compensated day) after the Restructuring Plan has been approved by the PRC court, in up to five stages at intervals and amounts yet to be determined, subject to the procedures and time required pursuant to the relevant foreign exchange controls requirements of the banks and relevant authorities in the PRC. It is expected that the Disposal Completion will not commence until the aggregate consideration for the Disposal is fully paid. Based on the foregoing, the Board considers such payment terms to be fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

Dongyue Fluorosilicone Technology (as vendor) will receive the consideration from the sale of the respective Equity Interests in the Target Companies in cash by up to five stages and upon receiving each payment of the consideration for the Disposal, the Company will then proceed to pay an amount no more than the consideration dollar amount received for the Disposal, to the Vendors for the repurchase of the corresponding amount of the Buy-back Shares.

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- Basis of consideration** : The consideration for the Disposal was determined following arm's length commercial negotiations between Dongyue Fluorosilicone Technology and the Purchaser, taking into account:
- (i) as for Dongyue Organosilicon, the closing A-share trading price of RMB9.61 per A-share on 31 August 2023, being the latest month end date available when the Transactions were contemplated and when the parties negotiated and discussed the terms and conditions of the Disposal, including the consideration in September 2023, which is at a premium of approximately 120.08% to the proportional net asset value per A-share as at 31 December 2022 of approximately RMB4.37 per A-share and at a premium of approximately 133.99% to the proportional net asset value per A-share as at 30 June 2023 of approximately RMB4.11 per A-share; and

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- (ii) as for Dongyue Polymers and Dongyue Hydrogen, the respective historical financial performance, namely the trailing 12 months net profits ended 30 June 2023, which was estimated primarily based on the net profit for the year ended 31 December 2022 and the net profit for the six months ended 30 June 2022 and 2023, and taking into account the median price-to-earnings multiples of 5.628 x (as for Dongyue Polymers) and 44.987 x (as for Dongyue Hydrogen) of selected comparable companies. For further details of the comparable companies and the price-to-earning multiples, please refer to the section headed “Estimation of the market values of the Equity Interests in the Target Companies” in Appendix III to this circular. The Directors confirm that there had been no material change to the financial position, namely the net profit and net asset value of Dongyue Polymers and Dongyue Hydrogen since 30 June 2023 up to and including the date of the Equity Transfer Agreement. The consideration for the proportion of equity interests in Dongyue Hydrogen was at a premium of approximately 629.59% to its proportional net asset value as at 31 December 2022 of approximately RMB22,615,406. Despite the consideration for the proportion of equity interests in Dongyue Polymers was at a slight discount of approximately 19.79% to its proportional net asset value as at 31 December 2022 of approximately RMB2,184,130,216, considering that (i) it was based on a price-to-earnings multiple which is in line with comparable profit-making companies; (ii) it also represents a price-to-book multiple which is within the range of those of the selected comparable companies, and is higher than the median and the average of the price-to-book multiples of the selected comparable companies; (iii) Dongyue Polymers is only one of the Target Companies being part of the Disposal; and (iv) the Disposal, together with the Share Buy-back, is a part and parcel of one transaction to maintain the stability of the Company’s shareholding structure, the Board considers that the consideration for the equity interests in Dongyue Polymers is fair and reasonable, and in the interest of the Company and its shareholders as a whole.

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For purpose of the EGM and benefits of the Shareholders, the Company has engaged an independent professional valuer to conduct independent valuation in relation to the Target Companies and such valuation report is set out in Appendix III to this circular.

Based on the foregoing, the Board considers the consideration for the Disposal as a whole to be appropriate, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

- Conditions precedent** : The Disposal Completion is conditional upon the satisfaction of the following conditions:
- (i) the Share Buy-back Agreement becoming unconditional (save as to the condition(s) relating to the Equity Transfer Agreement becoming unconditional);
 - (ii) resolution(s) voted on by poll approving the Equity Transfer Agreement and the transactions contemplated thereunder having been passed at the EGM by more than 50% of the Independent Shareholders present at the EGM; and
 - (iii) the PRC court having handed down an order approving the Restructuring Plan of MLH.

As at the date of this circular, none of the above conditions have been fulfilled.

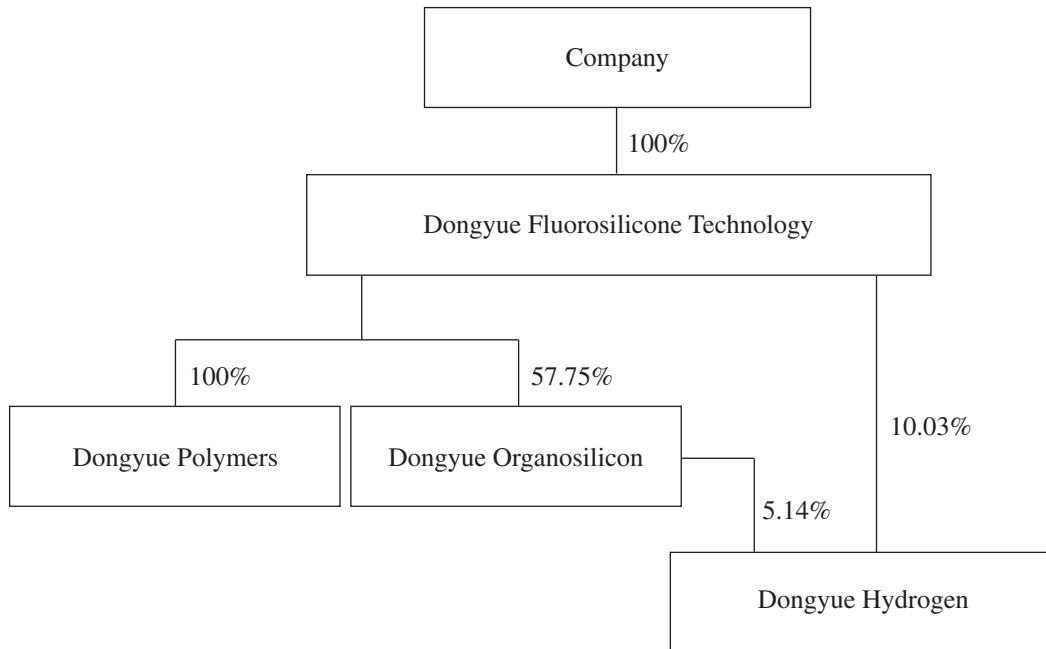
- Completion** : The Disposal Completion will take place no later than 31 December 2024, subject to fulfilment of all conditions under the Equity Transfer Agreement and payment of the consideration for the Disposal in full by MLH.

Immediately following the Disposal Completion, each of Dongyue Polymers and Dongyue Organosilicon will remain as a subsidiary of the Group, and Dongyue Hydrogen will remain as an associated company. If the Disposal is not completed for any reason not attributable to both parties and the Share Buy-back is completed (or the consideration for the Share Buy-back has been paid in part or in full), the Vendors undertake to refund the consideration for the Share Buy-back they received to the Company, and the Buy-back Shares which have been transferred (if any) shall be transferred back to the Vendors.

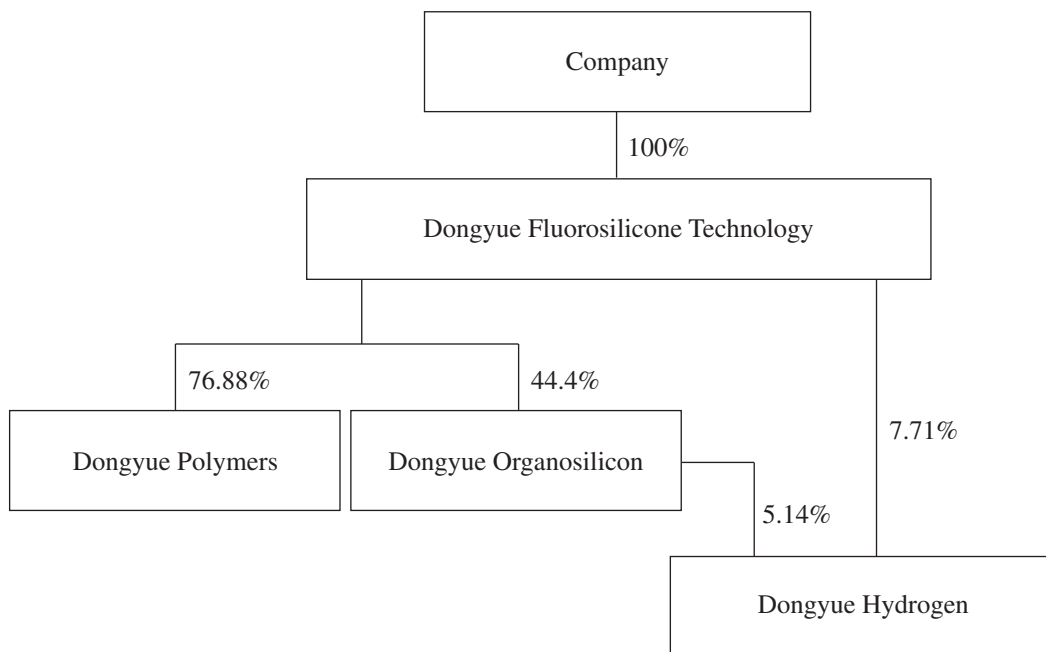
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Set out below is a simplified group structure of the Group which only illustrates the shareholding structure between the Company, Dongyue Fluorosilicone Technology and the Target Companies as at the date of this circular and immediately upon the Disposal Completion:

As at the date of this circular



Immediately upon the Disposal Completion



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VI. FINANCIAL EFFECTS OF THE SHARE BUY-BACK AND THE DISPOSAL

The difference between the gross proceeds for the Disposal of approximately RMB3,456,729,000, less professional fee of RMB4,364,000 and the net asset value of the respective Equity Interests in the Target Companies as at 30 June 2023 of RMB2,553,227,000, is approximately RMB899,138,000, which will be recognised as equity. The Disposal taken together with the Share Buy-back are not expected to have a profit and loss impact on the Company as a whole.

As a result of the Transactions, the unaudited consolidated net asset value per Share attributable to the Shareholders of the Company is expected to increase from RMB6.47 to RMB6.93 per Share.

Earnings per share

Upon completion of the Transactions, it is expected that no gain or loss attributable to the Transactions would be recorded by the Group in its consolidated profit and loss account. Based on the 2,253,689,455 Shares in issue as at the Latest Practicable Date, as amongst other things, the total number of issued Shares will be reduced from 2,253,689,455 Shares to 1,732,711,637 Shares as a result of the Share Buy-back and the cancellation of the Buy-back Shares, it is expected that the Group's basic earnings for the year ended 31 December 2022 on a per-Share basis on the pro forma basis would be enhanced from RMB1.71 per Share to RMB2.15 per Share.

Following the Disposal Completion, each of Dongyue Polymers and Donyue Organosilicon will remain as a subsidiary of the Company and their financial results will remain consolidated into the Group's consolidated accounts, whilst Dongyue Hydrogen will remain as an associated company of the Group and its results will continue to be accounted for using equity accounting method. Although the interest of the Company in each of the Target Companies will be reduced upon the Disposal Completion, the effect of the Transactions on the future earnings of the Group will depend on, amongst other things, the future business operations and profitability of the Target Companies.

Net asset value per Share attributable to the Shareholders

Following the Disposal Completion, each of Dongyue Polymers and Donyue Organosilicon will remain as a subsidiary of the Company and their assets and liabilities will remain consolidated into the Group's consolidated accounts, whilst Dongyue Hydrogen will remain as an associated company of the Group and continue to be accounted for using equity accounting method.

As illustrated in the unaudited pro forma financial information of the Group as set out in Appendix II to this circular, following the completion of the Transactions, the unaudited consolidated net asset value attributable to the Shareholders of the Company would decrease by approximately 17.6% from approximately RMB14,572,844,000 (equivalent to approximately HK\$15,592,943,000) to approximately RMB12,015,253,000 (equivalent to approximately HK\$12,856,321,000) mainly due to the agreed consideration

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value of the Share Buy-back of approximately RMB3,456,729,000. The difference between the gross proceeds for the Disposal of approximately RMB3,456,729,000, less professional fee of RMB4,364,000 and the net asset value of the respective Equity Interests in the Target Companies as at 30 June 2023 of RMB2,553,227,000, being approximately RMB899,138,000, which are to be recognised as equity.

As the number of issued Shares would be decreased from 2,253,689,455 to 1,732,711,637 as a result of the Share Buy-back and the cancellation of the Buy-back Shares, as illustrated in the unaudited pro forma financial information of the Group as set out in Appendix II to this circular, the unaudited consolidated net asset value per Share attributable to the Shareholders of the Company is expected to increase from RMB6.47 to RMB6.93 per Share.

Total liabilities

As at 31 December 2022, the total liabilities of the Group amounted to approximately RMB6,151,472,000. Upon completion of the Transactions, there will be no material change to the total liabilities of the Group.

Working capital

Given that the aggregate consideration for the Share Buy-back and the aggregate consideration for the Disposal are the same, and that the Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back, there would be no material net cash flow effect as a result of the Disposal.

VII. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Reference is made to the announcements of the Company dated 15 August 2022 and 19 September 2023, respectively, in relation to the judicial restructuring of MLH and the potential change in the shareholding of MLH in the Company. As stated in such announcements, MLH has been in discussions with its creditors and the court-appointed administrators on proposals for restructuring the debts of MLH. Any such restructuring plan shall be put forward to the creditors' meeting and be approved by the PRC court before implementation.

The Company noted that, while the judicial restructuring of MLH is solely a matter between MLH, its creditors and the court-appointed administrators, the outcome of such discussions may affect the shareholding structure of the Company in that MLH's shareholding in the Company (indirectly through MACRO-LINK International and Macrolink Overseas) may be transferred to its creditor(s) and/or independent third parties pursuant to MLH's judicial restructuring, thereby causing uncertainty in the Company's shareholding structure. In response to the enquiries from the stakeholders, including the customers and suppliers of Group, in relation to the judicial restructuring of MLH and the implication on the potential change and stability of the Company's shareholding structure, in August 2023, the management of the Company commenced discussions with its financial advisers, MLH and the court-appointed administrators to understand the background and status of the proposals for restructuring the debts of MLH. During these discussions, the possibility of conducting the proposed Share Buy-back was contemplated by the Company and discussed amongst the parties. The parties further

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discussed in September 2023 on the feasibility, structure, as well as the terms and conditions of the Transactions. On 28 September 2023, the court-appointed administrators of MLH confirmed the acceptance of the proposal on the Transactions, comprising the Share Buy-back and the Disposal, after which the parties further discussed the terms and conditions of the Transaction including, amongst other things, the consideration for the Transactions. Taking into consideration of the foregoing, and that (i) MLH as a substantial shareholder of the Company, has been supportive of the Company's business and management operations; (ii) it is expected that there would be no material net cash flow effect on the Company; and (iii) the earnings per Share and the unaudited consolidated net asset value per Share attributable to the Shareholders of the Company would be enhanced following the completion of the Transactions, the Company believes that the Share Buy-back and the Disposal which are inter-conditional on each other with respect to the conditions of the other Transaction being unconditional will be in the interest of the stability of the Company's shareholding structure. The Company has not only entered into the Share Buy-back but also entered into the Disposal as it enables the Company to minimise its cash outflow from the Share Buy-back and to preserve sufficient working capital for potential investment opportunities and projects, thereby maximising return for the shareholders of the Company. As at the date of this circular, there are no concrete plans or specific targets for such potential investment opportunities and projects. As the Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back, it is expected there to be no material net cash outflow effect on the Company.

With regards to the Share Buy-back, after arm's length negotiations, the Buy-back Price was fixed at HK\$7.1 per Buy-back Share, representing a premium of approximately 31.02% to the average closing price of approximately HK\$5.42 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement, and a premium of approximately 22.29% to the average closing price of approximately HK\$5.80 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the last trading day of the Shares on the Stock Exchange prior to the date of the Share Buy-back Agreement. The Board (including members of the Independent Board Committee after taken advice from the Independent Financial Adviser) considers the premium to be fair and reasonable for reasons including the following:

- (i) given creditors of MLH come from different industries that are not necessarily similar to that of the Group, in the event that there be a change in the identity of the single largest Shareholder of the Company as a result of the transfer to MLH's creditors and/or independent third parties, it will not be in the interests of the Company and the Shareholders as a whole;
- (ii) if MLH's indirect shareholding in the Company will be transferred, there will be uncertainty as to the shareholding structure of the Company following such settlement;

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- (iii) there can be no assurance that the said creditors will elect to continue to hold Shares transferred to them, and should they instead elect to dispose of a substantial part or all of MLH's indirect shareholding in the Company (representing up to approximately 23.12% of the issued share capital of the Company) in one go or within a short period of time in the open market, this would cause an inevitable downward pressure on the market prices of the Shares and the normal trading of Shares in terms of price and volume may be adversely affected, which would eventually adversely affect the interest of the Company and the Shareholders as a whole;
- (iv) the Share Buy-back is a good opportunity for the Company to utilise its financial resources with the aim to enhance its earnings per Share, thereby generating greater shareholder value which is in the interest of all Shareholders;
- (v) the Share Buy-back is also a good opportunity for the Company to buy-back a significant amount of Shares without affecting the normal trading of the Shares in terms of price and volume, and is therefore less disruptive to the market compared to on-market transactions;
- (vi) as the Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back, there would be no material net cash flow effect as a result of the Disposal;
- (vii) the Buy-back Price was a discount to both the average closing price of the Shares for the period of 180 trading days before the Last Trading Day and the audited net asset value per Share as at 31 December 2022 and it was only an insignificant premium of 2.6% over the unaudited net asset value per Share as at 30 June 2023; and
- (viii) the Share Buy-back should not be considered as a stand-alone transaction as the Share Buy-back, together with the Disposal, are a part and parcel of one transaction to maintain the stability of the Company's shareholding structure without a material adverse impact on the cash flow of the Company.

After the Disposal Completion, Dongyue Polymers and Dongyue Organosilicon will remain subsidiaries of the Group and Dongyue Organosilicon, despite that it will be held by the Company as to 44.4% upon the Disposal Completion, will remain a subsidiary of the Group as the Company will remain in control of its board of directors; and Dongyue Hydrogen will be held by Dongyue Fluorosilicone Technology as to 7.71% and by Dongyue Organosilicon as to 5.14% upon the Disposal Completion and will remain an associated company of the Group. The Company has no intention to introduce any major changes in the business, including any redeployment of the fixed assets of the Group, or to discontinue the employment of the employees of the Group other than in the ordinary course of business of the Group. The Company has no plan or intention to dispose of or downsize any of its existing businesses and the Disposal only involves the sale of the respective Equity Interests in the three Target Companies, but does not include or affect the Company's equity interests in its other subsidiaries or associated companies. The Target Companies under the Disposal were selected by, and as a result of the commercial negotiations amongst Dongyue Fluorosilicone Technology, MLH (as the Purchaser) and the court-appointed administrator of the MLH, based

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on the liquidity or the potential liquidity of the underlying equity interests of each of Dongyue Organosilicon (being an A-share listed company), Dongyue Polymers (which is being assessed by the Company for potential capital market fund-raising proposals or possibilities, subject to suitable market conditions and opportunities arising) and Dongyue Hydrogen (being considered for application for a separate listing on the Shanghai Stock Exchange or Shenzhen Stock Exchange). Given that the unaudited consolidated net asset value per Share attributable to the Shareholders of the Company is expected to be increased as a result of the Transactions as set out in the section headed “Financial Effect of the Share Buy-back and the Disposal” of this circular, the Target Companies will remain subsidiaries or associated company of the Group as the case may be after the Disposal Completion, and the sale proceeds from the Disposal will be used to replenish the cash used in the Share Buy-back which enables the Company to minimise its cash outflow from the Transactions, the Disposal is not expected to have a material adverse impact on the Group and will be in the interest of the stability of the Company’s shareholding structure as a whole.

The consideration of the Disposal was arrived at after arm’s length negotiations between the parties thereto taking into account:

- (i) as for Dongyue Organosilicon, the closing A-share trading price on 31 August 2023, being the latest month end date available when the Transactions were contemplated and when the parties negotiated and discussed the terms and conditions of the Disposal, including the consideration in September 2023, which is at a premium of approximately 120.08% to the proportional net asset value per A-share as at 31 December 2022 of approximately RMB4.37 per A-share and at a premium of approximately 133.99% to the proportional net asset value per A-share as at 30 June 2023 of approximately RMB4.11 per A-share. Considering that the closing A-share trading price of Dongyue Organosilicon has led a gradual downward trend since then and up to the date of the Equity Transfer Agreement, the Directors consider that this would not be prejudicial to the fairness and reasonableness of the consideration, and would be in the interests of the Company and the Shareholders as a whole not to adjust the consideration with reference to the A-share trading price of Dongyue Organosilicon at a date closer to the date of the Equity Transfer Agreement; and
- (ii) as for Dongyue Polymers and Dongyue Hydrogen, the respective historical financial performance, namely the trailing 12 months net profits ended 30 June 2023, which was estimated primarily based on the net profit for the year ended 31 December 2022 and the net profit for the six months ended 30 June 2022 and 2023, and taking into account the median price-to-earnings multiples of 5.628 x (as for Dongyue Polymers) and 44.987 x (as for Dongyue Hydrogen) of selected comparable companies. The comparable companies were selected primarily with reference to their principal business scope and geographical location of operations, which were identified as similar to those of the two target companies, and were listed and traded on the Stock Exchange (as for Dongyue Polymers) or the China stock exchanges (as for Dongyue Hydrogen). The computation of the consideration based on price-to-earnings multiples of comparable companies is a well-established and commonly adopted approach for evaluating profit-making companies, which the Directors consider to be an appropriate, fair and reasonable basis to reflect the profitability of Dongyue

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Polymers and Dongyue Hydrogen. For further details, please refer to the section headed “Estimation of the market values of the Equity Interests in the Target Companies” in Appendix III to this circular. The consideration for the proportion of equity interests in Dongyue Hydrogen was at a premium of approximately 629.59% to its proportional net asset value as at 31 December 2022 of approximately RMB22,615,406. Despite the consideration for the proportion of equity interests in Dongyue Polymers was at a slight discount of approximately 19.79% to its proportional net asset value as at 31 December 2022 of approximately RMB2,184,130,216, considering that (i) it was based on a price-to-earnings multiple which is in line with comparable profit-making companies; (ii) it represents a price-to-book multiple which is within the range of those of the selected comparable companies, and is higher than the median and the average of the price-to-book multiples of the selected comparable companies; (iii) Dongyue Polymers is only one of the Target Companies being part of the Disposal; and (iv) the Disposal, together with the Share Buy-back, is a part and parcel of one transaction to maintain the stability of the Company’s shareholding structure, the Board considers that the consideration for the equity interests in Dongyue Polymers is fair and reasonable, and in the interest of the Company and its shareholders as a whole.

Based on the foregoing, the Board (including members of the Independent Board Committee, who have given their recommendation after taking advice from the Independent Financial Adviser) considers the consideration for the Disposal as a whole to be appropriate, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

For purpose of the EGM and benefits of the Shareholders, the Company has engaged an independent professional valuer to conduct independent valuation in relation to the Target Companies and such valuation report is set out in Appendix III to this circular. The Directors have reviewed the valuation report prepared by the independent professional valuer in respect of the Target Companies and the underlying valuation methodology as set out in Appendix III to this circular, and discussed with the independent professional valuer regarding, amongst other things, their relevant professional qualification and experience, as well as the basis and assumptions, the requirements and standards and the valuation approach adopted in preparing the valuation report. Based on the Directors’ review of the valuation report and discussions with the independent professional valuer, and taking into account that (i) the underlying valuation methodology, namely the market approach used in determining the valuation of the Equity Interest of the Target Companies, is one of the commonly adopted approaches for evaluating and assessing the value of profit-making companies; (ii) the selection of comparable companies (as for Dongyue Polymers and Dongyue Hydrogen) was based on the principal business, geographical locations of operations, capital market or listing location and profitability of the comparable companies, which are similar to those of the relevant Target Companies; (iii) the key assumptions adopted in the computation and valuation of the Equity Interest of the Target Companies as set out in the section headed “Major Assumptions” in Appendix III to this circular are assumptions commonly adopted in other business valuations in the market; (iv) the valuation report was prepared by the independent professional valuer in accordance with the relevant requirements and standards, namely the International Valuation Standards 2022; and (v) as represented by the valuer and based on the supporting documents on the qualifications, experience and expertise provided by the valuer, the valuer has the

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relevant professional qualifications and experience to perform the valuation of the Equity Interest of the Target Companies, the Board is of the view that valuation method, assumptions used, computation, and selected comparable companies used in the valuation of the Equity Interests of the Target Companies are fair, reasonable and appropriate.

In view of the above, the Directors (including members of the Independent Board Committee after taken advice from the Independent Financial Adviser) are of the view that the terms of the Share Buy-back and the Disposal are fair and reasonable and the Transactions are in the interests of the Company and the Shareholders as a whole.

VIII. USE OF PROCEEDS

The Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back, and there would be no material net cash flow effect as a result of the Disposal.

IX. INFORMATION OF THE PARTIES

Information on the Group

The Group is primarily engaged in the five operating and reportable business segments of (i) manufacturing and sale of fluoropolymers; (ii) manufacturing and sale of refrigerants; (iii) manufacturing and sale of organic silicone; (iv) manufacturing and sale of dichloromethane, polyvinyl chloride (PVC) and liquid alkali; and (v) others, mainly comprising by-products from the above operating segments such as ammonium bifluoride, hydrofluoric acid and bromine, as well as property development.

Set out below is the audited financial information of the Company for the year ended 31 December 2021 and 2022, respectively and unaudited financial information of the Company for the six months ended 30 June 2022 and 2023 as published in the interim reports of the Company, respectively:

	For the year ended 31 December		For the six months ended 30 June	
	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	(unaudited)
Profit before taxation	3,244,209	5,125,055	2,381,058	287,755
Profit after taxation	2,681,545	4,176,117	1,967,640	208,069

As at 31 December 2022, the audited net asset value of the Company was approximately RMB18,493,477,000. As at 30 June 2023, the unaudited net asset value of the Company as published in the interim report of the Company for the six months ended 30 June 2023 was approximately RMB16,742,561,000.

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Information on the Vendors

MACRO-LINK International is a limited liability company incorporated in the BVI, a substantial shareholder of the Company prior to the Share Buy-back Completion, and is directly wholly-owned by Macrolink Industrial, which in turn is directly wholly-owned by MLH, which is controlled by Mr. Fu as the single largest ultimate majority shareholder who is also the ultimate beneficial owner. It is primarily engaged in investment holding.

As at the date of this circular, the directors of MACRO-LINK International are Mr. Fu, Mr. Chan Yeuk, Mr. Chung Shan Kwang, Ms. Liu Jing and Ms. Wang Yi.

As at the date of this circular, the directors of Macrolink Industrial are Mr. Fu, Ms. Liu Jing and Ms. Wang Yi. Macrolink Industrial is primarily engaged in investment holding.

Macrolink Overseas is a limited liability company incorporated in the BVI, a substantial shareholder of the Company prior to the Share Buy-back Completion, and is directly wholly-owned by MACRO-LINK International, which is directly wholly-owned by Macrolink Industrial, which in turn is directly wholly-owned by MLH, which is controlled by Mr. Fu as the single largest ultimate majority shareholder who is also the ultimate beneficial owner. It is primarily engaged in investment holding.

As at the date of this circular, the sole director of Macrolink Overseas is Ms. Liu Jing.

Information on Dongyue Fluorosilicone Technology

Dongyue Fluorosilicone Technology is a limited liability company established in the PRC and is a direct wholly-owned subsidiary of the Company. It is primarily engaged in investment and management of fluorosilicone new material business.

Information on the Purchaser

MLH is a limited liability company established in the PRC, a substantial shareholder of the Company prior to the Share Buy-back Completion. MLH is owned as to 93.4% by Cheung Shek, 2.83% by Mr. Fu, 0.11% by Ms. Xiao Wenhui (a director of MLH and Cheung Shek, who is not a close relative of Mr. Fu), 2.11% by Mr. Yang Yunhua, 1.33% by Mr. Wu Xiangdong (a close relative of Mr. Fu), 0.07% by Mr. Feng Jianjun (a director of MLH and Cheung Shek) and 0.15% by Mr. Zhang Bishu (a deceased former director of the Company and MLH), respectively. Cheung Shek is owned as to 59.76% by Mr. Fu, 33.46% by Ms. Xiao Wenhui, 3.36% by Mr. Zhang Jian (an executive Director of the Company) and 3.42% by Ms. Liu Jing (a director of the Vendors, MLH, Macrolink Industrial and Cheung Shek), respectively. MLH is primarily engaged in investment holding and management.

As at the date of this circular, the directors of MLH are Mr. Fu, Ms. Fu Shuangshuang, Mr. Ma Chenshan, Ms. Xiao Wenhui, Mr. Feng Jianjun and Ms. Liu Jing.

LETTER FROM THE BOARD

As at the date of this circular, the directors of Cheung Shek are Ms. Liu Jing, Mr. Ma Chenshan, Ms. Xiao Wenhui, Mr. Feng Jianjun and Mr. Zhang Jian. Cheung Shek is primarily engaged in investment holding.

After making due enquiries with MLH, the court-appointed administrator of MLH and Mr. Zhang, to the best knowledge of the Company, the creditors of MLH are not connected with nor connected person(s) of Mr. Zhang Group, the Company and its connected persons.

Information on the Target Companies

Dongyue Polymers

Dongyue Polymers is a limited liability company established in the PRC and is directly wholly-owned by Dongyue Fluorosilicone Technology, which is a direct wholly-owned subsidiary of the Company. It is primarily engaged in manufacturing and sales of fluoropolymer.

Set out below is the audited financial information of Dongyue Polymers for the year ended 31 December 2021 and 2022, respectively:

	For the year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before taxation	1,829,554	2,873,943
Net profit after taxation	1,595,756	2,489,980

As at 31 December 2022, the audited net asset value of Dongyue Polymers was approximately RMB9,446,930,000.

Dongyue Organosilicon

Dongyue Organosilicon is a joint stock limited company established in the PRC and is an indirect non-wholly-owned subsidiary of the Company. Its shares are listed on ChiNext of the Shenzhen Stock Exchange (Stock Code: 300821.SZ). As at the date of this circular, the Company through its wholly-owned subsidiary Dongyue Fluorosilicone Technology, is interested in approximately 57.75% equity interest in Dongyue Organosilicon. It is primarily engaged in manufacturing and sale of organic silicone products, which are widely applied in construction, electronic, electricity, new energy, automotive, textiles, medical supplies, personal care products and other fields as key ingredients in industrial processes, mainly in the form of sealants, additives, chemical stabilizers and lubricants.

LETTER FROM THE BOARD

Set out below is the audited financial information of Dongyue Organosilicon for the year ended 31 December 2021 and 2022 and unaudited financial information of Dongyue Organosilicon for the six months ended 30 June 2022 and 2023 as published in the interim reports of Dongyue Organosilicon on the Shenzhen Stock Exchange, respectively:

	For the year ended 31 December		For the six months ended 30 June	
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2022 <i>RMB'000</i> (unaudited)	2023 <i>RMB'000</i> (unaudited)
Net profit/loss before taxation	1,314,682	541,996	610,146	(190,664)
Net profit/loss after taxation	1,150,634	510,982	518,571	(191,656)

Dongyue Organosilicon recorded a net loss before taxation of approximately RMB190,664,000 for the six months ended 30 June 2023 as compared with a net profit before taxation of approximately RMB610,146,000 for the corresponding period in 2022, primarily due to the slow down in global economic rebound, and increase in production capacity and product supply in the domestic silicon market resulting in intensified market competition and continual price drops for the major products of Dongyue Organosilicon, coupled with a decline in product demand for exports in the first half of 2023.

As at 31 December 2022, the audited net asset value of Dongyue Organosilicon was approximately RMB5,240,683,000. As at 30 June 2023, the unaudited net asset value of Dongyue Organosilicon as published in the interim report of Dongyue Organosilicon for the six months ended 30 June 2023 was approximately RMB4,929,027,000.

Dongyue Hydrogen

Dongyue Hydrogen is an associated company of the Company and is a joint stock company established in the PRC with limited liability. As at the date of this circular, Dongyue Fluorosilicone Technology (a wholly-owned subsidiary of the Company) holds 10.03% equity interest in Dongyue Hydrogen, and Dongyue Organosilicon (held as to 57.75% by Dongyue Fluorosilicone Technology as at the date of this circular) holds 5.14% equity interest in Dongyue Hydrogen, respectively. It is principally engaged in the business of research, production and sale of fluorinated proton exchange membrane, its key raw materials and derived products.

LETTER FROM THE BOARD

Set out below is the audited financial information of Dongyue Hydrogen for the year ended 31 December 2021 and 2022, respectively:

	For the year ended 31 December	
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before taxation	58,582	156,224
Net profit after taxation	54,095	144,000

As at 31 December 2022, the audited net asset value of Dongyue Hydrogen was approximately RMB974,802,000.

X. REGULATORY REQUIREMENTS

Share Buy-backs Code

The Share Buy-back constitutes an off-market share buy-back by the Company under the Share Buybacks Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-backs Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at a meeting to be held for such purposes.

Takeovers Code

According to Rule 32 of the Takeovers Code, if a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Share Buy-back, such increase will be treated as an acquisition of voting rights. As at the date of this circular, other than Mr. Fu and companies controlled by him, the largest Shareholder group is Mr. Zhang Group, who in aggregate is interested in 436,941,087 Shares, representing approximately 19.39% of the issued share capital of the Company. Assuming there are no changes to the aggregate shareholding of Mr. Zhang Group, and the issued share capital of the Company from the date of this circular up to the Share Buy-back Completion, the aggregate percentage shareholding of Mr. Zhang Group will be increased to approximately 25.22% of the reduced issued share capital of the Company upon the Share Buy-back Completion as a result of the Share Buy-back. On the basis of the foregoing and given that Mr. Zhang Group will hold less than 30% of the voting rights of the Company, no obligation on the part of Mr. Zhang Group to make a general offer for all the Shares not already owned or agreed to be acquired by Mr. Zhang Group will arise as a result of the Share Buy-back.

LETTER FROM THE BOARD

As at the Latest Practicable Date:

- (a) save for (i) the 529,481,909 Shares held by the Vendors Concert Group, including the 520,977,818 Shares held by the Vendors; (ii) 436,941,087 Shares held by Mr. Zhang Group; and (iii) 750,000 Shares held by the Directors (other than Mr. Zhang, Mr. Fu and Mr. Zhang Jian), details of which are set out under the paragraph headed “Effects on the Shareholding Structure of the Company” in this letter from the Board and the section headed “Disclosure of Interest” in Appendix VI to this circular, none of the Vendors Concert Group, Mr. Zhang Group, and the Directors (other than Mr. Zhang, Mr. Fu and Mr. Zhang Jian) or parties acting in concert with them holds, owns, controls, or directs the exercise of any Shares, convertible securities, warrants, options or derivatives in respect of the Shares;
- (b) there is no irrevocable commitment to vote in favour of or against the Share Buy-back Agreement received by the Company or parties acting in concert with it;
- (c) there is no arrangement (whether by way of option, indemnity or otherwise) or contract under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares and which might be material to the Share Buy-back;
- (d) there is no agreement or arrangement to which the Company is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Share Buy-back;
- (e) none of the Company or parties acting in concert with it, nor the Directors or parties acting in concert with them has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (f) none of the Vendors Concert Group, Mr. Zhang Group, nor the Directors or parties acting in concert with them, had acquired or disposed of any voting rights of the Company, or had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the securities of the Company during the Relevant Period, save as disclosed in the section headed “Disclosure of Interest” in Appendix VI to this circular;
- (g) save as to the consideration for the Share Buy-back (i.e. HK\$3,698,700,646), there is no consideration, compensation or benefit in whatever form paid or to be paid by the Company or parties acting in concert with it to the Vendors Concert Group in connection with the Share Buy-back;
- (h) save as to Share Buy-back Agreement and the Equity Transfer Agreement, there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Company or parties acting in concert with it on the one hand, and the Vendors Concert Group on the other hand; and

LETTER FROM THE BOARD

- (i) save as to the Share Buy-back Agreement and the Equity Transfer Agreement, there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between: (1) any Shareholders; and (2) the Company, any parties acting in concert with it, and the subsidiaries or associated companies of the Company.

Listing Rules

As one or more of the applicable percentage ratios in respect of the Disposal exceed 25% but are all less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. In addition, as at the date of this circular, each of MACRO-LINK International and Macrolink Overseas is indirectly controlled (as defined in the Listing Rules) by Mr. Fu, hence an associate of Mr. Fu therefore connected persons of the Company under Chapter 14A of the Listing Rules. The Share Buy-back and the Disposal therefore also constitutes connected transactions of the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

XI. INTENTION OF THE COMPANY REGARDING PUBLIC FLOAT

The Company will continue to maintain at least the minimum public float requirements of Rule 8.08 of the Listing Rules regarding the Shares following completion of the Share Buy-back and the Disposal. It is expected that the Company will satisfy such minimum public float requirement after completion of the proposed Share Buy-back.

XII. EGM

A notice of the EGM to be held at Event Space D, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 18 December 2023 at 10 a.m. is set out on pages EGM-1 to EGM-3 of this Circular.

A form of proxy for the EGM is also enclosed with this circular. Whether or not you are able to attend the EGM (or any adjourned meeting thereof) in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM (or any adjourned meeting thereof) should you so wish.

The registration of members will be closed from Wednesday, 13 December 2023 to Monday, 18 December 2023 both days inclusive during which period no transfer of shares will be effected. In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 12 December 2023.

LETTER FROM THE BOARD

XIII. VOTING

As at the date of this circular, Vendors Concert Group is interested in an aggregate of 529,481,909 Shares (representing approximately 23.49% of the issued share capital of the Company), including which the Vendors are interested in an aggregate of 520,977,818 Shares (representing approximately 23.12% of the issued share capital of the Company). Save as aforesaid, the Vendors Concert Group are not interested in any other voting rights or rights over the Shares as at the Latest Practicable Date. By reason of the requirements of the Share Buy-backs Code, the Takeovers Code and the Listing Rules, the Vendors Concert Group will abstain from voting at the EGM. Save for the Vendors Concert Group, no other Shareholder is required to abstain from voting on the resolutions approving the Transactions at the EGM.

XIV. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all of the independent non-executive Directors of the Company) has been established to consider the Transactions and to give recommendation to the Independent Shareholders as to how to vote on the resolutions to be proposed at the EGM in relation thereof.

The Company has, with the approval of the Independent Board Committee, appointed Somerley Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

XV. RECOMMENDATION

The Independent Board Committee, having considered the terms of the Transactions, and after taking into account the advice from the Independent Financial Adviser, considers that although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are on normal commercial terms, and the terms of the Transactions are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Transactions to be proposed at the EGM.

The Directors accordingly recommends that the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions.

Save that each of Mr. Fu and Mr. Zhang Jian who is an executive Director, is a member of the Vendors Concert Group and are deemed to have material interests in the Transactions, none of the Directors has a material interest in the Transactions. Accordingly, no Director (other than Mr. Fu and Mr. Zhang Jian) was required to be abstained from voting on the board resolution approving the Transactions.

LETTER FROM THE BOARD

The text of the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 36 to 37 of this circular.

The text of the letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders with regard to the Transactions, and the principal factors and reasons which it has taken into account in arriving at its advice, is set out on pages 38 to 82 of this circular.

XVI. QUARTERLY RESULTS OF A SUBSIDIARY

Reference is made to the announcement of the Company dated 20 October 2023, containing the first nine months results of 2023 of a subsidiary of the Company, being Dongyue Organosilicon, which were published on the website of the Shenzhen Stock Exchange on the same day. As Dongyue Organosilicon is listed on the Shenzhen Stock Exchange, its third quarter results were published in accordance with the applicable listing rules of the Shenzhen Stock Exchange, PRC laws and regulations and requirements of relevant competent authorities, and for equal dissemination of information to all Shareholders, the Company has published the said announcement on the Stock Exchange on Dongyue Organosilicon's third quarter results on the same day. Such unaudited consolidated net loss attributable to shareholders of Dongyue Organosilicon for the nine months ended 30 September 2023 contained in the third quarter results constitutes a profit forecast of the Company under Rule 10.4 of the Takeovers Code and has been reported on by the auditors and the Independent Financial Adviser. For further details, please refer to the letters from auditors and Independent Financial Adviser on the Profit Forecast, the text of which is set out in Appendix V to this circular.

XVII. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

**DONGYUE
FEDERATION**
DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 189)

30 November 2023

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSED OFF-MARKET SHARE BUY-BACK;
(2) PROPOSED DISPOSAL;
(3) MAJOR AND CONNECTED TRANSACTION; AND
(4) NOTICE OF EGM**

We refer to the circular issued by the Company dated 30 November 2023, of which this letter forms part of (the “**Circular**”). Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to consider the Transactions and advise the Independent Shareholders (i) as to whether the terms of the Transactions are fair and reasonable; (ii) as to whether the Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) on how to vote, taking into account the recommendation of the Independent Financial Adviser.

We wish to draw your attention to the letter from the Board set out on pages 8 to 35 of the Circular and the letter of advice from Somerley Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transactions, set out on pages 38 to 82 of the Circular.

Having considered, among other matters, the terms of the Share Buy-back Agreement and the Equity Transfer Agreement and the transactions contemplated thereunder, and the factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Transactions.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Ting Leung Huel, Stephen
*Independent non-executive
Director*

Mr. Yang Xiaoyong
*Independent non-executive
Director*

Mr. Ma Zhizhong
*Independent non-executive
Director*

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee in respect of the Transactions.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

30 November 2023

To: The Independent Board Committee

Dear Sirs,

**(1) PROPOSED OFF-MARKET SHARE BUY-BACK;
(2) PROPOSED DISPOSAL; AND
(3) MAJOR AND CONNECTED TRANSACTION**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the proposed Share Buy-back and the Disposal (together, the “**Transactions**”). Details of the Transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 30 November 2023, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 23 October 2023, (i) the Company entered into the Share Buy-back Agreement with the Vendors (each being a wholly-owned subsidiary of MLH) pursuant to which the Vendors have proposed to sell, and the Company has proposed to buy-back for cancellation, an aggregate of 520,977,818 Shares (representing approximately 23.12% of the issued share capital of the Company) at an aggregate consideration of HK\$3,698,700,646 (equivalent to RMB3,456,729,576), being approximately HK\$7.1 per Buy-back Share; and (ii) Dongyue Fluorosilicone Technology, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with MLH pursuant to which Dongyue Fluorosilicone Technology has proposed to sell, and MLH has proposed to purchase, the respective Equity Interests in the Target Companies at an aggregate consideration of RMB3,456,729,576 (equivalent to approximately HK\$3,698,700,646), consisting RMB1,752,000,000 (with regards to Dongyue Polymers), RMB1,539,729,576 (with regards to Dongyue Organosilicon) and RMB165,000,000 (with regards to Dongyue Hydrogen). The Share Buy-back and the Disposal are inter-conditional on each other with respect to the conditions of the other Transaction becoming unconditional.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Share Buy-back constitutes an off-market share buy-back by the Company under the Share Buy-backs Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Share Buy-backs Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders present in person or by proxy at a meeting to be held for such purposes.

According to Rule 32 of the Takeovers Code, if a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Share Buy-back, such increase will be treated as an acquisition of voting rights. As disclosed in the letter from the Board of the Circular, as at the date of the Circular, other than Mr. Fu and companies controlled by him, the largest Shareholder group is Mr. Zhang Group, who in aggregate is interested in 436,941,087 Shares, representing approximately 19.39% of the issued share capital of the Company. Assuming there are no changes to the aggregate shareholding of Mr. Zhang Group, and the issued share capital of the Company from the date of the Circular up to the Share Buy-back Completion, the aggregate percentage shareholding of Mr. Zhang Group will be increased to approximately 25.22% of the reduced issued share capital of the Company upon the Share Buy-back Completion as a result of the Share Buy-back. On the basis of the foregoing and given that Mr. Zhang Group will hold less than 30% of the voting rights of the Company, no obligation on the part of Mr. Zhang Group to make a general offer for all the Shares not already owned or agreed to be acquired by Mr. Zhang Group will arise as a result of the Share Buy-back.

As one or more of the applicable percentage ratios in respect of the Disposal exceed 25% but are all less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. In addition, as at the Latest Practicable Date, each of MACRO-LINK International and Macrolink Overseas is indirectly controlled (as defined in the Listing Rules) by Mr. Fu, hence an associate of Mr. Fu therefore connected persons of the Company under Chapter 14A of the Listing Rules. The Share Buy-back and the Disposal therefore also constitutes connected transactions of the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee, namely, Mr. Ting Leung Heul, Stephen, Mr. Yang Xiaoyong and Mr. Ma Zhizhong, has been established to consider the Transactions and to give recommendation to the Independent Shareholders as to how to vote on the resolutions to be proposed at the EGM in relation thereof. Somerley Capital Limited has been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee in this regard.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

We are not associated with the Company, the Vendors and the Purchaser or their respective core connected persons, associates, close associates or any party acting, or presumed to be acting, in concert with any of them. In addition, save for this appointment as the Independent Financial Adviser as regards the Transactions, as at the Latest Practicable Date, we did not have any other relationship or any interests with the Company, the Vendors and the Purchaser or their respective core connected persons, associates, close associates or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence nor have had other any engagement between the Company and us in the last two years. Accordingly, we are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from Company, the Vendors and the Purchaser or their respective core connected persons, associates, close associates or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the directors and management of the Company (collectively, the “**Management**”) and the respective professional advisers of the Company, which we have assumed to be true, accurate and complete. We have reviewed information on the Company, including but not limited to, the Share Buy-back Agreement, the Equity Transfer Agreement, the annual reports of the Company for each of the two financial years ended 31 December 2021 (the “**2021 Annual Report**”) and 31 December 2022 (the “**2022 Annual Report**”), the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”), the valuation report in relation to the Target Companies prepared by International Valuation Limited (the “**Valuer**”), the unaudited pro forma financial information of the Group as disclosed in Appendix II of the Circular, the published financial information of the Target Companies, including the published unaudited financial results for the nine months ended 30 September 2023 of Dongyue Organosilicon which constituted a profit forecast under Rule 10 of the Takeover Codes, trading performance of the Shares on the Stock Exchange, and information set out in the Circular.

In addition, we have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group, the Vendor and the Purchaser, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the EGM. Shareholders will be informed of any material change as soon as possible according to the requirements of Rule 9.1 of the Takeovers Code.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

BACKGROUND OF THE TRANSACTIONS

Reference is made to the announcements of the Company dated 15 August 2022 and 19 September 2023, respectively, in relation to the judicial restructuring of MLH (which wholly-owns the Vendors and is a substantial shareholder indirectly holding approximately 23.12% of the issued share capital of the Company as at the Latest Practicable Date) and the potential change in the shareholding of MLH in the Company. As stated in such announcements, MLH has been in discussions with its creditors and the court-appointed administrators on the proposals for restructuring the debts of MLH. Any such restructuring plan shall be put forward to the creditors' meeting and be approved by the PRC court before implementation.

The Restructuring Plan of MLH is formulated by the court-appointed administrators of MLH for restructuring the debts of MLH and bringing in new investors. As the shareholding of MLH in the Company held through the Vendors is part of the asset subject to the restructuring and for reasons set out in the section headed "Reasons for and benefits of the Transactions" in the letter from the Board of the Circular, on 23 October 2023, the Company entered into the Share Buy-back Agreement with the Vendors and Dongyue Fluorosilicone Technology entered into the Equity Transfer Agreement with MLH.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Transactions, we have considered the following principal factors and reasons:

A. INFORMATION ON THE GROUP

The Company is incorporated in the Cayman Islands with limited liability whose Shares have been listed on the Main Board of the Stock Exchange since 10 December 2007. The Company is an investment holding company and together with its subsidiaries, are engaged in the manufacture, distribution and sale of polymers, organic silicon, refrigerants and dichloromethane, polyvinyl chloride and liquid alkali and others. Based on our understanding from the Company, products produced by the Group are widely used in various industries including the chemicals, automobile, new energy, electricity, telecommunication, semiconductor, logistics, construction, consumer products, and medical and healthcare ("**DY Products**"). As at the Latest Practicable Date, the Company has 2,253,689,455 Shares in issue.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

1. Financial performance

Set out below is a summary of the Group's audited consolidated financial performance for the three years ended 31 December 2020 (“FY2020”), 31 December 2021 (“FY2021”) and 31 December 2022 (“FY2022”) as extracted from the 2021 Annual Report and the 2022 Annual Report and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 (“1H2022”) and 30 June 2023 (“1H2023”) as extracted from the 2023 Interim Report:

	For the six months ended 30 June		For the financial year ended 31 December		
	2023	2022	2022	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Revenue					
<i>Segment revenue</i>					
— Fluoropolymer	2,275,072	3,318,963	6,487,010	4,825,266	3,191,941
— Organic silicone	2,502,180	3,451,972	6,648,326	4,267,829*	2,453,749
— Refrigerants	1,452,853	2,087,848	4,361,050	3,337,155	2,066,120
— Dichloromethane, polyvinyl chloride and liquid alkali	601,312	764,785	1,624,811	1,537,795	1,224,183
— Others	<u>366,694</u>	<u>489,720</u>	<u>906,791</u>	<u>1,875,902*</u>	<u>1,108,320</u>
	7,198,111	10,113,288	20,027,988	15,843,947	10,044,313
Cost of sales	<u>(6,065,746)</u>	<u>(6,385,543)</u>	<u>(13,513,617)</u>	<u>(10,626,336)</u>	<u>(7,799,717)</u>
Gross profit	1,132,365	3,727,745	6,514,371	5,217,611	2,244,596
Other income and gains, net	93,816	95,489	229,006	182,028	136,207
Distribution and selling expenses	(253,801)	(218,250)	(498,767)	(336,451)	(353,683)
Administrative and other expenses	(224,066)	(568,190)	(993,740)	(913,264)	(356,845)
Gain on deemed disposal of an associate	—	—	1,212,290	—	—
Gain on deemed disposal of a subsidiary	—	—	—	—	40,850
Loss on disposal of a subsidiary	—	—	—	(27,377)	—
Research and development costs	(475,928)	(616,590)	(1,310,535)	(838,893)	(590,471)
Fair value changes on financial assets at fair value through profit or loss	—	(37,669)	(37,669)	21,870	(3,978)
Share of results of an associate	16,894	15,682	25,401	20,291	4,505
Finance costs	<u>(1,525)</u>	<u>(17,159)</u>	<u>(15,302)</u>	<u>(81,606)</u>	<u>(104,560)</u>

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	For the six months ended 30 June		For the financial year ended 31 December		
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)	2022 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)
Profit before taxation	287,755	2,381,058	5,125,055	3,244,209	1,016,621
Income tax expense	<u>(79,686)</u>	<u>(413,418)</u>	<u>(948,938)</u>	<u>(562,664)</u>	<u>(113,765)</u>
Profit for the period/year	<u>208,069</u>	<u>1,967,640</u>	<u>4,176,117</u>	<u>2,681,545</u>	<u>902,856</u>
Profit attributable to:					
Owners of the Company	283,871	1,692,775	3,855,539	2,074,843	772,167
Non-controlling interests	<u>(75,802)</u>	<u>274,865</u>	<u>320,578</u>	<u>606,702</u>	<u>130,689</u>
	<u>208,069</u>	<u>1,967,640</u>	<u>4,176,117</u>	<u>2,681,545</u>	<u>902,856</u>

* The FY2021 segment figures for organic silicone and dichloromethane, polyvinyl chloride and liquid alkali were restated and the figures above were extracted from the 2022 Annual Report.

Segment revenue and operating performance

The Group reported a consolidated revenue of approximately RMB15,843.9 million for FY2021, representing an increase of approximately 57.7% from approximately RMB10,044.3 million reported for FY2020. As disclosed in the 2021 Annual Report, the increase was mainly attributable to strong market demand on a number of products across the Group's key operating segments which are fluoropolymers, organic silicon and refrigerants and significant increase in product prices. Revenue from the Group's dichloromethane, polyvinyl chloride and liquid alkali production also increased by a 25.6% to RMB1,537.8 million from RMB1,224.2 million in FY2020. The Group reported an increase in gross profit of approximately 132.5% from approximately RMB2,244.6 million to approximately RMB5,217.6 million and the gross profit margin also increased from approximately 22.4% in FY2020 to approximately 32.9% in FY2021. Based on the disclosures made in the 2021 Annual Report, the Group's operating segments, fluoropolymers, organic silicon, refrigerants, dichloromethane, polyvinyl chloride and liquid alkali were the main contributors to the increases in gross profit and gross profit margins.

Revenue of the Group increased by a further 26.4% in FY2022 to approximately RMB20,028 million mainly due to contributions from the Group's fluoropolymers, refrigerants and organic silicon segments. Revenue from the Group's dichloromethane, polyvinyl chloride and liquid alkali production also increased by a 5.66% to RMB1,624.8 million from RMB1,537.8 million in FY2021. Gross profit increased by approximately 24.9% in FY2022 to approximately RMB6,514.4 million, however, gross profit margin for FY2022 decreased to approximately 32.5% mainly due to decreases in gross profit margin from the organic silicon segment, which was a result from, among other factors, additional production capacity in the industry

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which placed pressure on prices of its main products. The Group's other key operating segments, fluoropolymers, refrigerants, dichloromethane, polyvinyl chloride and liquid alkali reported increases in gross profit and gross profit margins.

The Group reported a decrease in revenue of approximately 28.8% for 1H2023 as compared to 1H2022. As discussed above under the heading "A. Information on the Group", DY Products are widely used across a number of industries including but not limited to chemicals, automobile, new energy, electricity, telecommunication, semiconductor, logistics, construction, consumer products, and medical and healthcare, and as further understood from the Management, demand for the DY Products would therefore depend on the economic performance of the PRC and the global economic performance as a whole. Based on the disclosures in the 2023 Interim Report and our discussion with the Company, was mainly a result from the complex domestic and overseas economic environment along with the gloomy market sentiment, which affected the fluorosilicon chemical industry and recorded poor sentiment with weak downstream demand, resulting in price drops for a number of the Group's major products consequently leading to decline in the results across all business segments of the Group. The biggest price declines were in the price of polyvinylidene difluoride products ("PVDF") and R142b (1-chloro-1,1-difluoroethane) products. Based on our discussion with the Management, a notable example illustrating the recent performance would be reduction in price for PVDF which is used in the production for lithium batteries. Such reduction in price was mainly a result of increase in supply of similar products in the market especially since 2023 and such increase in supply exceeded the actual demand from the market. Gross profit of the Group decreased by approximately 69.6% in 1H2023 to approximately RMB1,132.4 million from approximately RMB3,727.7 million in 1H2022. Gross profit margin of the Group also declined from approximately 36.9% for 1H2022 to approximately 15.7% for 1H2023.

Distribution and selling expenses

Distribution and selling expenses for the Group decreased by approximately 4.9% in FY2021. The Group reported an increase in distribution and selling expenses of approximately 48.2% in FY2022 mainly due to increase in revenue from external sales.

As disclosed in the 2023 Interim Report, distribution and selling expenses increased from approximately RMB218.3 million in 1H2022 to approximately RMB253.8 million in 1H2023 despite the decrease in revenue. Based on the disclosure in the 2023 Interim Report and our discussion with the Management, the decrease in revenue was mainly due to the decline in product unit sales price as discussed above. Although the unit sales prices declined, total product volume sold increased. Hence there was an increase in distribution and selling expenses resulting from the increase in transportation fees resulting from increase in product volume during the period.

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Administrative expenses

The Group reported an increase in administrative expenses of approximately 156.0% in FY2021 to approximately RMB913.3 million from approximately RMB356.8 million in FY2020 mainly due to recognition of equity-settled share-based payments of RMB293.8 million during the year.

The Group reported a further increase in administrative expenses of approximately 8.8% in FY2022 to approximately RMB993.7 million mainly because of further increases in staff remuneration as a result of growth in financial performance.

Administrative and other expenses reported a decrease of approximately 60.6% for 1H2023 to approximately RMB224.1 million as compared to RMB568.2 million for 1H2022 mainly due to decrease in total remuneration as a result of decrease in efficiency related wages based on profits and decrease in impairment of inventories.

Net profit attributable to owners of the Company

Net profit attributable to owners of the Company increased by approximately 168.7% in FY2021 to approximately RMB2,074.8 million from approximately RMB772.2 million in FY2020 mainly due to increases in gross profit as described above.

Net profit attributable to owners of the Company increased by approximately 85.8% in FY2022 to approximately RMB3,855.5 million mainly due to (i) further increases in revenue as described above; and (ii) recognition of gain on deemed disposal of an associate, Dongyue Hydrogen.

Net profit attributable to owners of the Company decreased by approximately 83.2% during 1H2023 to approximately RMB283.9 million mainly due to the significant drop in revenue of the Group with reasons as mentioned above.

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2. Financial position

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2021, 31 December 2022 and 30 June 2023, as extracted from the 2022 Annual Report and the 2023 Interim Report:

	30 June 2023	31 December	
	<i>RMB'000</i>	2022	2021
	<i>(Unaudited)</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Audited)</i>	<i>(Audited)</i>
Non-current assets			
Property, plant and equipment	11,718,159	11,531,543	8,298,069
Right-of-use assets	886,704	923,163	838,270
Deposits paid for purchase of property, plant and equipment	359,638	409,027	471,203
Interest in an associate	98,212	88,034	198,321
Intangible assets	19,583	23,815	31,357
Equity instruments at fair value through other comprehensive income	167,454	152,849	390,579
Financial asset at fair value through profit or loss	—	—	37,669
Deferred tax assets	37,331	85,877	42,754
Deposits paid for acquisition of a subsidiary	352,846	—	119,524
Goodwill	299,024	299,024	123,420
	<u>13,938,951</u>	<u>13,513,332</u>	<u>10,551,166</u>

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	30 June 2023	31 December	
	<i>RMB'000</i>	2022	2021
	<i>(Unaudited)</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Audited)</i>	<i>(Audited)</i>
Current assets			
Inventories	1,308,684	1,441,712	1,535,814
Properties for sale	1,176,276	1,202,341	1,592,507
Trade and other receivables	2,535,872	3,040,268	2,689,576
Restricted and pledged bank deposits	78,632	131,302	129,611
Bank balances and cash	<u>4,260,716</u>	<u>5,315,994</u>	<u>5,102,552</u>
	<u>9,360,180</u>	<u>11,131,617</u>	<u>11,050,060</u>
Current liabilities			
Trade and other payables	4,557,838	5,409,088	4,664,371
Borrowings	—	—	268,600
Dividend payables	1,196,613	—	—
Tax liabilities	97,779	75,167	229,278
Lease liabilities	6,965	4,894	4,983
Deferred income	<u>68,994</u>	<u>83,813</u>	<u>80,256</u>
	<u>5,928,189</u>	<u>5,572,962</u>	<u>5,247,488</u>
Non-current liabilities			
Deferred tax liabilities	311,707	251,921	87,671
Borrowings	—	—	355,500
Lease liabilities	30,165	38,740	35,175
Deferred income	<u>286,509</u>	<u>287,849</u>	<u>236,769</u>
	<u>628,381</u>	<u>578,510</u>	<u>715,115</u>
Capital and reserves			
Equity attributable to shareholders of the Company	14,572,844	16,082,018	13,123,581
Non-controlling interests	<u>2,169,717</u>	<u>2,411,459</u>	<u>2,515,042</u>
	<u>16,742,561</u>	<u>18,493,477</u>	<u>15,638,623</u>

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Total non-current assets of the Group increased from approximately RMB10,551.2 million as at 31 December 2021 to approximately RMB13,513.3 million as at 31 December 2022. The key component for the balance of total non-current assets was property, plant and equipment and the increase of approximately 28.1% or approximately RMB2,962.1 million was mainly contributed by the increase in carrying value for property, plant and equipment of approximately RMB3,233.5 million which was in relation to production facility expansion, including newly added manufacturing lines. Total non-current assets of the Group remained largely unchanged as at 30 June 2023 at approximately RMB13,939.0 million.

Balance for total current assets of the Group as at 31 December 2021 and 31 December 2022 was largely similar. The key component for the balance of total current assets was bank balance and cash and trade and other receivables. Balance for total current assets was approximately RMB9,360.2 million as at 30 June 2023, which represented a slight decline of approximately 15.9% from RMB11,131.6 million as at 31 December 2022. Such decrease was mainly due to decrease in balance for both bank balances and cash and trade and other receivables.

Balance for total current liabilities was approximately RMB5,573.0 million as at 31 December 2022 and was comparable to the balance as at 31 December 2021. The key components to total current liabilities is trade and other payables. The balance for total current liabilities showed a slight increase as at 30 June 2023 of approximately RMB355.2 million. The increase was mainly a net effect of an accrual of a dividend payable amounting to approximately RMB1,196.6 million as at 30 June 2023 which was in relation to the Company's declaration of final dividend of HK\$0.60 per Share which was partially offset by the decrease in the balance for trade and other payables from approximately RMB5,409.1 million as at 31 December 2022 to approximately RMB4,557.8 million as at 30 June 2023.

Balance for total non-current liabilities was approximately RMB578.5 million as at 31 December 2022 which was a decrease of approximately 19.1% from approximately RMB715.1 million as at 31 December 2021. The main reason for the decrease is due to the repayment of all outstanding borrowings during 2022. Total non-current liabilities increased by approximately RMB49.9 million as at 30 June 2023 mainly due to the slight increase in carrying value for deferred tax liabilities by approximately RMB59.8 million.

Equity attributable to shareholders of the Company was approximately RMB13,123.6 million, RMB16,082.0 million and RMB14,572.8 million as at 31 December 2021, 31 December 2022 and 30 June 2023 respectively. Net asset value attributable to Shareholders of the Company ("NAV") per Share as at 30 June 2023 based on total issued shares of 2,253,689,455 as at the Latest Practicable date was approximately RMB6.47 (equivalent to approximately HK\$6.92).

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B. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

As disclosed in the letter from the Board of the Circular, the Company noted that, while the judicial restructuring of MLH is solely a matter between MLH, its creditors and the court-appointed administrators, the outcome of such discussions may affect the shareholding structure of the Company in that MLH's shareholding in the Company (indirectly through MACRO-LINK International and Macrolink Overseas) may be transferred to its creditor(s) and/or independent third parties pursuant to MLH's judicial restructuring, thereby causing uncertainty in the Company's shareholding structure. As also disclosed in the letter from the Board of the Circular, in response to the enquiries from the stakeholders, including the customers and suppliers of the Group, in relation to the judicial restructuring of MLH and the implication on the potential change and stability of the Company's shareholding structure, in August 2023, the management of the Company commenced discussions with its financial advisers, MLH and the court-appointed administrators to understand the background and status of the proposals for restructuring the debts of MLH. During these discussions, the possibility of conducting the proposed Share Buy-back was contemplated by the Company and discussed amongst the parties. The parties further discussed in September 2023 on the feasibility, structure, as well as the terms and conditions of the Transactions. On 28 September 2023, the court-appointed administrators of MLH confirmed the acceptance of the proposal on the Transactions, comprising the Share Buy-back and the Disposal, after which the parties further discussed the terms and conditions of the Transaction including, amongst other things, the consideration for the Transactions. Taking into consideration of the foregoing, and that (i) MLH as a substantial shareholder of the Company, has been supportive of the Company's business and management operations; (ii) it is expected that there would be no material net cash flow effect on the Company; and (iii) the earnings per Share and the unaudited consolidated net asset value per Share attributable to the Shareholders of the Company would be enhanced following the completion of the Transactions, the Company believes that the Share Buy-back and the Disposal which are inter-conditional on each other with respect to the conditions of the other Transaction being unconditional will be in the interest of the stability of the Company's shareholding structure (the "**Purpose**"). The Company has not only entered into the Share Buy-back but also entered into the Disposal as it enables the Company to minimise its cash outflow from the Share Buy-back and to preserve sufficient working capital for potential investment opportunities and projects, thereby maximising return for the shareholders of the Company. Based on the disclosure in the letter from the Board of the Circular, there are no concrete plans or specific targets for such potential investment opportunities and projects. As the Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back, it is expected there to be no material net cash outflow effect on the Company.

With regards to the Share Buy-back, after arm's length negotiations, the Buy-back Price was fixed at HK\$7.1 per Buy-back Share, representing a premium of approximately 31.02% to the average closing price of approximately HK\$5.42 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day and a premium of approximately 22.29% to the average closing price of approximately HK\$5.80 per Share based on the daily

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closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day. The Company considers the premium to be fair and reasonable for reasons including the following:

- (i) given creditors of MLH come from different industries that are not necessarily similar to that of the Group, in the event that there be a change in the identity of the single largest Shareholder of the Company as a result of the transfer to MLH's creditors and/or independent third parties, it will not be in the interests of the Company and the Shareholders as a whole;
- (ii) if MLH's indirect shareholding in the Company will be transferred, there will be uncertainty as to the shareholding structure of the Company following such settlement;
- (iii) there can be no assurance that the said creditors will elect to continue to hold Shares transferred to them, and should they instead elect to dispose of a substantial part or all of MLH's indirect shareholding in the Company (representing up to approximately 23.12% of the issued share capital of the Company) in one go or within a short period of time such Shares in the open market, this would cause an inevitable downward pressure on the market prices of the Shares and the normal trading of Shares in terms of price and volume may be adversely affected, which would eventually adversely affect the interest of the Company and the Shareholders as a whole (together with (i) and (ii) above, collectively, the "**Uncertainties**");
- (iv) the Share Buy-back is a good opportunity for the Company to utilise its financial resources with aim to enhance its earnings per Share, thereby generating greater shareholder value which is in the interest of all Shareholders;
- (v) the Share Buy-back is also a good opportunity for the Company to buy-back a significant amount of Shares without affecting the normal trading of the Shares in terms of price and volume, and is therefore less disruptive to the market compared to on-market transactions;
- (vi) as the Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back there would be no material net cash flow effect as a result of the Disposal;
- (vii) the Buy-back Price was a discount to both the average closing price of the Shares for the period of 180 trading days before the Last Trading Day and the audited net asset value per Share as at 31 December 2022 and it was only an insignificant premium of 2.6% over the unaudited net asset value per Share as at 30 June 2023; and
- (viii) the Share Buy-back should not be considered as a stand-alone transaction as the Share Buy-back, together with the Disposal, are a part and parcel of one transaction to maintain the stability of the Company's shareholding structure without a material adverse impact on the cash flow of the Company.

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As disclosed in the letter from the Board of the Circular, after the Disposal Completion, Dongyue Polymers and Dongyue Organosilicon will remain subsidiaries of the Group. Despite that Dongyue Organosilicon will be held by the Company as to 44.4% upon Disposal Completion, as stated in the letter from the Board of the Circular, it will remain a subsidiary of the Group as the Company will remain in control of its board of directors. As further disclosed in the letter from the Board of the Circular, Dongyue Hydrogen will be held by the Dongyue Fluorosilicone Technology as to 7.71% and by Dongyue Organosilicon as to 5.14% upon the Disposal Completion and will remain an associated company of the Group. The Company has no plan or intention to dispose of or downsize any of its existing businesses and the Disposal only involves the sale of the respective Equity Interests in the three Target Companies but does not include or affect the Company's equity interests in its other subsidiaries or associated companies. The Target Companies under the Disposal were selected by, and as a result of commercial negotiations amongst Dongyue Fluorosilicone Technology, MLH (as the Purchaser) and the court-appointed administrator of MLH, based on the liquidity or the potential liquidity of the underlying equity interests of each of Dongyue Organosilicon (being an A-share listed company), Dongyue Polymers (which is being assessed by the Company for potential capital market fund-raising proposals or possibilities, subject to suitable market conditions and opportunities arising) and Dongyue Hydrogen (being considered for application for a separate listing on the Shanghai Stock Exchange or Shenzhen Stock Exchange). Given that the unaudited consolidated net asset value per Share attributable to Shareholders of the Company is expected to be increased as a result of the Transactions as set out in the section headed "VI. Financial effect of the Share Buy-back and the Disposal" in the letter from the Board of the Circular, the Target Companies will remain subsidiaries or associated company of the Group as the case may be after the Disposal Completion, and the sale proceeds from the Disposal will be used to replenish the cash used in the Share Buy-back which enables the Company to minimise its cash outflow from the Transactions, the Disposal is not expected to have a material adverse impact on the Group and will be in the interest of the stability of the Company's shareholding structure as a whole.

As disclosed in the letter from the Board of the Circular, the consideration of the Disposal was arrived at after arm's length negotiations between the parties thereto taking into account, among other things, (i) as for Dongyue Organosilicon the closing A-share trading price on 31 August 2023, being the latest month end date available when the Transactions were contemplated and when the parties negotiated and discussed the terms and conditions of the Disposal, including the consideration in September 2023, which is at a premium to the proportional net asset value per A-share as at 31 December 2022 and 30 June 2023; and (ii) as for Dongyue Polymers and Dongyue Hydrogen, the respective historical financial performance, namely the trailing 12 months net profits ended 30 June 2023 after taking into account the median price-to-earnings multiples of selected comparable companies. The consideration for the proportion of equity interests in Dongyue Hydrogen was at a premium to its proportional net asset value as at 31 December 2022. Despite the consideration for the proportion of equity interests in Dongyue Polymers, was at a slight discount to its proportional net asset value as at 31 December 2022, considering that (i) it was based on a price-to-earnings multiple which is in line with comparable profit-making companies; (ii) it represents a price-to-book multiple which is within the range of those of the selected comparable companies, and is higher than the median and the average of the price-to-book multiples of the selected comparable companies; (iii) Dongyue Polymers is only one of the Target Companies being part of the Disposal; and

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(iv) the Disposal, together with the Share Buy-back, is a part and parcel of one transaction to maintain the stability of the Company's shareholding structure, the Board considers that the consideration for the equity interests in Dongyue Polymers is fair and reasonable, and in the interest of the Company and its shareholders as a whole. Please refer to the letter from the Board of the Circular for further details of the above.

Based on the foregoing, the Board (including members of the Independent Board Committee, who have given their recommendation after taking advice from the Independent Financial Adviser) considers the consideration for the Disposal as a whole to be appropriate, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

For purpose of the EGM and benefits of the Shareholders, the Company has engaged an independent professional valuer to conduct independent valuation in relation to the Target Companies and such valuation report is set out in Appendix III to the Circular. The Directors have reviewed the valuation report prepared by the independent professional valuer in respect of the Target Companies and the underlying valuation methodology as set out in Appendix III to the Circular, and are of the view that valuation method, assumptions used, computation, and selected comparable companies used in the valuation of the Equity Interests of the Target Companies are fair, reasonable and appropriate. Please refer to the letter from the Board of the Circular for further details in this regard.

As stated in the letter from the Board of the Circular, in view of the above, the Directors are of the view that the terms of the Share Buy-back and the Disposal are fair and reasonable and the Transactions are in the interests of the Company and the Shareholders as a whole.

We have discussed with the Directors and understand that pursuant to the MLH Restructuring (as defined below), there is possibility that the Shares currently indirectly held by MLH, amongst other things, would be transferred to its creditors for settlement purposes. In this regard, we share the view of the Directors that should the creditors elect to realise and dispose in one go or within a short period of time in the open market all or substantial part of the Shares transferred to them, which in aggregate represent up to approximately 23.12% of the issued share capital of the Company, given the low liquidity of the Shares, it is possible that their disposal of such Shares would cause inevitable downward pressure on the market prices of the Shares which would eventually adversely affect the interests of the Company, the Shareholders, and the Independent Shareholders.

We also consider that the Transactions, on one hand, can achieve the Purpose and minimise Uncertainties associated with the MLH Restructuring (as defined below) that may be possibly exerted on the Group (such as the change in shareholding structure as well as the possible disruptions on market trading, and accordingly on the market price performance of the Shares should such Shares be disposed in the open market as discussed above), on the other hand, given the inter-conditionality of the Share Buy-back and the Disposal, the Transactions as a whole are also expected to bring about certain benefits to the Company and its Shareholders, including that:

- (i) given the Buy-back Price being equivalent to the consideration for the Disposal and the Agreed Settlement Arrangement (as defined below), there will be no net cash outflow as a result of the Share Buy-back and accordingly, there will be no cashflow pressure for the Group;

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- (ii) the Buy-back Shares will be cancelled following Share Buy-back Completion and the Disposal Completion. The Company expects the Share Buy-back to have enhancement on per Share value (such as earnings per Share and NAV per Share) as the number of Shares in the Company's issued Share capital is expected to decrease following Share Buy-back Completion and the Disposal Completion. Please refer to details in section headed "E. Financial effects on the Group" below; and
- (iii) following the Disposal Completion, Dongyue Polymers and Dongyue Organosilicon will remain as subsidiaries of the Company and Dongyue Hydrogen will remain as an associate of the Group and hence, as also disclosed in the sections headed "VI. Financial Effects of the Share Buy-back and the Disposal" in the letter from the Board of the Circular and unaudited pro forma financial information of the Group as disclosed in Appendix II of the Circular, it is expected that there would not be material adverse impact on the overall operation of the Group as a result of the Transactions.

Having considered all the above, we concur with the Directors' view that the entering into of the Transactions to be fair and reasonable and in the interests of the Company, the Shareholders, and the Independent Shareholders.

C. THE SHARE BUY-BACK

1. Principal Terms of the Share Buy-back Agreement

Date : 23 October 2023

Parties : (i) The Vendors (as vendors), each being a wholly-owned subsidiary of MLH; and

(ii) The Company (as purchaser)

Number of Buy-back Shares

An aggregate of 520,977,818 Shares, representing approximately 23.12% of the issued share capital of the Company as at the Latest Practicable Date.

Consideration

The aggregate consideration for the Share Buy-back is HK\$3,698,700,646 (equivalent to RMB3,456,729,576) and will be paid in cash within approximately 90 working days (which means days other than Saturday, Sunday, government recognised public holidays in Cayman Islands, British Virgin Islands, the PRC and Hong Kong) after the Restructuring Plan has been approved by the PRC Court, in up to five stages at intervals and amounts to be determined subject to the procedures and time required pursuant to the relevant foreign exchange controls and registration requirements of the banks and relevant authorities in the PRC. It is expected the Share Buy-back Completion will not commence until the aggregate consideration for the Share Buy-back is fully paid. The consideration for the Share Buy-back was

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determined following arm's length commercial negotiations between the Vendors and the Company, taking into account, inter alia, the aggregate consideration of the Disposal, the movements in the market price of the Shares over a period of 180 consecutive trading days and prevailing market conditions.

Based on our understanding from discussions with the Management and our review of the Share Buy-back Agreement and the Equity Transfer Agreement, Dongyue Fluorosilicone Technology, being the vendor to the Equity Transfer Agreement, will receive consideration from the sale of the respective Equity Interests in the Target Companies in cash by up to five stages and upon receiving each payment of the consideration for the Disposal, the Company will then proceed to pay an amount no more than the consideration dollar amount received for the Disposal, to the Vendors for repurchase of the corresponding amount of the Buy-back Shares (the "**Agreed Settlement Arrangement**"). In light of this arrangement, we consider the Company would not have material cash flow pressure resulting from the Share Buy-back. We have discussed and understand from the Management that based on their understanding, in entering into the Transactions, the Vendors have to fulfil its obligations under each of the Share Buy-back Agreement and the Equity Transfer Agreement. If the Vendor(s) does not or cannot satisfy its obligations, including payments of consideration under the Equity Transfer Agreement, then the Company would not proceed to settle its consideration under the Share Buy-back Agreement.

Conditions to the Share Buy-back Completion

The Share Buy-back Completion is conditional upon the satisfaction or the waiver (if applicable) of the following conditions on or before the Long Stop Date:

- (i) approval of the Share Buy-back Agreement and the transactions contemplated thereunder by at least three-fourths of the votes cast on a poll by Independent Shareholders in attendance in person or by proxy at the EGM;
- (ii) the Executive having granted and not having withdrawn or revoked the approval for the Share Buy-back;
- (iii) the Restructuring Plan of MLH having been submitted to the creditors' meeting and PRC court, and the PRC court having handed down and not having withdrawn an order approving the Restructuring Plan of MLH;
- (iv) the Equity Transfer Agreement becoming unconditional upon the satisfaction of its conditions (save as to any conditions in relation to the Share Buy-back Agreement becoming unconditional);
- (v) there is no judgement, award, order, injunction, request or demand by any law, court, arbitration institution or any governmental or other agency that would restrict, prohibit or annul the Share Buy-back Agreement and the transactions contemplated thereunder;

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- (vi) all representations and warranties given by the Vendors and the Company remaining true and accurate in all material aspects and not misleading; and
- (vii) the Charged Shares have been released in full.

Save for condition (vi) above which is waivable by the Vendors (as to representations and warranties given by the Company) and the Company (as to representations and warranties given by the Vendors), none of the conditions above is capable of being waived by the Vendors or the Company. The Restructuring Plan of MLH is expected to be submitted to the creditors' meeting and the PRC court no later than January 2024, and condition (iii) above is expected to be fulfilled before 30 April 2024. As to condition (vii), the Vendors have agreed to settle the liabilities due to the chargees before the Long Stop Date and the chargees to the Charged Shares are expected to release the share charges upon settlement of liabilities thereunder. As at the Latest Practicable Date, none of the conditions have been fulfilled.

If the conditions to the Share Buy-back Completion is not fulfilled or waived (as the case may be) on or before the Long Stop Date, the Share Buy-back Agreement will lapse.

Share Buy-back Completion

The Share Buy-back Completion and the transfer of all the Buy-back Shares will take place no later than 31 December 2024, subject to fulfilment or waiver (as the case may be) of all conditions under the Share Buy-back Agreement and payment of the consideration for the Share Buy-back in full by the Company.

If the Share Buy-back is not completed before 31 December 2024, the Vendors undertake to refund the consideration for the Share Buy-back they received to the Company, and the Buy-back Shares which have been transferred (if any) shall be transferred back to the Vendors. Whilst neither an exact date or any time period for refund due to non-completion was provided or agreed under the Share buy-back Agreement or the Equity Transfer Agreement, the Company confirms that it will only agree to refund the amounts received under the Disposal upon or following the receipt of the refund by the Vendors under the Share Buy-back if the completion of the Transactions does not take place.

Upon the Share Buy-back Completion and the Disposal Completion, the Company shall cancel the Buy-back Shares and any rights attaching thereto shall cease with effect from such cancellation.

The Company will comply with the applicable provisions and requirements pursuant to Rule 10.06(3) to Rule 10.06(5) of the Listing Rules with respect to the Share Buy-back and the Buy-back Shares.

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Funding of the Share Buy-back

As disclosed in the letter from the Board of the Circular, under the Companies Act, only fully paid-up Shares can be bought back, and any buy-back of Shares by the Company may only be funded out of the Company's profits, a fresh issue of Shares made for the purpose, the Company's share premium account, or if so authorised by its articles of association and subject to the Companies Act, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be bought-back must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Act, out of capital. As at 30 June 2023, the Company had share premium of approximately RMB3,935,865,000 (equivalent to approximately HK\$4,211,375,550). As also stated in the letter from the Board of the Circular, the Company will use its share premium to fund and effect the Share Buy-back.

2. Information on the Vendors and MLH

MACRO-LINK International is a limited liability company incorporated in the BVI, a substantial shareholder of the Company prior to the Share Buy-back Completion, and is directly wholly-owned by Macrolink Industrial, which in turn is directly wholly-owned by MLH, which is controlled by Mr. Fu as the single largest ultimate majority shareholder who is also the ultimate beneficial owner. It is primarily engaged in investment holding.

Macrolink Overseas is a limited liability company incorporated in the BVI, a substantial shareholder of the Company prior to the Share Buy-back Completion, and is directly wholly-owned by MACRO-LINK International, which is directly wholly-owned by Macrolink Industrial, which in turn is directly wholly owned by MLH, which is controlled by Mr. Fu as the single largest ultimate majority shareholder who is also the ultimate beneficial owner. It is primarily engaged in investment holding.

As disclosed in the Circular, MLH is a limited liability company established in the PRC and a substantial shareholder of the Company prior to the Share Buy-back Completion. MLH is owned as to 93.4% by Cheung Shek, 2.83% by Mr. Fu, 0.11% by Ms. Xiao Wenhui (a director of MLH and Cheung Shek, who is not a close relative of Mr. Fu), 2.11% by Mr. Yang Yunhua, 1.33% by Mr. Wu Xiangdong (a close relative of Mr. Fu), 0.07% by Mr. Feng Jianjun (a director of MLH and Cheung Shek) and 0.15% by Mr. Zhang Bishu (a deceased former director of the Company and MLH), respectively. Cheung Shek is owned as to 59.76% by Mr. Fu, 33.46% by Ms. Xiao Wenhui, 3.36% by Mr. Zhang Jian (an executive Director of the Company) and 3.42% by Ms. Liu Jing (a director of the Vendors, MLH, Macrolink Industrial and Cheung Shek), respectively. MLH is primarily engaged in investment holding and management.

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With reference to the Company's announcement dated 15 August 2022 (“**2022 MLH Announcement**”), that No.1 Intermediate People's Court of Beijing Municipality (北京市第一中級人民法院) has accepted the bankruptcy restructuring (破產重整) petition made against MLH by Hunan Fuxing Group Company Limited* (湖南富興集團有限公司), a creditor of MLH, for an aggregate amount of RMB30,000,000 plus accrued interest and on the ground that MLH is unable to repay its overdue debts but there are possibilities and potential value in restructuring MLH (“**MLH Restructuring**”). We have discussed and understand from the Company that the amount of RMB30,000,000 plus costs mentioned in the 2022 MLH Announcement was only the amount under one of the claims against MLH which led to the judicial restructuring of MLH.

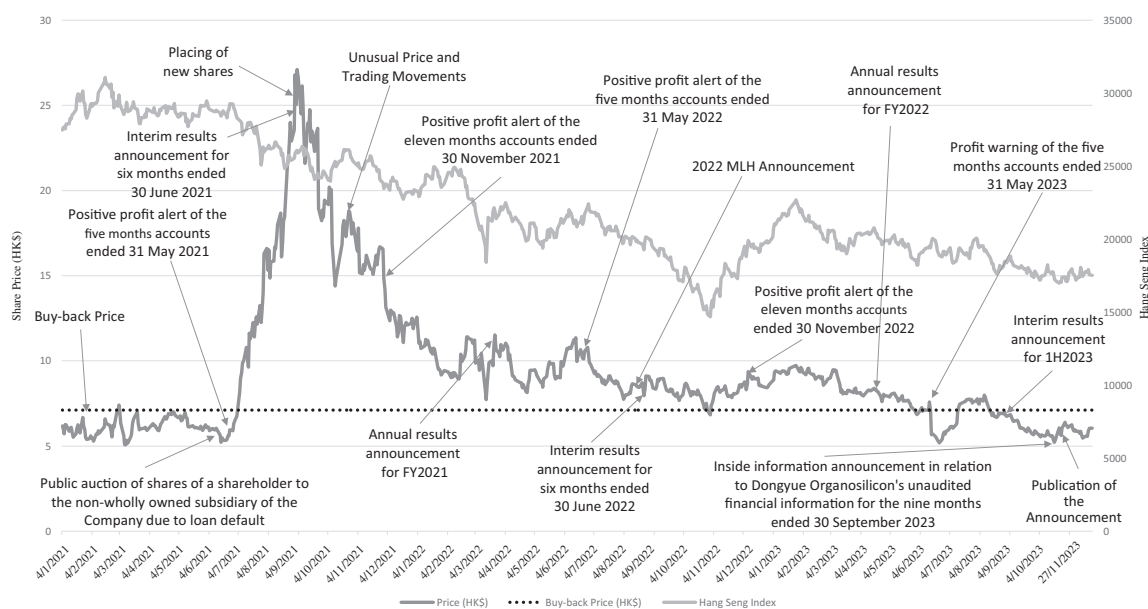
3. Analysis on the Buy-back Price

As stated in the letter from the Board of the Circular, the Buy-back Price is approximately HK\$7.1 per Share, which was determined following commercial and arm's length negotiations between the Vendors and the Company, taking into account, inter alia, the aggregate consideration of the Disposal, the movements in the market price of the Shares over a period of 180 consecutive trading days and prevailing market conditions.

3.1 Historical price performance of the Shares

Set out below is the movement of the closing prices of the Shares throughout the period from 4 January 2021 to the Latest Practicable Date (the “**Review Period**”), the announcements of the Company relating to certain corporate events that took place during the Review Period, and the movement of Hang Seng Index during the Review Period. The Review Period is considered to represent a sufficient period of time to provide a general overview on the recent market performance of the Shares for the purpose of this analysis because the Review Period, being more than 33 months is considered to be of a sufficient period to demonstrate an overall Share price performance by averaging out effects as a result of changes in the broad market that is not exclusive to the Company and particular dated news and events of the Company.

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Source: Bloomberg

The closing prices of the Shares ranged from HK\$5.06 to HK\$27.10 during the period between 4 January 2021 and the Last Trading Date (both dates inclusive, the “**Pre-announcement Period**”), with an average closing price of around HK\$9.50.

As shown in the chart above, Share closing prices led a drastic increment during the mid-June to early September in 2021 followed by a general decreasing trend since September 2021 up to the date of the Share Buy-back Agreement. During the period between 4 January 2021 and 16 June 2021, the Share closing price has been fluctuating within the range between HK\$5.06 per Share and HK\$7.41 per Share. Shortly after the publication of the positive profit alert announcement of the unaudited consolidated management accounts of the Group for the five months ended 31 May 2021 (the “**Profit Alert Announcement**”) after market close on 16 June 2021, a drastic jump by around 407.5% from HK\$5.34 per Share as at 21 June 2021 to the historical peak of HK\$27.10 per Share as at 2 September 2021 was observed (the “**Disturbed Period**”). We are advised by the Company that save for the Profit Alert Announcement, the Company’s interim results announcement for the six months ended 30 June 2021 and the Company’s announcement in relation to the interim results of Dongyue Organosilicon for the six months ended 30 June 2021, the Company is not aware of any other reasons for the increase in Share price during the period. As observed in the chart above, the rally in Share closing price during the Disturbed Period was a drastic and temporary one and was not in line with the overall performance of the market as indicated by the movement in the Hang Seng Index. In this respect, having considered the above, it is noted that if the Share price performance during the Disturbed Period is excluded, the average closing price per Share during the Pre-announcement Period but excluding the Disturbed Period, for reference purpose, would be around HK\$9.12.

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Following the Disturbed Period, Share closing price turned to a downward trend and fell to HK\$16.88 per Share on 8 October 2021 on which the Company published an announcement after the market close regarding its non-awareness of specific reasons for unusual price and volume movements. The Share closing price further dropped to HK\$12.36 per Share on 6 December 2021 on which the positive profit alert announcement of the unaudited consolidated management accounts of the Group for the eleven months ended 30 November 2021 was published after market close. Despite the slight increase in Share closing price to HK\$12.98 per Share on 7 December 2021 following the aforesaid positive profit alert announcement, the Share closing price then maintained its general downward trend again to reach HK\$7.72 per Share on 15 March 2022. The Share closing price showed a slightly recovery to HK\$10.02 per Share on 21 March 2022 on which, after trading hours, the Company announced its annual results for FY2021.

As shown in the chart above, despite some temporary increase in Share closing price around the times at which some positive profit alerts were announced during 2022 and 1H2023, the Share closing price had maintained a general decreasing trend during the period and reached HK\$7.07 per Share on 14 June 2023. Following the publication of the profit warning announcement of the unaudited consolidated management accounts of the Group for the five months ended 31 May 2023 after trading hours on 14 June 2023, Share closing price was further down and reached HK\$5.19 per Share on 23 June 2023. Though the Share closing price experienced a slight recovery up to HK\$7.98 per Share on 8 August 2023, since then it led another downward trend again and further dropped to HK\$5.34 per Share on the Last Trading Day. We are advised by the Company that, save for the Company's announcements regarding its 1H2023 interim results and Dongyue Organosilicon's 1H2023 interim results the Company is not aware of any other reasons for the decrease in Share price during the period.

Following the publication of the Announcement in relation to the Transactions before trading hours on 24 October 2023, the Share closing price increased by around 13.7% to HK\$6.07 per Share on the same day. Since then, the Share closing price fluctuated in a range between HK\$5.46 and HK\$6.39 each, and the closing price per Share as at Latest Practicable Date was HK\$6.05.

The Buy-back Price represents:

- (i) a premium of approximately 32.93% over the closing price of HK\$5.34 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 31.02% over the average closing price of HK\$5.42 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;

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- (iii) a premium of approximately 22.29% over the average closing price of HK\$5.80 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 9.16% over the average closing price of HK\$6.50 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 9.39% over the average closing price of HK\$6.49 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 4.03% to the average closing price of HK\$7.40 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 25.26% to the average closing price of HK\$9.50 per Share for the Pre-announcement Period;
- (viii) a discount of approximately 22.15% to the average closing price of HK\$9.12 per Share for the Pre-announcement Period but excluding the Disturbed Period;
- (ix) a discount of approximately 7.07% over the audited net asset value attributable to Shareholders per Share as at 31 December 2022 of approximately RMB7.14 (equivalent to approximately HK\$7.64) per Share; and
- (x) a premium of approximately 2.60% over the unaudited net asset value attributable to Shareholders per Share as at 30 June 2023 of approximately RMB6.47 (equivalent to approximately HK\$6.92) per Share.

As shown above, though the Buy-back Price represents premium over the Share price as at the Last Trading Day, it is noted that such premium becomes smaller when comparing it to the average closing prices of the Shares for a longer term. It is also noted from the above that the Buy-back Price is close to the average closing price of HK\$7.04 per Share for the 150 consecutive trading days immediately prior to and including the Last Trading Day and represents a discount to the average closing price per Share for 180 consecutive trading days immediately prior to and including the Last Trading Day, and even represents a discount of over 20% to the average closing price per Share for the Pre-announcement Period (both including and excluding the Disturbed Period).

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3.2 Historical trading liquidity of the Shares

The table below sets out information on the trading liquidity of the Shares during the Review Period.

	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total issued Shares <i>(Note 1)</i>	Approximate % of average daily trading volume to the public float of the Shares <i>(Note 2)</i>
2021			
January	20,737,541	0.98%	1.98%
February	17,143,368	0.81%	1.63%
March	28,187,280	1.33%	2.31%
April	11,138,600	0.53%	0.91%
May	8,595,050	0.41%	0.70%
June	12,216,823	0.58%	1.00%
July	78,687,527	3.73%	6.21%
August	52,713,180	2.50%	4.16%
September	52,522,841	2.33%	3.60%
October	40,979,668	1.82%	2.81%
November	33,095,969	1.47%	2.27%
December	27,667,151	1.23%	1.90%
2022			
January	15,634,438	0.69%	1.07%
February	24,796,276	1.10%	1.70%
March	30,100,412	1.34%	2.07%
April	15,545,786	0.69%	1.07%
May	11,984,246	0.53%	0.82%
June	25,380,763	1.13%	1.74%
July	15,060,471	0.67%	1.03%
August	13,206,465	0.59%	0.91%
September	9,167,803	0.41%	0.63%
October	10,188,296	0.45%	0.70%
November	9,176,710	0.41%	0.63%
December	9,767,004	0.43%	0.67%

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	Average daily trading volume of the Shares	Approximate % of average daily trading volume to the total issued Shares (Note 1)	Approximate % of average daily trading volume to the public float of the Shares (Note 2)
2023			
January	7,404,507	0.33%	0.51%
February	7,345,159	0.33%	0.50%
March	7,775,942	0.35%	0.53%
April	5,507,436	0.24%	0.38%
May	5,610,997	0.25%	0.39%
June	10,536,767	0.47%	0.72%
July	8,721,940	0.39%	0.60%
August	4,966,544	0.22%	0.34%
September	5,491,944	0.24%	0.43%
From 1 October to 20 October 2023 (being the Last Trading Day)	5,702,992	0.25%	0.44%
Average during the Pre-announcement Period	19,243,869	0.86%	1.39%
Average during the Pre-announcement Period excluding the Disturbed Period	15,984,189	0.71%	1.15%
From 24 October 2023 to the Latest Practicable Date (Note 3)	8,821,168	0.39%	0.69%
Average during the Review Period	18,878,928	0.85%	1.37%

Source: Website of the Stock Exchange and Bloomberg

Notes:

1. The calculation is based on the average daily trading volumes of the Shares divided by the total number of issued Shares at the end of each month, as at the Last Trading Day or the Latest Practicable Date, as applicable.

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2. The total number of Shares held by the public is calculated based on the total number of issued Shares excluding those held by the Vendors and Vendors Concert Group, Mr. Zhang Group and Mr. Zhang Zhefeng as at the end of each month, the Last Trading Day or the Latest Practicable Date, as applicable. Relevant adjustments has been made to reflect the following facts — (a) Dongyue Wealth is held by Mr. Liu Chuanqi who was a Director until 11 March 2021; and (b) Qixin Wealth became parties acting in concert with Mr. Zhang since 1 September 2023.
3. 24 October 2023, being the first trading date immediately following the publication of the Announcement.

As illustrated in the above table, during the Pre-Announcement Period, the percentage of average daily trading volume to the total number of issued Shares ranged from approximately 0.22% to approximately 3.73%, with an average of around 0.86%. The percentage of average daily trading volume to the total number of Shares held by the public during the Pre-Announcement Period ranged from approximately 0.34% to approximately 6.21%, with an average of around 1.39%. From the above table, it is also noted that the average daily trading volume of the Shares was generally higher in 2021 and particularly during the Disturbed Period, comparing to 2022 and 2023. In this regard, we have consulted the Company and the Company confirmed that it is not aware of any other reasons for such increase in Share trading volume during the period. In view of this, we have also looked into the liquidity of the Shares by excluding the Disturbed Period and noted that the average daily trading volume of the Shares during the Pre-announcement Period but excluding the Disturbed Period was approximately 0.71% of the total number of issued shares and approximately 1.15% of the total number of Shares held by the public respectively. Based on the above, the trading volume of the Shares was generally thin, particularly in the recent year. As such, as discussed above, should the creditors elect to realise and dispose in the open market all or substantial part of the large block of Shares, which in aggregate represent up to approximately 23.12% of the issued share capital of the Company, given the low liquidity of the Shares, it is possible that their disposal of such large block of Shares would cause inevitable and considerable downward pressure on the market prices of the Shares which would eventually adversely affect the interests of the Company, the Shareholders and the Independent Shareholders.

3.3 Comparable transactions

To further assess the fairness and reasonableness of the Buy-back Price, we have searched and reviewed the announcements and/or circulars released by companies (excluding Real Estate Investment Trusts) listed on the Stock Exchange in relation to off-market share buy-backs which were announced from 1 January 2019, being over four years immediately prior to the Last Trading Day, up to and including the Latest Practicable Date and were approved in their relevant shareholders' meetings. Based on the above criteria, we have identified 8 comparable transactions (the "**Comparable Transactions**").

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However, we have also look into the nature and deal structure of the Comparable Transactions and noted that the Comparable Transactions had widely different transaction structure and were driven by various different reasons including but not limited to, for the purpose of complying with applicable regulatory requirements, or enhancing the companies' per share value or unwinding a previous acquisition and cancelling the relevant consideration shares issued, etc.. Given that unique reasons for the Share Buy-back, that are to achieve the Purpose and minimise Uncertainties, are also different from those of the Comparable Transactions, we consider that no meaningful conclusion could be drawn by direct comparison between the Share Buy-back and the Comparable Transactions.

4. Effects on the shareholding structure of the Company

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon the Share Buy-back Completion (assuming there will be no other change in the aggregate shareholding of Mr. Zhang Group, and the issued share capital and the shareholding structure of the Company between the Latest Practicable Date up to the Share Buy-back Completion):

Name of Shareholder	As at the date of this circular		Immediately upon the Share Buy-back Completion	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Vendors Concert Group	529,481,909	23.49	8,504,091	0.49
<i>MACRO-LINK International</i> ⁽¹⁾	370,977,818	16.46	—	—
<i>Macrolink Overseas</i> ⁽¹⁾	150,000,000	6.66	—	—
<i>Directors of Vendors and Vendors' parent companies</i> ⁽²⁾	8,504,000	0.37	8,504,000	0.49
<i>Mr. Zhang Jian</i> ⁽²⁾	91	0.00	91	0.00
Independent Shareholders	1,724,207,546	76.51	1,724,207,546	99.51
Mr. Zhang Group	436,941,087	19.39	436,941,087	25.22
<i>Dongyue Team Limited</i> ⁽³⁾	258,948,451	11.49	258,948,451	14.94
<i>Mr. Zhang</i> ⁽⁴⁾	7,147,636	0.32	7,147,636	0.41
<i>Qixin Investment</i> ⁽⁵⁾	95,219,000	4.22	95,219,000	5.50
<i>Dongyue Wealth</i> ⁽⁵⁾	75,626,000	3.36	75,626,000	4.37
Mr. Zhang Zhefeng ⁽⁴⁾	750,000	0.03	750,000	0.04
Other independent Shareholders ⁽⁶⁾	<u>1,286,516,459</u>	<u>57.08</u>	<u>1,286,516,459</u>	<u>74.25</u>
Total	<u>2,253,689,455</u>	<u>100.00</u>	<u>1,732,711,637</u>	<u>100.00</u>

Notes:

(1) The ultimate beneficial owner of MACRO-LINK International and Macrolink Overseas is Mr. Fu.

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- (2) This includes shareholding of directors (and their close relatives (as defined under the Takeovers Code), related trusts and companies controlled by any of the directors, their close relatives or related trusts) of the Vendors' parent companies (being Macro-link Industrial, MLH and Cheung Shek), namely (i) Ms. Liu Jing (a director of the Vendors, MLH, Macrolink Industrial and Cheung Shek) who holds 5,847,000 Shares; (ii) Mr. Ma Chenshan (a director of MLH and Cheung Shek) who holds 528,000 Shares; (iii) Ms. Xiao Wenhui (a director of MLH and Cheung Shek) who holds 1,070,000 Shares; (iv) Ms. Zhong Ping (the spouse of Mr. Feng Jianjun, a director of MLH and Cheung Shek) who holds 15,000 Shares; (v) Ms. Fu Shuangshuang (daughter of Mr. Fu and a director of MLH) who holds 250,000 Shares; (vi) Mr. Wu Xiangdong (close relative of Mr. Fu) who holds 789,000 Shares; and (vii) Ms. Wang Yi (a director of MACRO-LINK International and Macrolink Industrial) who holds 5,000 Shares. Mr. Zhang Jian is an executive Director and is a member of the Vendors Concert Group.
- (3) Dongyue Team Limited is wholly-owned by Mr. Zhang.
- (4) Each of Mr. Zhang and Mr. Zhang Zhefeng is an executive Director, who does not have a material interest in the Transactions which is different from the interests of all other Shareholders and is not a member of nor acting in concert with the Vendors Concert Group.
- (5) As at the Latest Practicable Date, Qixin Investment which holds 95,219,000 Shares and Dongyue Wealth which holds 75,626,000 Shares, are parties that have agreed to exercise the voting power of their respective shareholding interests in the Company in alignment with Mr. Zhang, and are parties acting in concert with Mr. Zhang. Mr. Zhang Group collectively holds 19.39% of the issued share capital of the Company. Each of Qixin Investment and Dongyue Wealth does not have a material interest in the transactions which is different from the interests of all other Shareholders and is not acting in concert with the Vendors Concert Group.
- (6) These include 76,707,000 Shares, representing approximately 3.4% of the issued share capital of the Company as at the Latest Practicable Date, held by Hong Kong Tai Li International Trading Company Limited, being the trustee of the employee share scheme of the Company and a wholly-owned subsidiary of the Company whose directors are employees of the Group. Under the employee share scheme, such Shares were purchased by the trustee on the Stock Exchange to be held for the benefit of the employees of the Group and have not been granted to any employees, Directors or any member of the Vendors Concert Group as at the Latest Practicable Date. Under the rules of the employee share scheme, the trustee is not entitled to exercise any voting rights in the Shares held by it on trust for the employees. None of the members of the Vendors Concert Group, Mr. Zhang nor members of Mr. Zhang Group are directors or shareholders of the trustee and the purchase of such Shares by the trustee were not funded by them. Accordingly, the trustee is not a party acting in concert with any member of the Vendor Concert Group or Mr. Zhang Group.
- (7) Save for the 2,253,689,455 Shares in issue, the Company has no other options, convertible securities, warrants or derivatives in respect of the Shares in issue as at the Latest Practicable Date.

As shown in the table above, the MLH and its subsidiaries will no longer hold any equity interests in the Company after completion of the Transactions. The percentage shareholding interest of all other Shareholders in the issued share capital of the Company will be proportionally increased following the cancellation of the Buy-back Shares and the resulting reduction in total number of issued Shares. Following the Share Buy-back Completion and Disposal Completion, interests held by (i) public Shareholders will increase from approximately 57.08% to 74.25%; (ii) Independent Shareholders will increase from approximately 76.51% to 99.51%. As such, the Independent Shareholders will benefit from the increase in their proportionate shareholding in the Company as a result of the Share Buy-back.

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D. THE DISPOSAL

1. Principal Terms of the Equity Transfer Agreement

- Date** : 23 October 2023
- Parties** : (i) Dongyue Fluorosilicone Technology (as vendor); and
(ii) MLH (as purchaser)
- Assets being disposed of** : Pursuant to the terms of the Equity Transfer Agreement, Dongyue Fluorosilicone Technology has proposed to sell, and the Purchaser has proposed to purchase, the respective Equity Interests in the Target Companies comprising (i) approximately 23.12% equity interest in Dongyue Polymers; (ii) approximately 13.35% equity interest in Dongyue Organosilicon; and (iii) approximately 2.32% equity interest in Dongyue Hydrogen.
- The proportion of the respective Equity Interests in the Target Companies to be sold is the corresponding 23.12% equity interest held by the Company via Dongyue Fluorosilicone Technology in each of the Target Companies, which was determined based on and corresponds to the 23.12% Shares subject to the Share Buy-back.
- Consideration** : The aggregate consideration for the Disposal is RMB3,456,729,576 (equivalent to HK\$3,698,700,646), comprising RMB1,752,000,000 (equivalent to HK\$1,874,640,000, with regards to Dongyue Polymers), RMB1,539,729,576 (equivalent to approximately HK\$1,647,510,646, with regards to Dongyue Organosilicon) and RMB165,000,000 (equivalent to HK\$176,550,000, with regards to Dongyue Hydrogen).

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Due to the large amount involved, it was agreed by the parties following arm's length commercial negotiations, such consideration will be payable and settled by the Purchaser in cash within approximately 90 working days (which means which days a bank in the PRC is open for business to the public, including a Saturday or Sunday that is a government recognised compensated day, but excluding public holidays under the law and Saturday or Sunday that does not constitute such compensated day) after the Restructuring Plan has been approved by the PRC Court, in up to five stages at intervals and amounts yet to be determined, subject to the procedures and time required pursuant to the relevant foreign exchange controls requirements of banks and relevant authorities in the PRC. It is expected that the Disposal Completion will not commence until the aggregate consideration for the Disposal is fully paid. Based on the foregoing, the Board considers such payment terms to be fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

As mentioned in the section headed "C. The Share Buy-back — 1. Principal terms of the Share Buy-back Agreement" above, pursuant to the Agreed Settlement Arrangement, Dongyue Fluorosilicone Technology, being the vendor to the Equity Transfer Agreement, will receive consideration from the sale of the respective Equity Interests in the Target Companies in cash by up to five stages and upon receiving each payment of the consideration for the Disposal, the Company will then proceed to pay an amount no more than the consideration dollar amount received for the Disposal, to the Vendors for repurchase of the corresponding amount of the Buy-back Shares.

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Basis of consideration : The consideration for the Disposal was determined following arm's length commercial negotiations between the Dongyue Fluorosilicone Technology and the Purchaser taking into account (i) as for Dongyue Organosilicon, the closing A-share trading price of RMB9.61 per A-share on 31 August 2023, being the latest month end date available when the Transactions were contemplated and when the parties negotiated and discussed the terms and conditions of the Disposal, including the consideration in September 2023, which is at a premium to the proportional net asset value per A-share as at 31 December 2022 and 30 June 2023; and (ii) as for Dongyue Polymers and Dongyue Hydrogen, the respective historical financial performance, namely the net profit for trailing 12 months net profits ended 30 June 2023 after taking into account the price-to-earnings multiples of selected comparable companies. The consideration for the proportion of equity interests in Dongyue Hydrogen was at a premium to its proportional net asset value as at 31 December 2022. Despite the consideration for the proportion of equity interests in Dongyue Polymers was at a slight discount to its proportional net asset value as at 31 December 2022, considering that (i) it was based on a price-to-earnings multiple which is in line with comparable profit-making companies; (ii) it represents a price-to-book multiple which is within the range of those of the selected comparable companies, and is higher than the median and the average of the price-to-book multiples of the selected comparable companies; (iii) Dongyue Polymers is only one of the Target Companies being part of the Disposal; and (iv) the Disposal, together with the Share Buy-back, is a part and parcel of one transaction to maintain the stability of the Company's shareholding structure, the Board considers that the consideration for the equity interests in Dongyue Polymers is fair and reasonable, and in the interest of the Company and its shareholders as a whole. Please refer to the letter from the Board of the Circular for further details of the above. As stated in the letter from the Board of the Circular, the Directors confirm that there had been no material change to the financial position, namely the net profit and net asset value of Dongyue Polymers and Dongyue Hydrogen since 30 June 2023 up to and including the date of the Equity Transfer Agreement.

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For the purpose of the EGM and benefits of the Shareholders, the Company has engaged an independent professional valuer to conduct independent valuation in relation to the Target Companies and such valuation report is set out in Appendix III to the Circular.

Based on the foregoing, the Board considers the consideration for the Disposal as a whole to be appropriate, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

- Conditions precedent** : The Disposal Completion is conditional upon the satisfaction of the following conditions:
- (i) the Share Buy-back Agreement becoming unconditional (save as to the condition(s) relating to the Equity Transfer Agreement becoming unconditional);
 - (ii) resolution(s) voted on by poll approving the Equity Transfer Agreement and the transactions contemplated thereunder having been passed at the EGM by more than 50% of the Independent Shareholders present at the EGM; and
 - (iii) the PRC court having handed down an order approving the Restructuring Plan of MLH.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

- Completion** : The Disposal Completion will take place no later than 31 December 2024, subject to fulfilment of all conditions under the Equity Transfer Agreement and payment of the consideration for the Disposal in full by MLH.

Immediately following the Disposal Completion, each of Dongyue Polymers and Dongyue Organosilicon will remain as a subsidiary of the Group, and Dongyue Hydrogen will remain as an associated company. If the Disposal is not completed for any reason not attributable to both parties and the Share Buy-back is completed (or the consideration for the Share Buy-back has been paid in part or in full), the Vendors undertake to refund the consideration for the Share Buy-back they received to the Company and the Buy-back Shares which have been transferred (if any) shall be transferred back to the Vendors.

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2. Information on the Target Companies

2.1 Dongyue Polymers

Dongyue Polymers is a limited liability company incorporated in the PRC and is directly wholly-owned by Dongyue Fluorosilicone Technology, which is a direct wholly-owned subsidiary of the Company. It is primarily engaged in manufacturing and sales of fluoropolymer.

Set out below is the audited financial information of Dongyue Polymers for the year ended 31 December 2021 and 2022, respectively:

	For the year ended 31 December	
	2021	2022
	RMB'000	RMB'000
Net profit before taxation	1,829,554	2,873,943
Net profit after taxation	1,595,756	2,489,980

As at 31 December 2022, the audited net asset value of Dongyue Polymers was approximately RMB9,446,930,000.

As set out in the table above, Dongyue Polymers recorded impressive growth in net profit after taxation in 2022 by approximately 56.0% as compared to that for 2021. As discussed with the Management, such increase was mainly due to increase in demand for Dongyue Polymers' products, namely PVDF and R142b, especially throughout the first three quarters of 2022.

Dongyue Polymers and its subsidiaries as a whole represents a substantial group of operating companies of the Group. As confirmed by the Company, consolidated revenue reported by Dongyue Polymers and its subsidiaries represented almost all of revenue recognised by the Group's fluoropolymers and refrigerants segments in each of the past three years. As shown in the section above headed "A. Information on the Group — 1. Financial performance", the aforementioned segments represented over 50% of total consolidated revenue reported by the Group as a whole.

2.2 Dongyue Organosilicon

Dongyue Organosilicon is a joint stock limited company established in the PRC and is an indirect non-wholly-owned subsidiary of the Company. Its shares are listed on ChiNext of the Shenzhen Stock Exchange (Stock Code: 300821.SZ). As at the Latest Practicable Date, the Company through its wholly-owned subsidiary Dongyue Fluorosilicone Technology, is interested in approximately 57.75% equity interest in Dongyue Organosilicon. It is primarily engaged in manufacturing and sale of organic silicone products, which are widely applied in construction, electronic, electricity, new energy, automotive, textiles, medical supplies, personal care products and other fields as key ingredients in industrial processes, mainly in the form of sealants, additives, chemical stabilizers and lubricants.

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Set out below is the audited financial information of Dongyue Organosilicon for the year ended 31 December 2021 and 2022 and unaudited financial information of Dongyue Organosilicon for the six months ended 30 June 2022 and 2023 as published in the interim report of Dongyue Organosilicon on the Shenzhen Stock Exchange, respectively:

	For the year ended		For the six months ended	
	31 December		30 June	
	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Net profit/loss before taxation	1,314,682	541,996	610,146	(190,664)
Net profit/loss after taxation	1,150,634	510,982	518,571	(191,656)

As at 31 December 2022, the audited net asset value of Dongyue Organosilicon was approximately RMB5,240,683,000. As at 30 June 2023, the unaudited net asset value of Dongyue Organosilicon as published in the interim report of Dongyue Organosilicon for the six months ended 30 June 2023 was approximately RMB4,929,027,000.

As set out in the table above, Dongyue Organosilicon recorded a decrease in net profit after taxation in 2022 by approximately 55.6% as compared to that for 2021. As disclosed in the annual report of Dongyue Organosilicon for FY2022 and based on our understanding from the Management, such decrease was mainly due to (i) a significant decrease in Dongyue Organosilicon's silicon product selling price as compared to that in 2021 which was in line with the overall price adjustment trend in the silicon industry as a whole; and (ii) decrease in global demand for silicon products and slow down in product demand in the PRC.

We note Dongyue Organosilicon reported a loss before taxation for the six months ended 30 June 2023 as compared to a profit for the six months ended 30 June 2022. Based on the disclosure in the letter from the Board of the Circular, Dongyue Organosilicon recorded a net loss before taxation of approximately RMB190,664,000 for the six months ended 30 June 2023 as compared with a net profit before taxation of approximately RMB610,146,000 for the corresponding period in 2022, primarily due to the slow down in global economic rebound, and increase in production capacity and product supply in the domestic silicon market resulting in intensified market competition and continual price drops for the major products of Dongyue Organosilicon, coupled with a decline in product demand for exports in the first half of 2023.

As at the Latest Practicable Date, had a market capitalization of approximately RMB10,164.0 million (equivalent to approximately HK\$10,875.5 million).

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2.3 Dongyue Hydrogen

Dongyue Hydrogen is an associated company of the Company and is a joint stock company established in the PRC with limited liability. As at the Latest Practicable Date, Dongyue Fluorosilicone Technology (a wholly-owned subsidiary of the Company) holds 10.03% equity interest in Dongyue Hydrogen, and Dongyue Organosilicon (held as to 57.75% by Dongyue Fluorosilicone Technology as at the Latest Practicable Date) holds 5.14% equity interest in Dongyue Hydrogen, respectively. It is principally engaged in the business of research, production and sale of fluorinated proton exchange membrane, its key raw materials and derived products.

Set out below is the audited financial information of Dongyue Hydrogen for the year ended 31 December 2021 and 2022, respectively:

	For the year ended 31 December	
	2021	2022
	RMB'000	RMB'000
Net profit before taxation	58,582	156,224
Net profit after taxation	54,095	144,000

As at 31 December 2022, the audited net asset value of Dongyue Hydrogen was approximately RMB974,802,000.

As set out in the table above, Dongyue Hydrogen recorded growth in net profit after taxation in 2022 by approximately 166.2% as compared to that for 2021. As discussed with the Management, such increase was mainly due to increases in revenue resulting from (i) expansion of existing production facilities; (ii) product marketing strategies taking a positive effect; and (iii) product improvement leading to increases in sales volume. It was also disclosed in the Company's announcement dated 28 July 2022 that Dongyue Hydrogen is planning to apply for a listing of its shares on a stock exchange in the PRC.

3. Analysis on the aggregated consideration for the Disposal

As disclosed in letter from the Board of the Circular, the total consideration for the Disposal is RMB3,456,729,576 (equivalent to HK\$3,698,700,646), comprising approximately RMB1,752,000,000 (equivalent to HK\$1,874,640,000, with regards to Dongyue Polymers), approximately RMB1,539,729,576 (equivalent to HK\$1,647,510,646, with regards to Dongyue Organosilicon) and approximately RMB165,000,000 (equivalent to HK\$176,550,000, with regards to Dongyue Hydrogen). The Company has engaged the Valuer to conduct an independent valuation relating to the appraised value of each of the Target Companies as at 31 August 2023 ("**Valuation Report**"). The full text of the Valuation Report and values associated with individual Target Companies are set out in Appendix III to the Circular.

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We have reviewed the Valuation Report and discussed with the Valuer the methodology of, and bases and assumptions adopted for, the Valuation. We note that the Valuer has adopted the market approach in assessing the value of the individual Target Companies. Based on the Valuation Report, the market approach measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets and adjustments are made to account for differences between the subject business or asset being valued and the comparable businesses or assets used in the analysis. As disclosed in the Valuation Report and based on our discussions with the Valuer, (i) it has selected the market approach for estimating the market value of the equity interest in Dongyue Organosilicon because it is listed and actively traded on ChiNext of the Shenzhen Stock Exchange; and (ii) it has also used the market approach in estimating the market value of equity interest in Dongyue Polymers and Dongyue Hydrogen by firstly compiling the trading multiples of publicly traded guideline companies comparable to Dongyue Polymers and Dongyue Hydrogen. Under the market approach, the Valuer then benchmarked Dongyue Polymer and Dongyue Hydrogen's respective equity value, which is estimated using financial performances of the two companies, to the publicly trading entities. This approach can reflect the current market's investment preferences or investment habitat, but also provide up-to-date public market information allowing the Management to make a more informative decision. In addition, the Valuer also considers the market approach to be the most appropriate valuation approach over the income approach and the cost approach as the market approach has generally less reliance on unobservable and subjective assumptions. According to the Valuer, the cost approach was not adopted as it may not be able to reflect the expected future economic benefits of an income-generating business of the Target Companies, whilst the income approach is also not adopted since prospective financial projection of the Target Companies at market participants' point of view, which is subject to a number of assumptions and contingent factors, was not reliably available.

Dongyue Polymers

For the valuation of Dongyue Polymers, the Valuer identified 14 comparable companies (the "**DP Comparables**"). Based on our understanding from the Valuer, the key criteria for the identification of DP Comparables, amongst others, is to identify companies that are listed on the Stock Exchange, and are principally engaged in the production and sale of chemicals that are comparable to Dongyue Polymers in the PRC. We have discussed with the Valuer and understand that there are limited companies listed in Hong Kong that principally engaged in the manufacturing and sale of specific products (i.e. fluoropolymer) in China. Considering a fair and reasonable sample size of comparable companies and the availability of P/E multiples for the valuation, the Valuer has deployed broader selection criteria with the production and sale of chemicals in the PRC, while focusing on the core attributes of the companies in terms of geographical segment, capital market/listing location and profitability. We have also reviewed and observed that all of the shortlisted comparable companies for Dongyue Polymers are principally engaged in the production and sale of chemicals in the PRC, in which over 50% of the total revenue was generated from the relevant business and geographical area as Dongyue Polymers in its preceding financial year. Regarding

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the capital market/listing location, all the comparable companies are listed and not suspended from trading on the Stock Exchange as of the Valuation Date with more than two years' listing history. Furthermore, all the comparable companies adopted were profit-making in the latest financial reporting period. As such, we concur that the principal business, geographical segment, capital market/listing location, and profitability of the comparable companies are consistent with the core attributes and are comparable to that of Dongyue Polymers. Based on the above, and given that Dongyue Polymers and its subsidiaries as a whole represents a substantial group of operating companies of the Group and it does not have a separate listing on its own, comparison with comparable companies that are listed in Hong Kong is therefore considered reasonable, and we are satisfied with the selection criteria of the DP Comparable. Details of the 14 comparable companies are set out in Appendix III to the Circular.

For the valuation multiple adopted, the Valuer adopted the price-to-earnings multiple (the “**P/E Multiple(s)**”) by making reference to the median of the P/E multiples of the DP Comparables. The Valuer is of the view that the P/E Multiple is a commonly adopted valuation multiple for evaluating profit-making companies and was used for the purpose of the Valuation. Given that Dongyue Polymers has been profit-making, we concur with the Valuer the selection of the P/E Multiple as valuation multiple for the Valuation to reflect profitability of Dongyue Polymers.

In arriving at the appraised value of Dongyue Polymers of approximately RMB1,752,000,000 (equivalent to approximately HK\$1,874,640,000), the Valuer multiplied the median P/E Multiple of DP Comparables to the normalized trailing net profits of Dongyue Polymers for the 12 months ended 30 June 2023, adjusted by net non-operating assets/liabilities, a discount of lack of marketability and the 23.12% equity interest of Dongyue Polymers being disposed of. In determining the earnings of Dongyue Polymers for arriving at its equity value using P/E multiple, trailing net profits of Dongyue Polymers for the 12 months ended 30 June 2023, on a normalized basis, was used, for the purpose of, among other things, eliminating effects of non-recurring items and by adopting the effective profit tax rate of Dongyue Polymers. Based on our discussion with the Management and the Valuer, it is noted that the Valuer has normalized the trailing net profits by identifying and excluding non-recurring other income/expense and gains or losses on disposal (including non-operating income, non-operating expenses, government subsidy, investment income and gain on disposal) in the financial statements of Dongyue Polymers and furthermore, the equity value of Dongyue Polymers derived was then adjusted with net non-operating assets/liabilities of Dongyue Polymers such as financial assets, investment in associates and equity investments. Having reviewed the aforesaid adjustments, we concur with the Valuer's view that the normalized trailing net profits could more appropriately reflect the financial performance of Dongyue Polymers and the adoption of the aforesaid equity value could accordingly better reflect its fair value.

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The Valuer has applied a discount for lack of marketability of 20.5% in arriving at the appraised value of Dongyue Polymers. We understand from the Valuer that such discount is adopted based on their professional judgement with reference to a global study report “Stout Restricted Stock Study Companion Guide 2023” published by Stout Risius Ross, LLC, which is publicly available on the website of Business Valuation Resources, LLC (<https://www.bvresources.com/>). We have obtained from the Valuer an extract of the study report and confirmed with the Valuer that such study report is the latest publicly available source of the lack of marketability discount as at 31 August 2023. Taking into account the above, we consider it appropriate for the Valuer to adopt such discount for lack of marketability in the Valuation.

Dongyue Hydrogen

For the valuation of Dongyue Hydrogen, similar to that of Dongyue Polymers, the Valuer identified 5 comparable companies that are listed on stock exchanges in the PRC. Based on our understanding from the Valuer, the key criteria for the identification of comparable companies, amongst others, is to identify companies that are principally engaged in the production and sale of similar membrane products which are made from fluorine chemical materials or perform similar product functions, and the production and sale of fine chemicals in the PRC, particularly fine fluoride chemical products, while focusing on the core attributes of the companies in terms of geographical segment, capital market/listing location and profitability. We have discussed with the Valuer its selection criteria and assessed the appropriateness of the comparable companies selected. Having considered (i) the business nature of the comparable companies are broadly similar to that of Dongyue Hydrogen geographical segment, capital market/listing location, and profitability of the comparable companies are also consistent with the core attributes and are comparable to that of Dongyue Hydrogen; (ii) as disclosed in the announcement of the Company dated 28 July 2022, Dongyue Hydrogen is planning to apply for the listing of its shares on a stock exchange in the PRC and therefore, comparison with comparable companies that are listed in the PRC is considered reasonable, we are satisfied with the selection criteria of the comparable companies. Details of the 5 comparable companies are set out in Appendix III to the Circular.

For the valuation multiple adopted, the Valuer also adopted the P/E Multiple by making reference to the median of the P/E multiples of the comparable companies. Similar to that of Dongyue Polymers, given that Dongyue Hydrogen has been profit-making, we concur with the Valuer the selection of the P/E Multiple as valuation multiple for the Valuation to reflect the profitability of Dongyue Hydrogen.

In arriving at the appraised value of Dongyue Hydrogen of approximately RMB165,000,000 (equivalent to approximately HK\$176,550,000), the Valuer multiplied the median P/E Multiple of comparable companies to the normalized trailing profits of Dongyue Hydrogen for the 12 months ended 30 June 2023, adjusted by net non-operating assets/liabilities, a discount of lack of marketability and the 2.32% equity interest of Dongyue Hydrogen being disposed of. In

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determining the earnings of Dongyue Hydrogen for arriving at its equity value using P/E multiple and similar to that of Dongyue Polymers as discussed above, trailing net profits of Dongyue Hydrogen for the 12 months ended 30 June 2023, on a normalized basis, was used for the purpose of, among others, eliminating effects of non-recurring items and by adopting the effective profit tax rate of Dongyue Hydrogen. Based on our discussion with the Management and the Valuer, it is noted that the Valuer has normalized the trailing net profits by identifying and excluding non-operating income, government subsidy, investment loss and loss on disposal. The equity value of Dongyue Hydrogen was then adjusted with net non-operating assets/liabilities included equity investment as per the unaudited financial statements of Dongyue Hydrogen for the six month period ended 30 June 2023. Having reviewed the aforesaid adjustments, we concur with the Valuer's view that the normalized net profits could more appropriately reflect the financial performance of Dongyue Hydrogen and the adoption of the aforesaid equity value could accordingly better reflect its fair value. The Valuer has applied the same discount for lack of marketability of 20.5% in arriving at the appraised value of Dongyue Hydrogen.

Dongyue Organosilicon

For the valuation of Dongyue Organosilicon, the Valuer arrived at its appraised value of RMB1,539,729,576 (equivalent to approximately HK\$1,647,510,646) mainly based on the market capitalization of Dongyue Organosilicon as of 31 August 2023 and taking into account the 13.35% equity interest of Dongyue Organosilicon being disposed of. Given that the shares of Dongyue Organosilicon are listed on ChiNext of the Shenzhen Stock Exchange (Stock Code: 300821.SZ), we considered the appraised value of Dongyue Organosilicon being primarily based on its market capitalization reasonable and appropriate. We note that the Valuation for Dongyue Organosilicon was based on its market value as at 31 August 2023 which was the latest month end date available when the Transactions were contemplated, and the closing share price of Dongyue Organosilicon was RMB9.61 per A share on 31 August 2023. We have assessed and note that the closing price per A share of Dongyue Organosilicon has led a gradual downward trend since then and fell to RMB7.95 per A share as of 23 October 2023 (being the date of the Equity Transfer Agreement) and slightly rebounded to RMB8.47 per A share as at the Latest Practicable Date. In view of the lower recent closing price per A share of Dongyue Organosilicon, we consider that adopting the market capitalization of Dongyue Organosilicon as of 31 August 2023 would not prejudice the interests of the Company, its Shareholders and the Independent Shareholders.

We reviewed the calculations in the Valuation and searched on Bloomberg to counter-check on the multiples of the respective aforesaid comparable companies and the market capitalization of Dongyue Organosilicon as at 31 August 2023 adopted by the Valuer in its Valuation. We have also reviewed and discussed with the Valuer the key basis and assumptions adopted for the Valuation as mentioned above and as stated in the Valuation Report, and noted that such basis and assumptions are commonly adopted in business valuation. During our discussions with the Valuer, we did not identify any major

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factors which cause us to doubt the reasonableness of such assumptions adopted in the Valuation Report. As such, we are of the opinion that the valuation methodology in establishing the Valuation to be appropriate.

In addition, in compliance with the requirements under note (1)(d) to Rule 13.80 of the Listing Rules and Rule 11.1(b) of the Takeovers Code, we have assessed the qualification and experience of the responsible person of Valuer for its engagement as the independent professional to value the Target Companies. We note that Ms. Winnie Lam has more than ten years of experience in valuation and financial analyses, including business valuation, valuation of intangible assets, financial instruments, natural resources projects and purchase price allocation and is a charter holder of Chartered Financial Analyst (CFA). She graduated from the Hong Kong University of Science and Technology with a Bachelor of Business Administration, double-major in finance and management of organizations. Mr. Kevin Kwong also has more than ten years of experience in business valuation, intangible assets valuation, purchase price allocation, and impairment tests for financial reporting and transaction reference purposes. Mr. Kwong is a charter holder of Chartered Financial Analyst (CFA), Chartered Valuer and Appraiser, Singapore (CVA) and Financial Risk Manager (FRM). We are confirmed by both the Company and the Valuer that neither of them is aware of any relationship which may render them not independent. We have also reviewed the Valuer's terms of engagement and noted that the scope of work is appropriate for arriving at the opinion of the market value of the Target Companies. Nothing has come to our attention to suggest any formal or informal representation to the Valuer that contravenes with our understanding of the information, to a material extent, as set out in the Circular.

Based on the discussions above and taking into account that (i) market approach is commonly used and is an appropriate method for deriving the market value of the respective Equity Interests of the Target Companies as set out above; (ii) the selection criteria adopted by the Valuer in identifying the respective comparable companies are considered appropriate; (iii) it is appropriate to apply P/E Multiples for the valuation of respective equity interest of Dongyue Polymers and Dongyue Hydrogen; (iv) the market capitalization of Dongyue Organosilicon, representing the independent assessment and appraisal on Dongyue Organosilicon by the general market, is widely accepted as the market value of Dongyue Organosilicon; and (v) the consideration for the Disposal in aggregate of RMB3,456,729,576 is equivalent to the aggregate appraised value of the respective Equity Interests of the Target Companies, we consider the Disposal consideration to be fair and reasonable.

As discussed in the section headed "D. The Disposal — 2. Information on the Target Companies" above and our review of the financial information of the Target Companies, the net assets attributable to owner of Dongyue Polymers, Dongyue Organosilicon and Dongyue Hydrogen as at 31 December 2022 were approximately RMB9,277,123,120 (equivalent to approximately HK\$9,926,521,738), RMB5,237,318,874 (equivalent to approximately HK\$5,603,931,195) and RMB974,802,000 (equivalent to approximately HK\$1,043,038,140) respectively. We note that the respective consideration of the Disposal for the respective equity interests in Dongyue Organosilicon and Dongyue Hydrogen to be disposed of represent premiums of approximately 120.2% and 629.6%

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over their respective aforesaid proportional net assets respectively. However, the consideration of the Disposal for the equity interest in Dongyue Polymers to be disposed of represents a discount of approximately 18.3% to its proportional net assets attributable to shareholders as of 31 December 2022, implying a price-to-book multiple of around 0.82 times. In this regard, we have further conducted an exercise to also consider the price-to-book multiples (“**P/B Multiple(s)**”) comparison with the 14 DP Comparables. Based on the latest financial information of the DP Comparables available from the Stock Exchange and their respective market capitalisation as of the Latest Practicable Date, the followings are the details of the P/B Multiples of the respective DP Comparables:

Name	Stock code	Market capitalisation (HK\$) (Note 1)	Net asset attributable to shareholders (HK\$ or HK\$ equivalent) (Note 2)	P/B
Dongyue Group Limited	189	12,034,701,690 (Note 3)	15,592,943,080	0.77
Fufeng Group Limited	546	10,678,618,846	17,435,006,930	0.61
Global New Material International Holdings Limited	6616	4,559,042,086	2,613,102,640	1.74
Lee & Man Chemical Company Limited	746	2,466,750,000	5,595,255,000	0.44
Tiande Chemical Holdings Limited	609	1,217,185,200	2,590,367,280	0.47
Tsaker New Energy Tech Co., Limited	1986	1,093,605,300	2,060,433,730	0.53
Yip’s Chemical Holdings Limited	408	909,574,554	3,824,927,000	0.24
SANVO Fine Chemicals Group Limited	301	611,325,000	257,598,220	2.37
GHW International	9933	600,000,000	644,502,730	0.93
China Ludao Technology Company Limited	2023	447,538,000	482,995,860	0.93
Changmao Biochemical Engineering Company Limited	954	291,335,000	793,837,280	0.37
Diwang Industrial Holdings Limited	1950	172,800,000	384,582,610	0.45
Jiangsu Innovative Ecological New Materials Limited	2116	168,000,000	333,788,640	0.50
Zhejiang Chang’an Renheng Technology Co., Ltd.	8139	44,160,000	127,496,376	0.35
			Max	2.37
			Min	0.24
			Average	0.76
			Median	0.52

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Notes:

- (1) Save for the market capitalisation of the Company, market capitalization for the remaining DP Comparables is calculated as the product of the respective DP Comparables' closing price per share as at the Latest Practicable Date and its number of total issued shares of the respective DP Comparables. Such number of total issued shares includes listed shares on the Stock Exchange as well as any unlisted/domestic shares.
- (2) Net asset attributable to the shareholders are calculated using the latest published net asset attributable to shareholders as stated in the respective DP Comparables' interim reports for the six months ended 30 June 2023. Where the reporting currency is RMB, exchange rate of RMB1=HK\$1.07 is used for conversion purposes.
- (3) P/B Multiple of the Company is calculated using the closing share price as at the Last Trading Date to avoid any possible Share price distortions resulting from the Announcement.

We note that the P/B Multiples of the DP Comparables ranged from around 0.24 times to 2.37 times, with a simple average and median of around 0.76 times and around 0.52 times respectively. As such, the P/B Multiple represented by the consideration of the Disposal for the equity interest in Dongyue Polymers of around 0.82 times is (i) within the range of those of the DP Comparables and is higher than the median and the average of the P/B Multiples of the DP Comparables; and (ii) in particular, higher than the P/B Multiple of the Company of around 0.77 times as at the Last Trading Day (based on the undisturbed Share market price). As such, we consider the discount represented by the consideration of Disposal for the equity interest in Dongyue Polymers to be disposed of acceptable.

E. FINANCIAL EFFECTS ON THE GROUP

Reference is made to the sections headed “VI. Financial effects of the Share Buy-back and the Disposal” in the letter from the Board and the section headed “Unaudited pro forma financial information of the Group” in Appendix II (the “**Pro Forma Financial Information**”) to the Circular.

(a) Earnings

As confirmed by the Company and its auditors, it is expected that no material gain or loss attributable to the Transactions would be recorded by the Group in its consolidated profit and loss account immediately upon completion of the Share Buy-back and the Disposal. Based on the 2,253,689,455 Shares in issue as at the Latest Practicable Date, as amongst other things, the number of Shares in issue will be reduced from 2,253,689,455 to 1,732,711,637 Shares upon the Share Buy-back Completion and Disposal Completion and the cancellation of the Buy-back Shares, as stated in the letter from the Board of the Circular, it is expected that there would be enhancement on the Group's basic earnings for FY2022 on a per-Share basis and on the pro forma basis, as a result of the completion of the Transactions.

Following the Disposal Completion, Dongyue Polymers and Dongyue Organosilicon will remain as subsidiaries of the Company and their financial results will remain consolidated into the Group's consolidated accounts, whilst Dongyue Hydrogen will remain as an associate of the Group and its results will continue to be accounted for using

LETTER FROM INDEPENDENT FINANCIAL ADVISER

equity accounting method. Though the Company's interest in each of the Target Companies will be reduced upon the Disposal Completion, however, the effect of the Transactions on the future earnings of the Group will depend on, amongst other things, the future business operations and profitability of the Target Companies.

(b) NAV

Following the Disposal Completion, Dongyue Polymers and Dongyue Organosilicon will remain as subsidiaries of the Company and their assets and liabilities will remain consolidated into the Group's consolidated accounts, whilst Dongyue Hydrogen will remain as an associate of the Group and continue to be accounted for using equity accounting method.

Based on the information provided in the section headed "VI. Financial effects of the Share Buy-back and the Disposal" in the letter from the Board and the Pro Forma Financial Information, as if the Transactions had taken place on 30 June 2023, the Group's NAV would decrease by approximately 17.5% from approximately RMB14,572.8 million (equivalent to approximately HK\$15,592.9 million) as at 30 June 2023 to approximately RMB12,015.3 million (equivalent to approximately HK\$12,856.4 million) mainly due to the decrease in share capital and share premium of approximately RMB48.69 million and RMB3,408.0 million respectively pursuant to the Share Buy-back at the agreed consideration value of the Share Buy-back of approximately RMB3,456.7 million, with the difference between the gross proceeds for the Disposal of approximately RMB3,456.7 million, less professional fee of approximately RMB4.4 million, and the net asset value of the respective Equity Interests in the Target Companies as at 30 June 2023 of RMB2,553.2 million, of approximately RMB899.1 million being recognised as equity. However, as the number of issued Shares would be decreased from 2,253,689,455 to 1,732,711,637 upon the Share Buy-back Completion and Disposal Completion and the cancellation of the Buy-back Shares, it is stated in the Pro Forma Financial Information that, on a pro forma basis, the Transactions would enhance the NAV per Share from approximately RMB6.47 (equivalent to approximately HK\$6.92) as at 30 June 2023 to approximately RMB6.93 (equivalent to approximately HK\$7.42).

(c) Cash flow

Given the unique features of the Transactions, in particular, that the aggregate consideration for the Share Buy-back and the aggregate consideration for the Disposal are the same, and that Group intends to use the sale proceeds from the Disposal to replenish the cash used in the Share Buy-back, there would be no material net cash outflow as a result of the Transactions.

Shareholders should note that the aforementioned analysis are for illustrative purpose only and may not represent the financial position/results of the Group upon completion of the Transactions.

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DISCUSSION

As discussed in the section above headed “B. Reasons for and benefits of the Transactions”, the Transactions are initiated and uniquely structured to achieve the Purpose and minimise Uncertainties associated with the MLH Restructuring such as the uncertainty in the Company’s shareholding structure and the possible disruptions on market trading, and accordingly on the market price performance, of the Shares should the Buy-back Shares be disposed in the open market, which may eventually adversely affect the interests of the Company and the Shareholders as a whole.

Under the Transactions where the Share Buy-back and the Disposal are inter-conditional and are part and parcel, although the Buy-back Price is higher than the near-term prevailing Share closing prices, nevertheless, having considered, on balance, that:

- (i) the premium represented by the Share Buy-back Price over recent Share closing prices becomes smaller when comparing it to the average closing prices of the Shares for a longer term, for instance the Buy-back Price is close to the average closing price of HK\$7.04 per Share for the 150 consecutive trading days immediately prior to and including the Last Trading Day, represents a discount to average closing price per Share for 180 consecutive trading days immediately prior to and including the Last Trading Day, and even represents a discount of over 20% to the average closing price per Share for the Pre-announcement Period (both including and excluding the Disturbed Period);
- (ii) the consideration of Disposal, being equivalent to the appraised value of the Equity Interests of the Target Companies in the Valuation, is in our view fair and reasonable based on reasons as discussed in detail in section headed “D. The Disposal — 3. Analysis on the aggregated consideration for the Disposal” above which include but not limited to, the market approach adopted in establishing the Valuation and the basis and assumptions involved being considered appropriate;
- (iii) the Buy-back Price and the consideration for the Disposal were concluded as an outcome of arms-length’s negotiations between the Group, the Vendors and the Purchaser, among which the Buy-back Price represents the minimum selling price acceptable to the Vendors so that the creditors meeting of MLH may find the proposal to be commercially acceptable, whilst balancing an acceptable consideration for the Company to put forward the Transactions that can achieve the Purpose and minimise the Uncertainties without causing material adverse impact on the Company and its Shareholders given that:
 - (a) the Transactions are technically structured with unique features such as, among others, that the Share Buy-back being replenished by the proceeds from the Disposal, the aggregate Buy-back Price being equal to consideration of the Disposal, and Share Buy-back Completion and Disposal Completion being conditional on each other with respect to the conditions. As such, it is expected that there would be no net cash outlay of the Group as a result of the Transactions;

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (b) based on discussion in section headed “E. Financial effects on the Group” above and the Pro Forma Financial Information as set out in Appendix II to this Circular, it is also expected that there would be enhancement on per Share value in terms of earnings per Share and NAV per Share as a result of, amongst others, the reduction in number of Shares in the Company’s issued Share capital following completion of the Transactions; and
- (c) as also discussed in detail in section headed “E. Financial effects on the Group” above, following the Disposal Completion, Dongyue Polymers and Dongyue Organosilicon will remain as subsidiaries of the Company and Dongyue Hydrogen will remain as an associate of the Group and hence, it is also expected that there would not be material adverse impact on the overall operation of the Group as a result of the Transactions,

we are of the view that the Transactions as a whole are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that the entering into of the Transactions, though not in the ordinary and usual course of the business of the Company, are in the interests of the Independent Shareholders, and the terms of the Transactions, including the Share Buy-back Price and the consideration of the Disposal, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) in relation to the Share Buy-back and the Disposal to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

1. THREE-YEAR SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated results of the Group for each of the three years ended 31 December 2020, 2021 and 2022 and the unaudited consolidated results of the Group for the six months ended 30 June 2023, as extracted from the respective published annual reports and interim report of the Company:

Results

	For the six	For the year ended 31 December		
	months ended	2022	2021	2020
	30 June			
	2023	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)			
Revenue	7,198,111	20,027,988	15,843,947	10,044,313
Profit from operating activities*	289,280	5,140,357	3,325,815	1,121,181
Finance costs	(1,525)	(15,302)	(81,606)	(104,560)
Profit before taxation	287,755	5,125,055	3,244,209	1,016,621
Taxation	(79,686)	(948,938)	(562,664)	(113,765)
Profit for the year	208,069	4,176,117	2,681,545	902,856
Attributable to:				
Owners of the Company	283,871	3,855,539	2,074,843	772,167
Non-controlling interests	(75,802)	320,578	606,702	130,689
Total comprehensive income for the year	207,032	4,170,287	2,447,447	623,325
Attributable to:				
Owners of the Company	282,834	3,849,709	1,840,745	492,636
Non-controlling interests	(75,802)	320,578	606,702	130,689
Dividend	N/A	1,196,613	620,666	246,259
Earnings per Share				
— Basic and diluted (RMB)	0.13	1.73	0.98	0.37
Dividend per Share (RMB)	N/A	0.53	0.29	0.12
* Profit/(loss) from operating activities has been arrived at after charging:				
(Reversal of)/Impairment loss of trade and other receivables	2,993	32,996	(2,032)	(176)
Impairment of intangible asset	—	—	4,667	—
Equity-settled share-based payments	—	—	293,774	—

According to the published annual reports of the Company, in the opinion of Elite Partners CPA Limited, the auditors of the Group, the consolidated financial statements for the years ended 31 December 2020, 2021 and 2022 give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2020, 2021 and 2022 and of the Group's consolidated financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance. No modified opinion, emphasis of matter or material uncertainty related to going concern had been given by Elite Partners CPA Limited in respect of the financial statements of the Group for the three years ended 31 December 2022.

2. CONSOLIDATED FINANCIAL STATEMENTS

Details of the financial information and the consolidated financial statements of the Group for each of the financial years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023, together with the significant accounting policies and relevant notes thereto are disclosed in the following documents which have been published on both the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://www.dongyuechem.com>):

- interim report of the Group for the six months ended 30 June 2023 published on 15 September 2023 (pages 34 to 60) (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0915/2023091500840.pdf>);
- annual report of the Group for the year ended 31 December 2022 published on 25 April 2023 (pages 136 to 281) (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0425/2023042500901.pdf>);
- annual report of the Group for the year ended 31 December 2021 published on 26 April 2022 (pages 135 to 277) (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0426/2022042600513.pdf>); and
- annual report of the Group for the year ended 31 December 2020 published on 16 April 2021 (pages 128 to 265) (available on: <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0416/2021041600041.pdf>).

3. INDEBTEDNESS STATEMENT

As at 31 October 2023, the Group recorded bills payable of approximately RMB235.12 million of which RMB75.12 million was secured by the bills receivable of the Group of RMB75.12 million.

As at 31 October 2023, the Group recorded lease liabilities of approximately RMB34.99 million for leased land use right and leased properties pursuant to HKFRS 16 which requires a right-of-use asset and a corresponding liability to be recognised for all leases by a lessee except for short-term leases and leases of low-value assets.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group did not have at the close of business on 31 October 2023 any bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees, lease liabilities or other material contingent liabilities.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors are satisfied after due and careful consideration and taking into account the present financial resources available to the Group, including its cash and cash equivalents on hand, the internally generated funds, and the banking facilities available, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for at least twelve months from the date of this circular.

5. MATERIAL CHANGE

Save as disclosed:

- (a) in the 2023 Interim Report, decrease in revenue by RMB2,913,177,000 or approximately 28.8% to RMB7,198,111,000 and decrease in gross profit by RMB2,595,380,000 or approximately 69.6% to RMB1,132,365,000, with a decline in profit margin by approximately 21.1% to 16.2% for the six months ended 30 June 2023 (“1H 2023”), as compared with the corresponding period in 2022 as a result of overall environment of the fluorosilicon chemical industry recording poor sentiment with weak downstream demand which resulted in price drops for a number of the Group’s major products and consequently leading to the results across all business segments of the Group recording various degrees of declines;
- (b) in the 2023 Interim Report, decrease in administrative and other expenses by RMB344,124,000 or approximately 60.6% to RMB224,066,000 for 1H2023, which was mainly attributable to (1) the decrease in total remuneration as a result of decrease in efficiency-related wages based on profits; and (2) decrease in impairment of inventories during the period;
- (c) in the 2023 Interim Report, decrease in research and development costs by RMB140,662,000 or approximately 22.8% to RMB475,928,000 for 1H2023, which was mainly attributable to decrease in spending requirement from projects;

- (d) in the 2023 Interim Report, decrease in net profit attributable to owners of the Company by RMB1,408,904,000 or approximately 83.2% to RMB283,871,000 during 1H2023 mainly due to the significant drop in revenue of the Group;
- (e) in the 2023 Interim Report, decrease in bank balances and cash by RMB1,055,278,000 or approximately 19.9% to RMB4,260,716,000 for 1H2023, which was mainly attributable to (a) capital expenditure costs of approximately RMB744,400,000 during 1H2023; and (b) acquisition of additional interests in a subsidiary from non-controlling interests for RMB658,500,000 and payment of approximately RMB352,800,000 as deposit for the acquisition of a subsidiary;
- (f) in the 2023 Interim Report, the Company paid a dividend of HK\$0.6 per Share amounting to HK\$1,352,213,000 (equivalent to RMB1,196,613,000) in respect of the financial year ended 31 December 2022 (“FY2022”) and pursuant to the Company’s cash dividend announcement dated 28 March 2023 this amount was paid on 13 July 2023; and
- (g) in the 2023 Interim Report, the absence of one-off gain during the 1H2023, as compared with the one-off gain on disposal of an associate recorded during FY2022 of approximately RMB1,212,290,000 as disclosed in the annual report of the Company for FY2022,

the Directors confirm that there had been no other material change in the financial or trading position or outlook of the Group since 31 December 2022 (the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the 2023 Interim Report, the Group continued to encounter challenges on operation during the current macro environment. Nonetheless, the Group was fully capable of dealing with the current situation thank to its ample operating experiences in the industry. Going forward, the Group has the following business strategies:

Firmly uphold the “high-intensity supervision” management strategy

The Group fully understands the importance of high standard management under the current business environment. Going forward, the Group will further utilise the functions in various aspects within the organisation such as disciplinary inspection, internal audit, finance and other business segments to firmly implement “high-intensity supervision” and strengthen compliance management. The Group will further perfect the workflow system on procurement, maintenance, project construction and transportation, as well as contract management, supervision management and other related tasks to strictly control various expenses.

Precise application of R&D resources

The Group believes that, notwithstanding the current intense operating conditions, the persistency to maintain its objectives in R&D and innovation is imperative. Based on the current situation, the Group will further concentrate R&D resources, conduct in-depth studies, and carry out precise R&D of high-end products with good market prospects and greater returns in formulating a new development path in the fluorosilicon industry that is unique to the Company.

Deepen Human Resources Reform

Industry downturn is a critical period for the Company's human resources. The Group will further enhance human resources reform, establish a vibrant human resources platform, create a favourable entrepreneurial and innovative atmosphere, and provide newcomers and talents the opportunity to stand out. Through the enhanced human resources system, the Group can realize and recognize the value of its talents.

Effective execution of comprehensive expansion campaign

The Group has formulated a comprehensive expansion campaign for the second half year of 2023, involving all departments including production, sales, safety, environmental protection, procurement and others. With the leadership by the senior management, each department is assigned responsibilities to supervise all employees and to ensure their work participation. The Group will strictly implement reward and punishment measures, and strive to achieve various business tasks and objectives.

Since its establishment 36 years ago, the Company has navigated many ups and downs. Though there were some highs and lows along the way, the Company has always been able to weather out and pass through the storm. In light of today's business environment, the Group firmly believes to overcome all difficulties and embrace a bright future, driven by the correct business philosophy, excellent technology, professional management, and the efforts of all the Company's workforce.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the statement of unaudited pro forma of adjusted consolidated net assets of the Group attributable to owners of the Company as at 30 June 2023 (the “**Unaudited Pro Forma Financial Information**”) which has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules, with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), to illustrate the effect of the Share Buy-back and the Disposal on the unaudited consolidated net assets of the Group attributable to the owners of the Company as if the Share Buy-back and the Disposal had taken place on 30 June 2023.

The Unaudited Pro Forma Financial Information is prepared for illustrative purposes only and based on the judgements, estimates and assumptions of the Directors, and because of the hypothetical nature, it may not give a true picture of the consolidated net assets of the Group attributable to the owners of the Company as at the date to which it is made up or at any future date.

The following Unaudited Pro Forma Financial Information of the adjusted consolidated net assets of the Group attributable to owners of the Company is prepared based on the consolidated net assets of the Group attributable to owners of the Company as at 30 June 2023, extracted from the published interim report of the Group for the six months ended 30 June 2023, with adjustment described below:

	Unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2023	Agreed consideration value of the Share Buy-Back	The difference between the proceeds for the disposal and the net asset value of the disposed interests in Target Companies	Unaudited pro forma adjusted consolidated net assets of the Group attributable to owners of the Company as at 30 June 2023	Unaudited Consolidated net assets of the Group attributable to owners of the Company per Share before the completion of the Share Buy-Back	Unaudited pro forma adjusted consolidated net assets of the Group attributable to owners of the Company per Share immediately after completion of the Share Buy-Back
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB'000 (Note 4)	RMB'000 (Note 5)
Based on 520,977,818 Buy-Back Shares	14,572,844	(3,456,729)	899,138	12,015,253	6.47	6.93

Notes:

- (1) The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2023 is based on the unaudited consolidated net assets of the Group attributable to owners of the Company of approximately RMB14,572,844,000, extracted from the published interim report of the Group for the six months ended 30 June 2023.

- (2) The estimated market value of the Share Buy-back of approximately RMB3,456,729,000 (equivalents to HK\$3,698,700,000) are based on 520,977,818 Buy-back Shares to be repurchase under the Share Buy-back Agreement with agreed consideration price of HK\$7.1 per share as agreed in the Share Buy-back Agreement. According to the Share Buy-back Agreement, the Buy-back Shares will be cancelled upon the Completion and debited to share capital and share premium of approximately RMB48,689,000 and RMB3,408,040,000 respectively.
- (3) As at 30 June 2023, the aggregate unaudited net asset value for 23.12%, 13.35% and 2.32% of the equity interests in Dongyue Polymers, Dongyue Organosilicon, Dongyue Hydrogen were approximately RMB2,553,227,000. The difference between the gross proceeds for the Disposal of approximately RMB3,456,729,000, less professional fee of RMB4,364,000 and the net asset value of the respective equity interests in the Target Companies as at 30 June 2023 of RMB2,553,227,000, is approximately RMB899,138,000, which will be recognised as equity.
- (4) The unaudited consolidated net assets of the Group attributable to the owners of the Company per share before the completion of the Share Buy-back is determined based on the unaudited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2023 of approximately RMB14,572,844,000 as disclosed in note 1 above, divided by 2,253,689,455 Shares of the Company in issue as at 30 June 2023.
- (5) The unaudited pro forma adjusted consolidated net assets of the Group immediately after the completion of the Share Buy-back is determined based on the unaudited pro forma adjusted consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2023 immediately after the completion of the Share Buy-back of approximately RMB12,015,253,000 divided by 1,732,711,637 Shares which comprise of 2,253,689,455 Shares in issue as at 30 June 2023 and 520,977,818 Buy-back Shares to be cancelled immediately after the completion of the Share Buy-back.
- (6) No adjustment has been made to reflect any trading results or other transactions of the Group subsequent to 30 June 2023.

Set out below is the text of a letter received from Elite Partners CPA Limited, the Independent Reporting Accountants to the Board of Directors in respect of the Share Buy-back and the Disposal for the purpose of inclusion in this Circular.

The Board of Directors
Dongyue Group Limited
Dongyue International Fluoro,
Silicone Material Industry Park,
Zibo City
Shandong Province,
The PRC



Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Dongyue Group Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (“**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net assets as at 30 June 2023, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Appendix II of the circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II of this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Share Buy-Back Agreement and the Disposal as if the transactions had taken place as at 30 June 2023. As part of this process, information about the unaudited consolidated statement of financial position of the Group as at 30 June 2023 as extracted by the Directors from the Group’s published unaudited consolidated financial statements as included in the interim report for the six months ended 30 June 2023.

DIRECTORS’ RESPONSIBILITIES FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

OUR INDEPENDENCE AND QUALITY MANAGEMENT

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS’ RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of the significant transaction on consolidated net assets of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2023 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors

in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Your faithfully,
Elite Partners CPA Limited
Certified Public Accountants

Hong Kong, 30 November 2023



INTERNATIONAL VALUATION LIMITED
國際評估有限公司

Unit 907, 9/F, Wing On Plaza,
62 Mody Road, Tsim Sha Tsui East,
Kowloon, Hong Kong

The Board of Directors

Dongyue Group Limited

Room 2621, 26/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty,
Hong Kong

November 30, 2023

Ref: 20232228

Dear Sir and Madam,

International Valuation Limited (“**IVL**”) has concluded its analysis on the market values of the equity interests (the “**Equity Interests**”) in the target companies, comprising (i) 23.12% equity interest in 山東東岳高分子材料有限公司; (ii) 13.35% equity interest in 山東東岳有機硅材料股份有限公司; and (iii) 2.32% equity interest in 山東東岳未來氫能材料股份有限公司 (collectively, the “**Target Companies**”) as of August 31, 2023 (the “**Valuation Date**”).

This valuation was performed for the purpose of the extraordinary general meeting (the “**EGM**”) of Dongyue Group Limited (the “**Company**”) to be convened for the independent shareholders to consider and approve the Transactions (as defined below) and the benefits of the shareholders of the Company (the “**Shareholders**”) and inclusion in the Company’s circular in relation to (i) proposed off-market share buy-back; (ii) proposed disposal and (iii) major and connected transaction (collectively, the “**Transactions**”), which dated the same as this report. Our work is designed solely to assist the Company and the directors and management of the Company (collectively, the “**Management**”) with the determination of the market values of the Equity Interests in the Target Companies as of the Valuation Date.

This report states the scope of our work and purpose of appraisal, identifies the business appraised, economic and industry overview, describes the basis and methodology of our appraisal, investigation and analysis, major assumptions and limiting conditions, and presents our opinion of value.

PURPOSE OF APPRAISAL

IVL acknowledges that this report is prepared solely to assist the Management to determine the market values of the Equity Interests in the Target Companies as of the Valuation Date. We understand that this report would be made available for the purpose of the EGM and the benefits of the Shareholders and inclusion in the Company’s circular in relation to (i) proposed off-market share buy-back; (ii) proposed disposal and (iii) major and connected transaction, which dated the same as this report. No other use of our valuation report is intended or should be inferred.

We assume no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others chose to rely in any way on the contents of this report they do so entirely on their own risk.

DEFINITION OF VALUE

The report was prepared in accordance with International Valuation Standards 2022, which is the latest edition of International Valuation Standards published by International Valuation Standards Council, effective from January 31, 2022. In estimating the market value of the equity interest appraised under this engagement, our efforts will be based on the following description of market value: “*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*” Unless otherwise noted, the market values of the Equity Interests in the Target Companies are determined on non-controlling and going concern bases.

SCOPE OF THE ENGAGEMENT

Our services included the estimation of the market values of the Equity Interests in the Target Companies as of the Valuation Date for the purpose of the EGM and the benefits of the Shareholders and inclusion in the Company’s circular in relation to (i) proposed off-market share buy-back; (ii) proposed disposal and (iii) major and connected transaction, which dated the same as this report.

In the process of the valuation under this engagement, we relied on the business and financial information of the Target Companies provided by the Management or obtained from public sources, if any. The procedures used in our analysis included such substantive steps, as we considered necessary, including, but not necessarily limited to, the following:

- Discussions with the Management concerning the history and future operations of the Target Companies;
- Discussions with the Management to obtain an explanation and clarification of data provided;
- Development of valuation models to value the Equity Interests of the Target Companies, including gathering market and industry information in support of various assumptions;
- Discussions with the Management to:
 - Understand in more detail of the Target Companies;
 - Gain a more thorough understanding of the nature and operations of the Target Companies including the estimated market trends;

- Analysis of conditions in, and the economic outlook for, the industry in the territory in which the Target Companies operate(s); and
- Analysis of other facts and data considered pertinent to this valuation to arrive at a conclusion of the market values of the Equity Interests of the Target Companies.

In the course of our valuation, we used financial and other information provided by the Management. We also used financial and other information obtained from private and public sources we considered reliable, including but not limited to Bloomberg, annual reports and interim reports of the comparable companies of the Target Companies, National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China (the "PRC"), KPMG, Standard & Poor's ("S&P"), Mordor Intelligence, China Association of Fluorine and Silicone Industry ("CAFSI"), Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission of the PRC, National Energy Administration of the PRC, and our conclusions are dependent on such information as being complete and accurate in all material respects.

This valuation report comprises:

- A. This letter, which describes the nature and extent of the valuation, and presents the conclusion of value; and
- B. A narrative report, which sets forth the history and nature of the operations, a description of valuation theory, and a presentation and correlation of the valuation techniques employed, and the conclusion of value.

SOURCES OF INFORMATION

As part of our due diligence, we relied upon information and documents furnished to us by the Management, including the following:

- General descriptions and background of the Target Companies;
- Shareholding structure chart of the Target Companies;
- The number of shares of 山東東岳有機硅材料股份有限公司 indirectly held by the Company as of the Valuation Date as advised by the Management;
- A copy of the business licenses of the Target Companies;
- Audited financial statements of 山東東岳高分子材料有限公司 and 山東東岳未來氫能材料股份有限公司 for the year ended December 31, 2022; and
- Unaudited financial statements of 山東東岳高分子材料有限公司 and 山東東岳未來氫能材料股份有限公司 for the six-month periods ended June 30, 2022 and June 30, 2023.

Other information regarding the industry and economic outlook, as well as additional financial data was obtained from sources deemed to be reliable, including but not limited to Bloomberg, annual reports and interim reports of the comparable companies of the Target Companies, National Bureau of Statistics of China, General Administration of Customs of the PRC, KPMG, S&P, Mordor Intelligence, CAFSI, Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission of the PRC, National Energy Administration of the PRC. In addition, we conversed with the Management concerning the financial and general outlook of the Target Companies.

In the course of our valuation, we relied on the financial and other information provided by the Management, and have considered such information and data as attainable and reasonable. We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters, which an audit or more extensive examination might disclose.

CONCLUSION

Based on the information provided and the analysis conducted, and subject to the Major Assumptions and Statement of Limiting Conditions, our opinion of the market values of the Equity Interests in the Target Companies as of August 31, 2023 are reasonably represented in the amount of approximately as follows:

	Market Value <i>(RMB'000)</i>
23.12% Equity Interest in 山東東岳高分子材料有限公司	1,752,000
13.35% Equity Interest in 山東東岳有機硅材料股份有限公司	1,539,730
2.32% Equity Interest in 山東東岳未來氫能材料股份有限公司	165,000

We appreciate the opportunity to provide our valuation services. Please do not hesitate to contact us if you have any questions or if we can be of further assistance concerning this engagement. A copy of this report is retained in our files together with the data from which it was prepared.

Respectfully submitted,
International Valuation Limited

1. INTRODUCTION

Description of the Assignment

International Valuation Limited (“**IVL**”) has concluded its analysis on the market values of the equity interests (the “**Equity Interests**”) in the target companies, comprising (i) 23.12% equity interest in 山東東岳高分子材料有限公司; (ii) 13.35% equity interest in 山東東岳有機硅材料股份有限公司; and (iii) 2.32% equity interest in 山東東岳未來氫能材料股份有限公司 (collectively, the “**Target Companies**”) as of August 31, 2023 (the “**Valuation Date**”).

This valuation was performed for the purpose of the extraordinary general meeting (the “**EGM**”) of Dongyue Group Limited (the “**Company**”) to be convened for the independent shareholders to consider and approve the Transactions (as defined below) and the benefits of the shareholders of the Company (the “**Shareholders**”) and inclusion in the Company’s circular in relation to (i) proposed off-market share buy-back; (ii) proposed disposal and (iii) major and connected transaction (collectively, the “**Transactions**”), which dated the same as this report. Our work is designed solely to assist the Company and the directors and management of the Company (collectively, the “**Management**”) with the determination of the market values of the Equity Interests in the Target Companies as of the Valuation Date.

The report was prepared in accordance with International Valuation Standards 2022, which is the latest edition of International Valuation Standards published by International Valuation Standards Council, effective from January 31, 2022. In estimating the market value of the equity interest appraised under this engagement, our efforts will be based on the following description of market value: “*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*” Unless otherwise noted, the market values of the Equity Interests in the Target Companies are determined on non-controlling and going concern bases.

The procedures used in our analysis included such substantive steps, as we considered necessary, including, but not necessarily limited to, the following:

- Discussions with the Management concerning the history and future operations of the Target Companies;
- Discussions with the Management to obtain an explanation and clarification of data provided;
- Development of valuation models to value the Equity Interests of the Target Companies, including gathering market and industry information in support of various assumptions;

- Discussions with the Management to:
 - Understand in more detail of the Target Companies;
 - Gain a more thorough understanding of the nature and operations of the Target Companies including the estimated market trends;
- Analysis of conditions in, and the economic outlook for, the industry in the territory in which the Target Companies operate(s); and
- Analysis of other facts and data considered pertinent to this valuation to arrive at a conclusion of the market values of the Target Companies.

In the course of our valuation, we used financial and other information provided by the Management. We also used financial and other information obtained from private and public sources we considered reliable, including but not limited to Bloomberg, annual reports and interim reports of the comparable companies of the Target Companies, National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China (the "PRC"), KPMG, Standard & Poor's ("S&P"), Mordor Intelligence, China Association of Fluorine and Silicone Industry ("CAFSI"), Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission of the PRC, National Energy Administration of the PRC, and our conclusions are dependent on such information as being complete and accurate in all material respects.

Sources of Information

As part of our due diligence, we relied upon information and documents furnished to us by the Management, including the following:

- General descriptions and background of the Target Companies;
- Shareholding structure chart of the Target Companies;
- The number of shares of 山東東岳有機硅材料股份有限公司 indirectly held by the Company as of the Valuation Date as advised by the Management;
- A copy of the business licenses of the Target Companies;
- Audited financial statements of 山東東岳高分子材料有限公司 and 山東東岳未來氫能材料股份有限公司 for the year ended December 31, 2022; and
- Unaudited financial statements of 山東東岳高分子材料有限公司 and 山東東岳未來氫能材料股份有限公司 for the six-month periods ended June 30, 2022 and June 30, 2023.

Other information regarding the industry and economic outlook, as well as additional financial data was obtained from sources deemed to be reliable, including but not limited to Bloomberg, annual reports and interim reports of the comparable companies of the

Target Companies, National Bureau of Statistics of China, General Administration of Customs of the PRC, KPMG, S&P, Mordor Intelligence, CAFSI, Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission of the PRC, National Energy Administration of the PRC. In addition, we conversed with the Management concerning the financial and general outlook of the Target Companies.

In the course of our valuation, we relied on the financial and other information provided by the Management, and have considered such information and data as attainable and reasonable. We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters, which an audit or more extensive examination might disclose.

2. PURPOSE OF APPRAISAL

IVL acknowledges that this report is prepared solely to assist the Management to determine the market values of the Equity Interests in the Target Companies as of the Valuation Date. We understand that this report would be made available for major and the purpose of the EGM and the benefits of the Shareholders and inclusion in the Company's circular in relation to (i) proposed off-market share buy-back; (ii) proposed disposal and (iii) major and connected transaction, which dated the same as this report. No other use of our valuation report is intended or should be inferred.

We assume no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others chose to rely in any way on the contents of this report they do so entirely on their own risk.

3. OVERVIEW OF THE TARGET COMPANIES

Business Descriptions

山東東岳高分子材料有限公司 (Shandong Dongyue Polymers Co., Ltd.,¹ “**Dongyue Polymers**”) is a limited liability company established in the PRC and is an indirect wholly-owned subsidiary of the Company. It is primarily engaged in manufacturing and sales of fluoropolymer. For the financial year ended December 31, 2022, the revenue of Dongyue Polymers comprised 58% from the manufacturing and sales of fluoropolymer, 37% from the manufacturing and sales of refrigerant and 5% from other revenues.

山東東岳有機硅材料股份有限公司 (Shandong Dongyue Organosilicon Materials Co., Ltd.,¹ “**Dongyue Organosilicon**”) is a joint stock limited company established in the PRC and is an indirect non-wholly-owned subsidiary of the Company. Its shares were listed on ChiNext of the Shenzhen Stock Exchange (Stock Code: 300821.SZ) on March 12, 2020. As of the Valuation Date, the Company through its wholly-owned subsidiary 東岳氟硅科技集團有限公司 (Dongyue Fluorosilicone Science and Technology Group Co., Ltd.,¹ “**Dongyue Fluorosilicone Technology**”), was interested in approximately 57.75%

¹ For identification purposes only

equity interest in Dongyue Organosilicon. Dongyue Organosilicon is primarily engaged in manufacturing and sale of organic silicone products, which are widely applied in construction, electronic, electricity, new energy, automotive, textiles, medical supplies, personal care products and other fields as key ingredients in industrial processes, mainly in the form of sealants, additives, chemical stabilizers and lubricants.

山東東岳未來氫能材料股份有限公司 (Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd.¹, “**Dongyue Hydrogen**”) is an associated company of the Company and is a joint stock company established in the PRC with limited liability on December 19, 2017. As of the Valuation Date, the Company through its wholly-owned subsidiary Dongyue Fluorosilicone Technology held 10.03% equity interest in Dongyue Hydrogen, and Dongyue Organosilicon (held as to 57.75% by Dongyue Fluorosilicone Technology as of the Valuation Date) held 5.14% equity interest in Dongyue Hydrogen, respectively. Dongyue Hydrogen is principally engaged in the business of research, production and sale of fluorinated proton exchange membrane, its key raw materials and derived products. For the financial year ended December 31, 2022, the revenue of Dongyue Hydrogen comprised 60% from the production and sale of fluorinated functional polymers and fluorinated functional membranes, 39% from the production and sale of special fluorine-containing fine chemicals and 1% from other revenues.

4. ECONOMIC OVERVIEW

Overview of China Economy

According to the National Bureau of Statistics of China, the gross domestic product (“**GDP**”) of China in the second quarter of 2023 was RMB30,803.8 billion, which recorded a 6.3% increase from 4.5% in the last quarter, largely due to a low base from last year when Shanghai and other major cities were under strict COVID-19 lockdowns. During the first half (“**H1**”) of 2023, China’s GDP grew at 5.5% year-on-year, posting a steady economic rebound after the end of COVID-19 restrictions. In March 2023, Premier Li Keqiang delivered the 2023 Government Work Report on behalf of the State Council and set a target of 5% GDP growth for the year, which is significantly higher than 3% of the last year.

In 2022, China’s consumer price index (“**CPI**”) increased by 2% year-on-year. In 2023, CPI has fallen and hovered around zero level in the second quarter. From January to August 2023, CPI grew by 0.5% and the CPI rose by 0.1% in August 2023 after the first drop in over 2 years of 0.3% a month earlier. Inflation figures indicated the lackluster domestic demand has persisted and weak market sentiments.

¹ For identification purposes only

With the COVID-19-related travel restrictions lifted, retail sales experienced a significant recovery due to a strong rebound in domestic consumption in 2023 H1. For the first eight months in 2023, retail sales increased by 7%. According to the China Economic Monitor Issue 2023 Q3 published on August 2023 by KPMG, contact-related consumptions, including dining, entertainment and travel, has experienced a rapid increase in 2023 H1 and consumer goods, such as jewellery, apparel and medicine, showed a faster growth as compared to last year. Retail sales of automobiles also picked up its growth with policy support.

According to the General Administration of Customs of the PRC, the total value of imports and exports in 2022 was USD6,270 billion. Total exports amounted to USD3,561 billion while the total value of imports was USD2,710 billion in 2022. For the first eight months in 2023, the total value of imports and exports was USD3,893 billion, which fell by 6.5% year-on-year basis. The total exports during the period amounted to USD2,223 billion which decreased by 5.6%, while the total value of imports was USD1,670 billion with a decrease of 7.6%.

China's export structure has shifted towards markets like the Association of Southeast Asian Nations (ASEAN) and the Middle East, which have shown better economic performance, and reduced the reliance on advanced economies, like the United States (the "US") and the European Union (the "EU"). Exports, as a key contributor to China's economic growth, have been particularly impacted by high inflation and an economic recession in key overseas markets, such as the EU and North America whereas China's trade with Russia and most emerging markets continued to rise in 2023 H1.

Regarding the exchange rate, Renminbi had weakened to RMB7.2589:USD1 in August 2023 from RMB6.8986:USD1 in December 2022.

China's economy is experiencing sustained recovery and is expected to face many uncertain external challenges, such as global inflation, energy price fluctuations, high US dollar interest rate, geopolitical tensions, US-China relations, and internally, sluggish domestic property market, real estate debt issues, etc.

5. INDUSTRY OVERVIEW

Fluoropolymers Industry in China

A fluoropolymer is a plastic material based on fluorocarbon-containing carbon-fluorine molecules. It is a special type of polymer that possesses special properties. The electronegative ion fluoride in a fluoropolymer gives it strong carbon-fluoride bonds, which makes it non-sticky.

Fluoropolymers possess highly industrial, demand-specific characteristics, such as:

- Inertness to most chemicals;
- Excellent non-stick;
- Resistance to high temperatures;
- Resistance to galling;
- Abrasion resistance;
- Waterproof;
- Extremely low coefficients of friction; and
- Excellent dielectric properties, which are relatively insensitive to temperature and power frequency.

The combination of these characteristics makes fluoropolymers widely used as fluoropolymer coating, resin, additives, pipes, electrical insulation, chemical processing equipment, non-stick coatings for cookware, and film products and is commonly used in the electronics, semiconductors, automotive, telecommunications, transportation, national defense, aerospace, chemical and industrial manufacturing, medical devices and equipment, building and construction, new and alternative energy, and consumer products industry, and is expanding into wider and deeper applications with the advancement of science and technology.

Some examples of fluoropolymers are:

- Polytetrafluoroethylene (PTFE)
- Polyvinylidene fluoride (PVDF)
- Fluorinated ethylene-propylene (FEP)
- Perfluoroalkoxy polymer (PFA)
- Polyethylenetetrafluoroethylene (ETFE)

- Polyvinylfluoride (PVF)
- Polyethylenechlorotrifluoroethylene (ECTFE)
- Polychlorotrifluoroethylene (PCTFE)
- Perfluorinated Elastomer (FFPM)
- Perfluoropolyether (PFPE)
- Perfluorosulfonic Acid (PFSA)

According to “S&P Global’s Chemical Economics Handbook — Fluoropolymers” published in November 2022 (“**S&P Global’s Chemical Economics Handbook**”), PTFE is the largest product segment, which accounted for about 45% of the world market for fluoropolymers. PVDF and FEP are the next-most-widely used fluoropolymers, accounting for about 22% and 12%, respectively, of the world fluoropolymers market in 2022.

Based on the latest market research “Asia-Fluoropolymer Market (2017–2029) conducted by Mordor Intelligence, Asia-Pacific countries accounted for 53.64% of the global consumption of fluoropolymer resins in 2022 and China is the largest consumer of fluoropolymers in the region owing to its rising aerospace, automotive, industrial, and machinery segments.

According to the S&P Global’s Chemical Economics Handbook, China is the largest consumer of fluoropolymers in the world, representing 35% of PTFE consumption and approximately 48% of other fluoropolymers consumption in 2022. In China, industrial and machinery is the largest end-user industry due to increasing demand for chemical processing equipment, pumps and engines. Electrical and electronics is the second largest consumer of fluoropolymers. The increasing demand for electrical and electronics was driven by the onset of electric vehicles, autonomous robots, and defense technologies, which, in turn, has been boosting the demand for fluoropolymers in the market.

With the growing electric vehicle production and demand in China and in the world, the application of fluoropolymers for plastic composites and lithium-ion batteries used in electric automobiles has been increasing and this significantly contributes to the rapid growth in the fluoropolymer market in China. According to the S&P Global’s Chemical Economics Handbook, the future demand for fluoropolymers is estimated to increase at a rate of 7 to 8% in the period from 2022 to 2027.

However, the fluoropolymer market in China also faces certain challenges, such as increasing production costs, fluctuation in raw material prices, and uncertainty in the recovery of the domestic economy. Moreover, environmental concerns related to the production and disposal of fluoropolymers raise sustainability challenges for the industry. Additionally, the market also faces competition from substitute materials that offer similar properties at comparatively lower costs, which may hinder market growth.

In conclusion, the outlook for the fluoropolymer market will continue to be supported by the increasing demand for new and high-performance materials across various industries and the development of new applications.

Silicone Industry in China

Silicone is a new high-performance material with excellent properties, diverse forms, and a wide range of uses. It combines the properties of organic matter and the functions of inorganic matter. The unique molecular structure gives organic silicone materials superior properties, including excellent sealing, high and low temperature resistance, weather resistance, electrical properties, physiological inertness and interface performance, so it can be used in waterproof seals, high-temperature rubber, weather-resistant materials, electrical parts, medical materials and surfactants in the textile products, etc. The silicone industry chain consists of raw materials, monomers and intermediates, downstream deep-processing products and terminal applications.

In China, silicone holds significant importance in the new materials industry — a national strategic emerging industry. With the development of the national economy and the continuous improvement of people's living standards, silicone products have demonstrated their exceptional performance and contribution in more and more fields, gradually replacing traditional materials, and their application scope has continued to expand.

Since the 1950s, China's silicone industry not only supports the development of strategic emerging industries, such as information technology, high-end equipment manufacturing, new energy, and biomedicine, but also enables its applications in the country's construction, electronic appliances, textiles, personal care, daily necessities, transportation and other fields. It has played a positive role in promoting technological advancement and product enhancement in traditional industries. Especially in the environment of the increasingly intensifying world energy crisis, as a new chemical material based on non-petroleum routes, silicone has exhibited remarkable vitality and broad prospects for development.

According to the statistics of CAFSI, China's silicone methyl monomer production capacity had reached 4.98 million tons by the end of 2022, a year-on-year increase of 30.71%, accounting for approximately 67% of the global silicone methyl monomer production capacity. Affected by various factors, such as raw materials availability, costs and market conditions, the foreign production capacity has experienced sluggish growth, and the increase in global silicone monomer production capacity mainly comes from China.

Silicone downstream products play a significant role in various industries and have extensive applications in construction, electronics, electricity, new energy, automobiles, textiles, medical supplies, personal care products, and other fields. The demand for these products is closely linked to the overall macroeconomic conditions. While the current

demand has been slowing down, it is still maintaining a rapid growth. According to CAFSI statistics, China's apparent consumption of methylsiloxane in 2022 reached 1.6756 million tons, showing a year-on-year increase of 25.42%.

According to CAFSI statistics, China imported 97,700 tons of primary shape polysiloxane, a silicone intermediate, in 2022, representing a decrease of 27% compared with 2021, and exported 453,000 tons, representing an increase of 20.6% compared to 2021, with net exports of 355,300 tons, representing an increase of 47% compared to 2021. Average annual growth rate of China's polysiloxane import and export volume, from 2017 to 2021, was 2.0% and 22.4% respectively. As the domestic silicone technology gradually matures, the quality of domestic products continues to upgrade, and the localization process of organic silicone is rapidly advancing. The import volume of organic silicone continues to decline, while the export volume continues to grow rapidly, and the import substitution effect is significant.

With the gradual release of new production capacity by domestic silicone companies and outdated overseas production facilities being phased out, China's polysiloxane production has maintained a relatively rapid growth. In the downstream field, in addition to the continued growth of demand for silicone materials in traditional industries, the development of the energy-saving and environmentally friendly industries, such as photovoltaics and new energy, and the emerging industries, such as ultra-high and ultra-high voltage power grid construction, smart wearable materials, three-dimensional (3D) printing and fifth-generation (5G) communication all also provide new demand for silicones.

Fluorinated Proton-Exchange Membrane Industry in China

A proton-exchange membrane, or polymer-electrolyte membrane (PEM), is a semipermeable membrane generally made from ionomers and designed to conduct protons while acting as an electronic insulator and reactant barrier, e.g. to oxygen and hydrogen gas. This is the essential function when incorporated into a membrane electrode assembly (MEA) of a proton-exchange membrane fuel cell or of a proton-exchange membrane electrolyser.

Fluorinated proton-exchange membrane (FPEM) is a type of proton-exchange membrane that is made with a fluorinated polymer. It has a good ionic conductivity, low permeability, mechanical stability, low costs, long service life, thermal stability, and easy construction of membrane electrode, and these properties make it a good choice for use in fuel cells that operate at high temperatures and pressures. In terms of product type, Nafion, a perfluorosulfonic acid-based FPEM, is the most widely used in the market due to its excellent performance characteristics.

FPEM finds extensive use in the fuel cell, particularly in the transportation sector which is led by the popularity of fuel cell electric vehicles (FCEVs). The fuel cell vehicle industry is considered as a strategic emerging industry identified and supported by the Chinese government in recent years. In October 2020, issued under the guidance of the Ministry of Industry and Information Technology, the "Technical Roadmap for Energy

Saving and New Energy Vehicles 2.0” mentioned that by 2035, the number of fuel cell vehicles is expected to reach about 1 million, and commercial vehicles will achieve hydrogen power transformation.

In March 2022, the National Development and Reform Commission and the Energy Administration issued the “Medium- and Long-term Plan for Hydrogen Energy Industry Development (2021–2035)”, clarifying that by 2025, the number of domestic fuel cell vehicles will reach 50,000 vehicles, and the hydrogen production capacity from renewable energy will reach 100,000 to 200,000 tons per year, achieving carbon dioxide emission reduction of 1–2 million tons per year. By 2030, a relatively complete hydrogen energy industry technology innovation system, clean energy hydrogen production and supply system will be formed to effectively support the realization of the carbon peak goal. By 2035, a diversified application ecosystem of hydrogen energy will be formed, and the proportion of hydrogen production from renewable energy in terminal energy consumption will increase significantly. The Chinese government aims to peak carbon dioxide emissions by 2030 and strives to achieve carbon neutralization by 2060 and these Chinese government-supporting policies would be strongly favorable to the sustainable development of fuel cell vehicles and fuel cell applications in China.

In conclusion, the fluorinated proton exchange membrane market in China is poised for continued growth, innovation, and support for the clean energy transition.

6. DEFINITION OF VALUE

The report was prepared in accordance with International Valuation Standards 2022, which is the latest edition of International Valuation Standards published by International Valuation Standards Council, effective from January 31, 2022. In estimating the market value of the equity interest appraised under this engagement, our efforts will be based on the following description of market value: “*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*” Unless otherwise noted, the market values of the Equity Interests in the Target Companies are determined on non-controlling and going concern bases.

7. GENERAL VALUATION OVERVIEW

The methods commonly used to develop approximate indications of value for a business or assets are the Income, Market, and Cost Approaches.

Income Approach

The Income Approach focuses on the income-producing capability of a business or asset. The Income Approach measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that

incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.

Market Approach

The Market Approach measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets. Adjustments are made to account for differences between the subject business or asset being valued and the comparable businesses or assets used in the analysis.

Cost Approach

The Cost Approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. To the extent that the assets being valued provide less utility than new assets, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional obsolescence, and economic obsolescence. The Cost Approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

Selected Approach

In developing our opinion, we considered all three approaches to value for the asset types and chose the most appropriate approach or approaches for each. Our conclusions rely on the approaches judged to be most appropriate for the purpose and scope of our analysis, as well as the nature and reliability of the data available to us.

In estimating the market value of the equity interest in Dongyue Organosilicon, we relied primarily on the Market Approach. Under the Market Approach, as Dongyue Organosilicon is listed and actively traded on the ChiNext of the Shenzhen Stock Exchange as of the Valuation Date, its market value is directly derived by multiplying its closing share price as of the Valuation Date by the number of subject shares.

In estimating the market values of the equity interest in Dongyue Polymers and Dongyue Hydrogen, we also relied primarily on the Market Approach. Under the Market Approach, we relied on the trading multiples of publicly traded guideline companies comparable to Dongyue Polymers and Dongyue Hydrogen. The Market Approach benchmarked Dongyue Polymers' and Dongyue Hydrogen's equity value to the publicly trading entities by looking into their financial performances. Not only could the Market Approach reflect the current market's investment preferences or investment habitat, but also provide up-to-date public market information allowing the Management to make a more informative decision.

The Cost Approach was not adopted as it may not be able to reflect the expected future economic benefits of an income-generating business of the Target Companies. The Income Approach is also not adopted since prospective financial projection of the Target Companies at market participants' point of view, which is subject to a number of assumptions and contingent factors, was not reliably available.

8. ESTIMATION OF THE MARKET VALUES OF THE EQUITY INTERESTS IN THE TARGET COMPANIES

Introduction

In this section of our report, we describe our valuation analysis utilized to arrive at concluded market values of the Equity Interests in the Target Companies.

Valuation Approach — Dongyue Organosilicon

Since Dongyue Organosilicon is listed and actively traded on the ChiNext of the Shenzhen Stock Exchange as of the Valuation Date, its market value is directly derived by multiplying its closing share price as of the Valuation Date by the number of subject shares.

The Company owned 57.75% equity interest in Dongyue Organosilicon, representing 693,000,000 shares of Dongyue Organosilicon. The number of subject shares regarding the 23.12% equity interest of such 57.75% shareholding by the Company (i.e. approximately 13.35% equity interest in Dongyue Organosilicon) would be 160,221,600 shares.

Details of the calculation of the market value of 13.35% equity interest in Dongyue Organosilicon were illustrated as follows:

As of August 31, 2023	<i>RMB</i>
Closing Stock Price of Dongyue Organosilicon	9.61
Multiplied by: Number of subject shares (13.35% equity interest)	<u>160,221,600</u>
Market Value of 13.35% Equity Interest in Dongyue Organosilicon (Marketable and non-controlling basis)	1,539,729,576
Market Value of 13.35% Equity Interest in Dongyue Organosilicon (Marketable and non-controlling basis) (Rounded)	<u>1,539,730,000</u>

Valuation Approach — Dongyue Polymers and Dongyue Hydrogen

The Market Approach uses direct comparisons to other enterprises and their equity securities to estimate the market value of the common shares of privately issued securities. The Market Approach bases the market value measurement on what other similar enterprises or comparable transactions indicate the value to be. Under this

approach, investment by unrelated parties in comparable equity securities of the subject enterprise or transactions in comparable equity securities of comparable enterprises is examined. One commonly used “market comparables” method is the guideline public company method.

To adopt the guideline public company method under the Market Approach, we have to determine the appropriate valuation multiples of comparable companies, in which we have considered price-to-sales (“P/S”), price-to-earnings (“P/E”) and price-to-book (“P/B”) multiples.

P/B multiple was not adopted because book value does not necessarily reflect the profitability or the earning capability of Dongyue Polymers and Dongyue Hydrogen. P/E multiple was preferred over P/S multiple as P/E multiple could consider the cost structure and profitability or the earning capability of Dongyue Polymers and Dongyue Hydrogen. Besides, P/E multiple is a commonly adopted multiple for estimating the market value of a profit-making company. Therefore, we have employed P/E multiple in the valuation for Dongyue Polymers and Dongyue Hydrogen as of the Valuation Date.

The selection of guideline companies is by understanding the principal business of the valuation target and search for public companies with businesses as similar with the valuation target as possible. Generally speaking, companies in the same geographical location are preferred, followed by expansion to other geographical locations if same geographic location yield no meaningful results.

We searched for listed companies with business scopes and operations similar to those of the subject companies to be valued as comparable companies on best-effort basis with reference to the following selection criteria:

For Dongyue Polymers:

- The companies are principally engaged in the production and sale of chemicals in the PRC, which is close to the nature of Dongyue Polymers’ business, of which over 90% of revenue was generated from the production and sale of fluoropolymer and refrigerant, which are chemicals, in its preceding financial year;
- Over 50% of the total revenue of the companies were generated from the production and sale of chemicals in the PRC in its preceding financial year;
- The companies have pertinent operating histories and are listed and not suspended from trading as of the Valuation Date on the Hong Kong Stock Exchange with more than two years’ listing history;
- The companies generated latest 12-month net profits in the latest financial reporting period; and

- The financial information and relevant market data of the companies are available to the public.

In view of the fact that (i) the Company owned 100% of the equity interest in Dongyue Polymers as of the Valuation Date, (ii) Dongyue Polymers contributed more than 50% of the Company's net profit for the financial year ended December 31, 2022, and (iii) the shares of Company have been listed in Hong Kong for over 10 years, we consider Dongyue Polymers, being a wholly-owned major subsidiary and revenue contributor of the Company, shall share the same source of capital funding from the Hong Kong stock market and be assessed for the same valuation as the Company does. The market value of Dongyue Polymers and that of the Company should be highly correlated from market participants' views. Moreover, as advised by the Management, Dongyue Polymers is being assessed by the Company for potential capital market fund-raising proposals or possibilities, subject to suitable market conditions and opportunities arising. That said, there are no concrete timing, location and plans regarding such potential fund-raising proposals. Considering the above factors, we consider it is fair and reasonable to select comparable companies listed and not suspended from trading as of the Valuation Date on the Hong Kong Stock Exchange, where the shares of the Company are listed and traded, for benchmarking Dongyue Polymers, despite it is principally operating in the PRC.

For Dongyue Hydrogen:

- The companies are principally engaged in the production and sale of exchange membranes or similar membrane products and/or fine fluoride chemicals in the PRC, which is close to the nature of Dongyue Hydrogen's business, of which over 90% of revenue was generated from the production and sale of fluorinated functional polymers, fluorinated functional membranes and fluorine-containing fine chemicals, in its preceding financial year;
- A significant portion of the total revenue (i.e. relevant segment revenue contributed over 30% of the total revenue and the relevant segment is the largest segment among the other segments) of the companies were generated from the production and sale of exchange membranes or similar membrane products and/or fine fluoride chemicals in the PRC in its preceding financial year;
- The companies have pertinent operating histories and are listed and not suspended from trading as of the Valuation Date on China stock exchanges with more than two years' listing history;
- The companies generated latest 12-month net profits in the latest financial reporting period; and
- The financial information and relevant market data of the companies are available to the public.

As advised by the Management, Dongyue Hydrogen has raised pre-initial public offering fundings from various investors in recent years. Also, Dongyue Hydrogen is being considered for application for a separate listing on the Shanghai Stock Exchange or Shenzhen Stock Exchange. Having considered the intended capital market of Dongyue Hydrogen is in the PRC, we consider selecting comparable companies that are listed and not suspended from trading as of the Valuation Date on China stock exchanges for Dongyue Hydrogen to be fair and reasonable.

The following table presents the comparable companies adopted in the valuation of 23.12% equity interest in Dongyue Polymers:

Comparable Companies	Business Descriptions	Location of the Principal Businesses
Dongyue Group Ltd (189 HK Equity)	Dongyue Group Ltd. manufactures and distributes fluorine and silicon chemicals. The company produces refrigerants, fluoride fine chemicals, silicone chemicals, fluoride salts, acids, chloride methy chlorine materials, and other related chemicals.	China
Fufeng Group Ltd (546 HK Equity)	Fufeng Group Limited manufactures corn-based bio-chemical products utilizing fermentation technology. The company's products include glutamic acid and xanthan gum.	China
Global New Material International Holdings Ltd (6616 HK Equity)	Global New Material International Holdings Limited operates as a holding company. The company, through its subsidiaries, produces and sells pearlescent pigment products, functional mica filler and related products. Global New Material International Holdings serves customers in China.	China
Lee & Man Chemical Co Ltd (746 HK Equity)	Lee & Man Chemical Company Limited manufactures and sells handbags and chemical products including Chloromethanes, Hydrogen Peroxide and Caustic Soda.	China
Tiande Chemical Holdings Ltd (609 HK Equity)	Tiande Chemical Holdings Limited operates as a holding company. The company, through its subsidiaries, engages in manufacturing, research and development, selling, and distribution of fine chemical products. Tiande Chemical Holdings offers sodium cyanide, ethanol, cyanoacetic acid, cyanoacetates, and other products.	China

Comparable Companies	Business Descriptions	Location of the Principal Businesses
Tsaker New Energy Tech Co Ltd (1986 HK Equity)	Tsaker New Energy Tech Co., Limited develops and manufactures chemicals. The company produces dye intermediates, pigment intermediates, pesticide intermediates, and battery materials. Tsaker New Energy Tech conducts businesses in China.	China
Yip's Chemical Holdings Ltd (408 HK Equity)	Yip's Chemical Holdings Limited, through its subsidiaries, manufacture and trades high molecular chemical products and mixed solvents, paints, raw solvents, lubricants, and inks. The company also sub-leases storage of solvents in bulk.	China
SANVO Fine Chemicals Group Ltd (301 HK Equity)	SANVO Fine Chemicals Group Limited produces and sells industrial chemical products. The company manufactures and sells aerosols, organic silicone, adhesives, synthetic adhesives, and other products. SANVO Fine Chemicals Group markets its products throughout China.	China
GHW International (9933 HK Equity)	GHW International operates as a chemical intermediates manufacturer. The company supplies animal nutrition chemicals, polyurethanes, fine chemicals, pharmaceutical chemicals, and related intermediates. GHW International focuses on aquaculture, construction, automobile, home appliance, and pharmaceutical areas.	China
China Ludao Technology Co Ltd (2023 HK Equity)	China Ludao Technology Co Ltd is a manufacturer of aerosol products in the PRC. The company is principally engaged in the research and development, manufacture and sale of aerosol and related products. China Ludao's products include, household and auto care products, air fresheners, personal care products, and insecticides.	China
Changmao Biochemical Engineering Co Ltd (954 HK Equity)	Changmao Biochemical Engineering Company Limited produces and sells organic acids, which are derived from maleic anhydride or crude maleic anhydride, and mainly used as pharmaceutical intermediates and food additives.	China

Comparable Companies	Business Descriptions	Location of the Principal Businesses
Diwang Industrial Holdings Ltd (1950 HK Equity)	Diwang Industrial Holdings Limited produces and sells faux leather chemicals. The company manufactures and sells colourants, finishes, additives, synthetic resins, and other products. Diwang Industrial Holdings Limited markets its products domestically and internationally.	China
Jiangsu Innovative Ecological New Materials Ltd (2116 HK Equity)	Jiangsu Innovative Ecological New Materials Limited manufactures additives. The company produces refining additives, oil additives, and other products. Jiangsu Innovative Ecological New Materials markets its products throughout worldwide.	China
Zhejiang Changan Renheng Technology Co Ltd (8139 HK Equity)	Zhejiang Chang'an Renheng Technology Co Ltd manufactures paper chemicals, water treatment chemicals and metallurgy bentonite pellets.	China

Source: Bloomberg

Dongyue Polymers is a wholly-owned subsidiary of the Company, which contributed more than 50% of the Company's net profit for the financial year ended December 31, 2022. A significant portion of the principal business and operation of the Company closely resemble those of Dongyue Polymers. As a result, the Company satisfied the selection criteria and it was shortlisted as a comparable company to Dongyue Polymers. Taking into account the shareholding relationship and similarity in principal business activities, we consider the Company's valuation multiple serves as a fair and representative benchmark for estimating the market value of Dongyue Polymers in this valuation.

During the selection process of the comparable companies for Dongyue Polymers, we noted there are limited companies listed in Hong Kong that principally engaged in the manufacturing and sale of specific products (i.e. fluoropolymer) in China. Only one comparable company, which is the Company, was identified that engaged in very similar businesses of Dongyue Polymers. Considering a fair and reasonable sample size of comparable companies and the availability of P/E multiples for the valuation, we have deployed broader selection criteria with the production and sale of chemicals in the PRC, while focusing on the core attributes of the companies in terms of geographical segment, capital market/listing location and profitability.

We utilized the Bloomberg terminal to identify comparable companies engaged in the production and sale of chemicals that are comparable to Dongyue Polymers in the PRC. According to Bloomberg Industry Classification Systems (“BICS”), there is no specific industry category/classification for fluoropolymer. Under the “Chemical” category, there are four sub-industry categories, namely “Basic & Diversified Chemicals”, “Specialty Chemicals”, “Chemicals Distribution” and “Agricultural Chemicals”. In particular, regarding the broader industry selection criteria adopted for Dongyue Polymers, we selected companies categorized under the sub-industry categories “Basic & Diversified Chemicals” and “Specialty Chemicals”, which are considered to be the most comparable and similar sub-industry categories to the fluoropolymers as fluoropolymer products shall normally and generally be included in these two sub-industry categories without any unreasonableness and inappropriateness noted. We excluded companies categorized under the sub-industry categories “Chemicals Distribution” and “Agricultural Chemicals” due to the relatively low proximity in business nature (i.e. Dongyue Polymers is not principally engaged in the distribution of fluoropolymers) and applications of products (i.e. fluoropolymers are not agricultural chemicals) between the comparable companies and Dongyue Polymers. We then refined the selection result by excluding companies engaged in the production, sale and trading of irrelevant products or services, such as flake graphite, graphene, laminates, explosive products and blasting services. We consider such extension of industry selection criteria with due care and consideration is appropriate, fair and reasonable.

Considering all abovementioned selection criteria and due extension of the industry selection criteria by the above sub-industry categories, a total of fourteen comparable companies were identified that met the broader selection criteria with the production and sale of chemicals in the PRC.

All the above shortlisted comparable companies for Dongyue Polymers are principally engaged in the production and sale of chemicals in the PRC, in which over 50% of the total revenue was generated from the relevant business and geographical area as Dongyue Polymers in its preceding financial year. Regarding the capital market/listing location, all the comparable companies are listed and not suspended from trading as of the Valuation Date on the Hong Kong Stock Exchange as of the Valuation Date with more than two years’ listing history. Furthermore, all the comparable companies adopted were profit-making in the latest financial reporting period. All in all, the principal business, geographical segment, capital market/listing location, and profitability of the comparable companies are consistent with the core attributes and are comparable to that of Dongyue Polymers.

Despite the comparable companies having different sizes in terms of market capitalization and operation scale, no direct relationship was observed between the size and the P/E multiple of the comparable companies. Hence, no adjustment was made for the differences between Dongyue Polymers and its comparable companies.

The list of comparable companies is an exhaustive list based on the abovementioned selection criteria and we are of the view that the comparable companies shortlisted are appropriate, fair and reasonable, exhaustive and representative samples.

Below are the P/E multiples of the comparable companies as of the Valuation Date as extracted from Bloomberg to arrive at the market value of Dongyue Polymers.

Comparable Companies	Market Capitalization as of the Valuation Date (HKD million)	Trailing 12 Months Net Profit (HKD million)	P/E Multiple
Dongyue Group Ltd (189 HK Equity)	15,189.87	2,758.33	5.507 x
Fufeng Group Ltd (546 HK Equity)	10,577.16	3,802.69	2.781 x
Global New Material International Holdings Ltd (6616 HK Equity)	5,574.92	227.92	24.460 x
Lee & Man Chemical Co Ltd (746 HK Equity)	2,598.75	370.06	7.023 x
Tiande Chemical Holdings Ltd (609 HK Equity)	1,217.19	603.15	2.018 x
Tsaker New Energy Tech Co Ltd (1986 HK Equity)	1,164.49	219.82	5.297 x
Yip's Chemical Holdings Ltd (408 HK Equity)	977.79	1,125.77	0.869 x
SANVO Fine Chemicals Group Ltd (301 HK Equity)	634.84	16.36	38.804 x
GHW International (9933 HK Equity)	475.00	118.04	4.024 x
China Ludao Technology Co Ltd (2023 HK Equity)	472.13	34.67	13.618 x
Changmao Biochemical Engineering Co Ltd (954 HK Equity)	333.71	50.39	6.623 x
Diwang Industrial Holdings Ltd (1950 HK Equity)	266.40	56.89	4.683 x
Jiangsu Innovative Ecological New Materials Ltd (2116 HK Equity)	124.80	16.83	7.415 x
Zhejiang Changan Renheng Technology Co Ltd (8139 HK Equity)	41.86	7.28	5.750 x
Median			5.628 x

Source: Bloomberg

The trailing 12 months net profits of the comparable companies were estimated based on the net profit figures for the year ended December 31, 2022 based on the audited financial statements of the comparable companies and the first half year's net profit figures for the six-month period ended June 30, 2022 and June 30, 2023 respectively based on the unaudited financial statements of the comparable companies, which were publicly announced and available as at the Valuation Date. The calculation formula to estimate the trailing 12 months net profits of the comparable companies is illustrated as below:

$$\begin{aligned} \text{Trailing 12 months net profit} &= \text{(i) the net profit for the year ended} \\ &\quad \text{December 31, 2022} \\ &+ \text{(ii) the first half year's net profit for the} \\ &\quad \text{six-month period ended June 30, 2023} \\ &- \text{(iii) the first half year's net profit for the} \\ &\quad \text{six-month period ended June 30, 2022} \end{aligned}$$

We noted the wide range of P/E multiples of the comparable companies as of the Valuation Date. However, selection of outlier(s) might be subjective that the result may be biased, therefore, we adopted median estimate, which is more preferred over mean/average, as it could minimize the impact of outlier(s) and it is commonly adopted by valuers on data set.

We multiplied the median P/E multiple of the comparable companies as of the Valuation Date by the latest 12-month normalized net profit ended June 30, 2023 of Dongyue Polymers to arrive at the equity value of Dongyue Polymers. The latest 12-month normalized net profit ended June 30, 2023 was estimated based on (i) the audited financial statements of Dongyue Polymers for the year ended December 31, 2022, and (ii) the unaudited financial statements of Dongyue Polymers for the six-month period ended June 30, 2022 and the six-month period ended June 30, 2023, excluding any non-recurring other income/expense and gains or losses on disposal and with the effective profit tax rate of Dongyue Polymers. The latest 12-month non-recurring other income/expense and gains or losses on disposal of Dongyue Polymers included non-operating income, non-operating expenses, government subsidy, investment income and gain on disposal. The net non-operating assets/(liabilities) included financial assets, investment in associates, and equity investments, as per the unaudited financial statements of Dongyue Polymers for the six-month period ended June 30, 2023. We then adjusted the derived equity value of Dongyue Polymers with net non-operating assets/(liabilities) of Dongyue Polymers as well as a discount for lack of marketability (“**DLOM**”) to account for the fact that Dongyue Polymers is a private company, and the 23.12% equity interest in Dongyue Polymers as of the Valuation Date is determined on a non-controlling basis.

The following table presents the comparable companies adopted in the valuation of 2.32% equity interest in Dongyue Hydrogen:

Comparable Companies	Business Descriptions	Location of the Principal Businesses
Pan Asian Microvent Tech Jiangsu Corp (688386 CH Equity)	Pan Asian Microvent Tech (Jiangsu) Corporation develops high polymer microvent materials and devices. The company develops, produces, and sells expanded polytetrafluoro ethylene membrane. Pan Asian Microvent Tech (Jiangsu) markets its products throughout China.	China
Haohua Chemical Science & Technology Co Ltd (600378 CH Equity)	Haohua Chemical Science & Technology Co Ltd is principally engaged in the production of high-end manufacturing chemical materials, high-end fluorine chemicals, electronic chemicals, and also the provision of engineering technology services in China.	China
Sichuan EM Technology Co Ltd (601208 CH Equity)	Sichuan EM Technology Company Limited develops, produces and sells insulation materials, functional polymer materials and related fine chemical products. The company's main products are electrical polyester film, electrical polypropylene film, electrical mica tape, flexible laminates, rigid laminated sheets.	China
Zhejiang Yongtai Technology Co Ltd (002326 CH Equity)	Zhejiang Yongtai Technology Co., Ltd. researches, develops, manufactures, and distributes fluorine-containing fine chemicals. The company produces fluorine-containing pharmaceuticals for cardiovascular, diabetes, central nervous system, anti-infection, and anti-virus. Zhejiang Yongtai Technology also produces herbicides, fungicides, and lithium battery materials.	China
Zhejiang Zhongxin Fluoride Materials Co Ltd (002915 CH Equity)	Zhejiang Zhongxin Fluoride Materials Co., Ltd manufactures fine fluoride chemicals. The company designs, produces, and sells fluorine based medical intermediates, pesticides, polymer materials, and other related chemical products. Zhejiang Zhongxin Fluoride Materials operates in China.	China

Source: Bloomberg and annual reports of the comparable companies

During the selection process of the comparable companies for Dongyue Hydrogen, we noted there are very limited companies listed in China that principally engaged in the manufacturing and sale of specific products (i.e. fluorinated functional polymers and membranes) in China. Only one comparable company, which is Pan Asian Microvent Tech Jiangsu Corp, was identified that engaged in very similar businesses of Dongyue Hydrogen. Given the limited availability of listed comparable companies principally engaged in the manufacturing and sale of fluorinated functional polymer membrane products, and considering a fair and reasonable sample size of comparable companies and the availability of P/E multiples for the valuation, we have deployed broader selection criteria with the production and sale of similar membrane products which are made from fluorine chemical materials or perform similar product functions, and the production and sale of fine chemicals in the PRC, particularly fine fluorine chemical products, while focusing on the core attributes of the companies in terms of geographical segment, capital market/listing location and profitability.

Considering all the aforementioned selection criteria, a total of five comparable companies were identified that met the broader selection criteria with the production and sale of similar membrane products which are made from fluorine chemical materials or perform similar product functions, and the production and sale of fine fluorine chemical products in the PRC.

For Pan Asian Microvent Tech Jiangsu Corp, it develops, produces, and sells expanded polytetrafluoroethylene (ePTFE) membrane products throughout China and, in fact, Dongyue Hydrogen also produces and sells ePTFE membrane products in China. Besides, in early 2022, the company jointly established a limited company, 江蘇源氫新能源科技股份有限公司, with multiple investors in an industrial town in Wujin District, Changzhou City, China to principally engage in the research & development, production and sales of the proton exchange membrane products in China. The company's business development could be considered as in the same market and industry as that of Dongyue Hydrogen.

For Sichuan EM Technology Co Ltd, it develops, produces and sells insulation materials, functional polymer materials and related fine chemical products. The company's main products are electrical polyester film, electrical polypropylene film, electrical mica tape, flexible laminates, and rigid laminated sheets. Electrical polypropylene films are key raw materials for ultra-high voltage film capacitors, flexible DC/AC transmission, and power transformers, and electrical polyester films are used in a variety of applications ranging from solar backsheet, motor & compressor, electrical vehicle battery, power supply insulation, panel printing, medical electronics, foil laminate for insulation and shielding, membrane-switch, etc. These products are mainly used in the downstream application areas of the new energy power generation, power transmission and transformation, and new energy vehicles, which are considered to be comparable to the application areas of Dongyue Hydrogen's products.

For Haohua Chemical Science & Technology Co Ltd, Zhejiang Yongtai Technology Co Ltd and Zhejiang Zhongxin Fluoride Materials Co Ltd, they all produce and sell fine chemicals in the PRC, including fine fluorine-containing chemical products, and in which over 50% of the total revenue was generated from the relevant business and geographical area as Dongyue Hydrogen in its preceding financial year.

Regarding the capital market/listing location, all the comparable companies are listed and not suspended from trading as of the Valuation Date on China stock exchanges as of the Valuation Date with more than two years' listing history. Furthermore, all the comparable companies adopted were profit-making in the latest financial reporting period. All in all, the principal business, geographical segment, capital market/listing location, and profitability of the comparable companies are also consistent with the core attributes and are comparable to that of Dongyue Hydrogen.

Despite the comparable companies having different sizes in terms of market capitalization and operation scale, no direct relationship was observed between the size and the P/E multiple of the comparable companies. Hence, no adjustment was made for the differences between Dongyue Hydrogen and its comparable companies.

The list of comparable companies is an exhaustive list based on the abovementioned selection criteria and we are of the view that the comparable companies shortlisted are appropriate, fair and reasonable, exhaustive and representative samples.

Below are the P/E multiples of the comparable companies as of the Valuation Date as extracted from Bloomberg to arrive at the market value of Dongyue Hydrogen.

Comparable Companies	Market Capitalization as of the Valuation Date <i>(RMB million)</i>	Trailing 12 Months Net Profit <i>(RMB million)</i>	P/E Multiple
Pan Asian Microvent Tech Jiangsu Corp (688386 CH Equity)	2,839.20	44.94	63.177 x
Haohua Chemical Science & Technology Co Ltd (600378 CH Equity)	30,616.41	1,174.44	26.069 x
Sichuan EM Technology Co Ltd (601208 CH Equity)	11,085.99	373.13	29.711 x
Zhejiang Yongtai Technology Co Ltd (002326 CH Equity)	11,805.79	98.98	119.280 x
Zhejiang Zhongxin Fluoride Materials Co Ltd (002915 CH Equity)	4,479.90	99.58	44.987 x
Median			44.987 x

Source: Bloomberg

The trailing 12 months net profits of the comparable companies were estimated based on the net profit figures for the year ended December 31, 2022 based on the audited financial statements of the comparable companies and the first half year's net profit figures for the six-month period ended June 30, 2022 and June 30, 2023 respectively based on the unaudited financial statements of the comparable companies, which were publicly announced and available as at the Valuation Date. The calculation formula to estimate the trailing 12 months net profits of the comparable companies is illustrated as below:

$$\begin{aligned} \text{Trailing 12 months net profit} &= \text{(i) the net profit for the year ended} \\ &\quad \text{December 31, 2022} \\ &+ \text{(ii) the first half year's net profit for the} \\ &\quad \text{six-month period ended June 30, 2023} \\ &- \text{(iii) the first half year's net profit for the} \\ &\quad \text{six-month period ended June 30, 2022} \end{aligned}$$

We noted the wide range of P/E multiples of the comparable companies as of the Valuation Date. However, selection of outlier(s) might be subjective that the result may be biased, therefore, we adopted median estimate, which is more preferred over mean/average, as it could minimize the impact of outlier(s) and it is commonly adopted by valuers on data set.

We multiplied the median P/E multiple of the comparable companies as of the Valuation Date by the latest 12-month normalized net profit ended June 30, 2023 of Dongyue Hydrogen to arrive at the equity value of Dongyue Hydrogen. The latest 12-month normalized net profit ended June 30, 2023 was estimated based on (i) the audited financial statements of Dongyue Hydrogen for the year ended December 31, 2022, and (ii) the unaudited financial statements of Dongyue Hydrogen for the six-month period ended June 30, 2022 and the six-month period ended June 30, 2023, excluding any non-recurring other income/expense and gain or loss on disposal and with the effective profit tax rate of Dongyue Hydrogen. The latest 12-month non-recurring other income/expense and gains or losses on disposal of Dongyue Hydrogen included non-operating income, government subsidy, investment loss and loss on disposal. The net non-operating assets/(liabilities) included an equity investment as per the unaudited financial statements of Dongyue Hydrogen for the six-month period ended June 30, 2023. We then adjusted the derived equity value of Dongyue Hydrogen with net non-operating assets/(liabilities) as well as a DLOM to account for the fact that Dongyue Hydrogen is a private company, and the 2.32% equity interest in Dongyue Hydrogen as of the Valuation Date is determined on a non-controlling basis.

Discount for Lack of Marketability (“DLOM”)

The value of privately held shares is not directly comparable to the value of publicly traded securities. This is due to the fact that shareholders of privately held companies do not have the same access to trading markets that shareholders of publicly traded companies enjoy. Therefore, the market value of the ordinary shares must be adjusted to reflect its lack of liquidity and ready market.

A number of research studies including restricted stock studies have attempted to quantify marketability discounts. Restricted stock studies are performed by comparing the prices at which a restricted stock trades vis-à-vis its publicly traded counterpart. A restricted stock is one that is identical to its company’s publicly traded issue but carries a short-term restriction on marketability. In the case of transfers of restricted stock, these studies provide evidence for the application of a discount placed on illiquid investments.

Based on Stout Restricted Stock Study Companion Guide 2023 (the “**Companion Guide**”) published by Stout Risius Ross, LLC, a DLOM of approximately 20.5% has been adopted.

Stout Risius Ross, LLC is a global investment bank and advisory firm specializing in corporate finance, transaction advisory, valuation, financial disputes, claims and investigations. The Companion Guide is an independent research study report which is designed to assist valuation professionals in determining the discounts for lack of marketability. In view of the Companion Guide is a recent marketability discount study prepared by a credible advisory and consulting firm, we consider it is a suitable and relevant reference source for determining the DLOM. Based on the Companion Guide, a total of 776 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through December 2022 were examined to arrive at the overall average DLOM of 20.5%. The Companion Guide did not provide a DLOM for any specific transactions or scenarios that are relevant to the Target Companies or specific to the chemical industry involved. Hence, we adopted the overall average discount of 20.5% for all transactions considered in the restricted stock study based on the Companion Guide.

In addition, after thorough searches and review on other marketability discount studies, we are not aware of any recent cross-country studies or any studies showing a conclusive relationship between the discounts for lack of marketability derived and the geographical location or specific market of the subject companies considered. As such, we have no reason to doubt the comparability and applicability of the DLOM suggested by the Companion Guide for the valuation of the Target Companies in terms of geographical location or specific market. No adjustment was made on the overall average discount sourced from the Companion Guide.

Summary of Calculation — Dongyue Polymers and Dongyue Hydrogen

Details of the calculation of the market values of Dongyue Polymers and Dongyue Hydrogen were illustrated as follows:

As of August 31, 2023	<i>RMB'000</i>
Latest 12-month normalized profit before tax ended June 30, 2023 of Dongyue Polymers	1,833,494
Less: 15% preferential income tax rate applicable to Dongyue Polymers	(275,024)
Latest 12-month normalized net profit of Dongyue Polymers	1,558,470
Multiplied by: Median P/E multiple as of the Valuation Date	5.628 x
Equity Value (Marketable and non-controlling basis)	8,771,777
Add/(Less): Net non-operating assets/(liabilities)	757,582
Equity Value (Marketable and non-controlling basis)	9,529,359
Less: DLOM	(1,953,519)
Market Value of 100% Equity Interest in Dongyue Polymers (Non-marketable and non-controlling basis)	7,575,841
Market Value of 23.12% Equity Interest in Dongyue Polymers (Non-marketable and non-controlling basis) (Rounded)	1,752,000

Note: The total may not sum up due to rounding.

As of August 31, 2023	<i>RMB'000</i>
Latest 12-month normalized profit before tax ended June 30, 2023 of Dongyue Hydrogen	234,014
Less: 15% preferential income tax rate applicable to Dongyue Hydrogen	(35,102)
Latest 12-month normalized net profit of Dongyue Hydrogen	198,912
Multiplied by: Median P/E multiple as of the Valuation Date	44.987 x
Equity Value (Marketable and non-controlling basis)	8,948,444
Add/(Less): Net non-operating assets/(liabilities)	11,188
Equity Value (Marketable and non-controlling basis)	8,959,632
Less: DLOM	(1,836,725)
Market Value of 100% Equity Interest in Dongyue Hydrogen (Non-marketable and non-controlling basis)	7,122,908
Market Value of 2.32% Equity Interest in Dongyue Hydrogen (Non-marketable and non-controlling basis) (Rounded)	165,000

Note: The total may not sum up due to rounding.

9. MAJOR ASSUMPTIONS

In this appraisal, a number of assumptions have to be made in order to sufficiently support our concluded value of the Target Companies. Any deviation from the below major assumptions may significantly vary the valuation result. The major assumptions adopted in this appraisal are:

- The financial position and performance of Dongyue Polymers and Dongyue Hydrogen as of the Valuation Date can be reasonably estimated by the unaudited financial statements of the Dongyue Polymers and Dongyue Hydrogen for the six-month periods ended June 30, 2022 and June 30, 2023, and audited financial statements of Dongyue Polymers and Dongyue Hydrogen for the year ended December 31, 2022 as provided by the Management, since audited financial statements of Dongyue Polymers and Dongyue Hydrogen as of the Valuation Date were not available;
- There will be no major changes in the current taxation laws in the territories (the “**Territories**”) in which the Target Companies operate(s) or intend(s) to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major changes in the political, legal, economic or financial conditions in the Territories in which the Target Companies operate(s) or intend(s) to operate, which would adversely affect the revenues attributable to and the profitability of the Target Companies;
- The Target Companies will retain and have competent management, key personnel, and technical staff to support its ongoing operation;
- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Companies operate(s) or intend(s) to operate have been or would be officially obtained and renewable upon expiry; and
- All information and representations provided by the Management, for which they are solely and wholly responsible for are true, accurate and complete in all material respect.

10. CONCLUSION OF VALUE

Based on the information provided and the analysis conducted, and subject to the Major Assumptions and Statement of Limiting Conditions, our opinion of the market values of the Equity Interests in the Target Companies as of August 31, 2023 are reasonably represented in the amount of approximately as follows:

	Market Value <i>(RMB'000)</i>
23.12% Equity Interest in 山東東岳高分子材料有限公司	1,752,000
13.35% Equity Interest in 山東東岳有機硅材料股份有限公司	1,539,730
2.32% Equity Interest in 山東東岳未來氫能材料股份有限公司	165,000

This report and the observations and analyses are intended solely for use by the Company for the purpose of assisting the Company to assess the market values of the Target Companies as of the Valuation Date and are not to be reproduced, disseminated or disclosed, in whole or in part, to any other party except in accordance with the terms of our engagement letter. The information contained in this report may include proprietary, sensitive and confidential information that has not been publicly disclosed. Release of this information to any other party could be damaging to the Company and the Target Companies.

Yours faithfully,
For and on behalf of
International Valuation Limited

Prepared and analyzed by:
Winnie Lam, CFA
Kevin Kwong, CFA, CVA, FRM

Ms. Winnie Lam has more than ten years of experience in valuation and financial analyses, including business valuation, valuation of intangible assets, financial instruments, natural resources projects and purchase price allocation. Ms. Lam is a charter holder of Chartered Financial Analyst (CFA) and she graduated from the Hong Kong University of Science and Technology with a Bachelor of Business Administration, double-major in finance and management of organizations.

Mr. Kevin Kwong has more than ten years of experience in business valuation, intangible assets valuation, purchase price allocation, and impairment tests for financial reporting and transaction reference purposes. Mr. Kwong is a charter holder of Chartered Financial Analyst (CFA), Chartered Valuer and Appraiser, Singapore (CVA) and Financial Risk Manager (FRM).

11. STATEMENT OF LIMITING CONDITIONS

This analysis is subject to the following limiting conditions:

1. This appraisal report cannot be included or referred to in any prospectus, offering memo, loan agreement, registration statement, regulatory authority filings, legal and court proceedings or other public documents, except for the Company's circular in relation to (i) proposed off-market share buy-back; (ii) proposed disposal and (iii) major and connected transaction, which dated the same as this report.
2. This report has been made only for the purpose stated and shall not be used for any other purpose. The information contained in this report is specific to the needs of the Company and for the intended use stated in this report. Neither International Valuation Limited ("IVL") nor the appraiser is responsible for unauthorized use of this report. Neither this report nor any portions thereof (including, without limitations, any conclusions, the identity of IVL or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties other than the Company, its financial accounting firm and attorneys, regulatory authorities, by any means without the prior written consent and approval of IVL. We assume no responsibilities or liabilities for any losses incurred as a result of unauthorized circulation, publication or reproduction of this report in any form and/or if used contrary to the purpose stated therein.
3. Information furnished by others or taken from the Company's reports and records, standard reference manuals, publications and other sources, upon which all or portions of this report are based, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information. We do not accept any responsibilities for any errors or omissions in the information or any consequence liabilities arising from commercial decision or actions resulting from them.
4. IVL assumes no responsibility for legal matters including interpretations of either the law or contracts. No investigation has been made of, and no responsibility is assumed for, the legal description, or for legal matters regarding the valuation subject.
5. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the valuation date hereof.
6. The date of value to which the estimate, conclusions and opinion expressed in this report applies is set forth in the beginning of this report. This appraisal is valid only for the valuation date indicated. Our value opinion is based on the purchasing power of the reporting currency as of this date. The opinion of value is estimated based on the financial conditions prevailing as of the date of this appraisal.

7. For events that occur subsequent to the appraisal date hereof, no responsibility is taken and no obligation is assumed to revise this report to reflect the impact, if any, of these events or changing conditions as they may have upon the subject although we reserve the right to do so. Neither IVL nor any individual signing or associated with this report shall be required by reason of this report to give further consultation, provide testimony or appear in court or other legal proceedings unless specific arrangements therefore have been made.
8. We have made no investigation of and assumed no responsibility for the ownership or any liabilities against the valuation subject.
9. Any allocation in this report of the total valuation among components of the valuation subject and the weighting of the reported values among the various appraisal approaches applies only to the program of utilization stated in this report. The separate values for any components or approaches may not be applicable for any other purpose and must not be used in conjunction with any other appraisal.
10. This appraisal report might not include full discussions of the data, reasoning, and analyses that were used in the valuation process to develop the appraiser's estimate of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the Company and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
11. Our valuation is only an indicative quantum at which interests in the valuation subject might be reasonably be expected to be sold or disposed at the valuation date hereof and may be different from the actual transacted price.
12. To the best of our knowledge and belief, the statements of fact contained in this report are true and correct; the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are impartial, and unbiased professional analyses, opinions, and conclusions.
13. Neither IVL nor any individual signing or associated with this report has any present or prospective interest in the valuation subject of this report and with respect to the parties involved. IVL or any individual signing or associated with this report has no bias with respect to the valuation subject of this report or to the parties involved with this assignment. The engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation of IVL or any individual signing or associated with this report for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the Company, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
14. The English version shall prevail in case of any discrepancy or inconsistency between the English version and the Chinese translation version of the valuation report.

**SOMERLEY CAPITAL LIMITED**

20th Floor
China Building
29 Queen's Road Central
Hong Kong

30 November 2023

The Board of Directors
Dongyue Group Limited
Room 2621 26/F.
Tower 1, Admiralty Centre
No.18 Harcourt Road
Admiralty, Hong Kong

Dear Sirs,

We refer to the valuation report (the “**Valuation Report**”) prepared by International Valuation Limited (the “**Valuer**”) as set out in Appendix III of this circular (the “**Circular**”), of which this letter forms part. We are required to report on the Valuation Report in relation to the valuation of the equity interests in the target companies, comprising (i) 23.12% equity interest in Shandong Dongyue Polymers Co., Ltd.* (山東東岳高分子材料有限公司); (ii) approximately 13.35% equity interest in Shandong Dongyue Organosilicon Materials Co., Ltd.* (山東東岳有機硅材料股份有限公司); and (iii) approximately 2.32% equity interest in Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd.* (山東東岳未來氫能材料股份有限公司) as of 31 August 2023 (the “**Valuation**”) under Rule 11.1(b) of the Takeovers Code. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have relied on the information and facts supplied, and the opinion expressed by the Company and the Valuer, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied to us.

Pursuant to the Corporate Finance Adviser Code of Conduct, we have reviewed the Valuation Report and the supporting documents relating to the Valuation and discussed with the Valuer regarding the Valuation, including, in particular, the valuation approach, as well as key bases and assumptions adopted in the Valuation. With regard to the qualifications and experience of the Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Valuer, as represented by Ms. Winnie Lam and Mr. Kevin Kwong who signed the Valuation Report, and discussing the same with the Valuer, we are satisfied that the Valuer, as represented by Ms. Winnie Lam and Mr. Kevin Kwong, is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently.

On the basis of the foregoing, we concur with the Valuer that the valuation approach, the bases and assumptions adopted in the Valuation and the Valuation itself have been made and prepared by the Valuer with due care, consideration and objectivity, and on a reasonable basis. We are also satisfied that the Valuer, as represented by Ms. Winnie Lam and Mr. Kevin Kwong, possesses the qualifications and experience to compile the Valuation Report.

Yours faithfully,
For and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

A. LETTER FROM AUDITORS ON THE PROFIT FORECAST

30 November 2023

The Board of Directors
Dongyue Group Limited
Room 2621, 26/F, Tower 1,
Admiralty Centre,
18 Harcourt Road,
Admiralty, Hong Kong



Dear Sirs,

**Dongyue Group Limited (the “Company”)
and its subsidiaries (collectively referred to herein as the “Group”)
Comfort letter in connection with the quarterly results of Shandong Dongyue
Organosilicon Materials Co., Ltd. (“Dongyue Organosilicon”) for the nine months
ended 30 September 2023**

We have been engaged to report on the arithmetical calculations of the unaudited consolidated net loss attributable to shareholders in the quarterly results of Dongyue Organosilicon for the nine months ended 30 September 2023 (“**DO Quarterly Report**”) as published in the announcement of the Company dated 20 October 2023 (the “**Announcement**”). The DO Quarterly Report contains, among other things, unaudited consolidated net loss attributable to shareholders of Dongyue Organosilicon for the nine months ended 30 September 2023 (the “**Unaudited Figures**”).

Directors’ Responsibilities

The directors of the Company and the directors of Dongyue Organosilicon (the “**Board**”) are jointly responsible for the preparation of the Unaudited Figures which was based on the information available to the Board and the unaudited consolidated management accounts for the nine months ended 30 September 2023 of Dongyue Organosilicon, which have not yet been reviewed or audited by the auditors of Dongyue Organosilicon. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Unaudited Figures and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibility

Our responsibility is to report, as required by under Rule 10 of the Takeovers Code on the arithmetical calculations of the Unaudited Figures included in the Announcement and the DO Quarterly Report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the Unaudited Figures, so far as the calculations are concerned, has been properly compiled in accordance with the bases as set out in the DO Quarterly Report.

We have re-performed the arithmetical calculations and compared the compilation of the Unaudited Figures with the bases as set out in the DO Quarterly Report.

We are not reporting on the appropriateness and validity of the bases on which the Unaudited Figures are based and our work does not constitute any assurance of the Unaudited Figures and DO Quarterly Report or an expression of an audit or review opinion on the Unaudited Figures and DO Quarterly Report.

The Unaudited Figures do not involve any future events or assumptions. Our work has been undertaken for the purpose of reporting solely to you under Rule 10 of the Takeover Code and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, the Unaudited Figures, so far as the accounting policies and arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases made jointly by the directors of the Company and directors of Dongyue Organosilicon as set out in the DO Quarterly Report and are presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the consolidated financial statements of the Company for the year ended 31 December 2022.

Intended Users and Purpose

This letter has been prepared in connection with the proposed off-market share buy-back and the proposed disposal. It should not be relied upon by any party for any other purpose and we expressly disclaim any liability or duty to any party in this respect. It should not be disclosed, referred to or quoted in whole or in part without our prior written consent. Nothing in the preceding sentence shall prevent the Company from disclosing this letter to its professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the Company is complying with.

Yours faithfully,

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong

**B. LETTER FROM INDEPENDENT FINANCIAL ADVISER ON THE PROFIT
FORECAST****SOMERLEY CAPITAL LIMITED**

20th Floor
China Building
29 Queen's Road Central
Hong Kong

30 November 2023

The Board of Directors
Dongyue Group Limited
Room 2621 26/F.
Tower 1, Admiralty Centre
No.18 Harcourt Road
Admiralty, Hong Kong

Dear Sirs,

We refer to the unaudited consolidated net loss attributable to shareholders of Dongyue Organosilicon for the nine months ended 30 September 2023 (the “**Unaudited Figure**”) as published in the announcement of the Company dated 20 October 2023. We note that the Unaudited Figure is regarded as a profit forecast under Rule 10 of the Takeovers Code. Terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

As the Unaudited Figure relates to a period which has already expired, no assumptions are involved when preparing the Unaudited Figure. Accordingly, we have discussed with the Directors and the directors of Dongyue Organosilicon the bases upon which the Unaudited Figure was prepared. The Unaudited Figure has been compiled by the directors of Dongyue Organosilicon based on the unaudited consolidated management accounts of Dongyue Organosilicon for the nine months ended 30 September 2023. We have also considered the “A. Letter from auditors on the profit forecast” dated 30 November 2023 issued to the board of Directors, the text of which is set out in pages V-1 to V-3 of this circular, which stated that, the Unaudited Figure, so far as the accounting policies and arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases made jointly by the directors of the Company and directors of Dongyue Organosilicon as set out in the quarterly results of Dongyue Organosilicon for the nine months ended 30 September 2023 and are presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the consolidated financial statements of the Company for the year ended 31 December 2022. The preparation of the Unaudited Figure has been approved by the directors of Dongyue Organosilicon and is the sole and joint responsibility of the Directors and the directors of Dongyue Organosilicon.

Based on the above, we are satisfied that the Unaudited Figure has been made by the Directors based on information received from Dongyue Organosilicon together with the directors of Dongyue Organosilicon after due care and consideration.

For the purpose of this letter, we have relied on and assumed the accuracy and completeness of all information provided to us and/or discussed with the Company and Dongyue Organosilicon. We have not assumed any responsibility for independently verifying the accuracy and completeness of such information or undertaken any independent evaluation or appraisal of any of the assets or liabilities of the Group including Dongyue Organosilicon. Save as provided in this letter, we do not express any other opinion or views on the Unaudited Figure. The Directors and the directors of Dongyue Organosilicon remain solely responsible for the Unaudited Figure.

Yours faithfully,
For and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules and the Share Buy-backs Code for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive in any material respect, and there are no other matters the omission of which would make any statement herein or this circular misleading.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular, and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the Share Buy-back will be, as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>4,000,000,000</u> Shares as at the Latest Practicable Date	<u>400,000,000</u>
<i>Issued and fully paid share capital:</i>	<i>HK\$</i>
2,253,689,455 Shares as at the Latest Practicable Date	225,368,945
(520,977,818) Buy-back Shares to be cancelled upon Completion	(52,097,782)
<u>1,732,711,637</u> Shares upon Completion	<u>173,271,164</u>

The nominal value of the Shares is HK\$0.10 each. All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital.

As at the Latest Practicable Date, 76,707,000 Shares, representing approximately 3.4% of the issued share capital of the Company, was held by Hong Kong Tai Li International Trading Company Limited, being the trustee of the employee option scheme of the Company and a wholly-owned subsidiary of the Company whose directors are employees of the Group. Under the employee share scheme, such Shares were purchased by the trustee on the Stock Exchange to be held for the benefit of the employees of the Group and have not been granted to any employees, Directors or any member of the Vendors Concert Group as at the Latest Practicable Date. Under the rules of the employee share scheme, the trustee is not entitled to exercise any voting rights in the Shares held by it on trust for the employees. None of the members of the Vendors Concert Group, Mr. Zhang nor members of Mr. Zhang Group are directors or shareholders of the trustee and the purchase of such Shares by the trustee were not funded by them. Accordingly, the trustee is not a party acting in concert with any member of the Vendors Concert Group or Mr. Zhang Group.

Save as disclosed above, the Company had no outstanding options, convertible securities, warrants, derivatives in respect of the Shares in issue as at the Latest Practicable Date.

There was no reorganisation of capital of the Company during the two financial years preceding the date of the Announcement.

The Company had not issued or bought back any Shares since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up) and up to and including the Latest Practicable Date. Further, no Shares had been bought back by the Company during the period of 12 months immediately preceding the date of this circular.

3. DIVIDENDS

During the two-year period immediately preceding the date of this circular, the frequency and amount of dividends that have been paid out by the Company to the Shareholders are as follows:

- (i) the final dividend for the year ended 31 December 2022 was HK\$0.6 per Share, which was paid on or about 13 July 2023; and
- (ii) the final dividend for the year ended 31 December 2021 was HK\$0.34 per Share, which was paid on or about 15 July 2022.

There was no declared but unpaid dividend in respect of the Shares as at the Latest Practicable Date.

The Company's ability to pay dividends to the Shareholders depends on a number of factors including the actual and expected financial performance of the Group, the distributable reserves of the Group, the working capital and capital expenditure requirements of the Group, the liquidity position of the Group, the overall economic situation, and any other factors that the Board considers relevant. The Company has no plan or intention to alter its present dividend policy.

4. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each calendar month during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share <i>HK\$</i>
28 April 2023	7.95
31 May 2023	6.85
30 June 2023	5.86
31 July 2023	7.66
31 August 2023	6.74
29 September 2023	5.89
20 October 2023 (being the Last Trading Day)	5.34
31 October 2023	6.23
27 November 2023 Latest Practicable Date	5.96

During the Relevant Period, the highest and lowest closing prices of the Shares on the Stock Exchange were HK\$8.1 on 8 May 2023 and HK\$5.19 on 23 June 2023, respectively.

5. DISCLOSURE OF INTEREST

(a) Directors

(i) *Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures*

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) to be notified to the Company and the Hong Kong Stock Exchange were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Mr. Zhang	Corporate interest ¹	258,948,451 (L)	11.49 (L)
	Beneficial interest	7,147,636 (L)	0.32 (L)
Mr. Fu	Corporate interest ²	520,977,818 (L)	23.12 (L)
Mr. Zhang Zhefeng	Beneficial interest	750,000 (L)	0.03 (L)
Mr. Zhang Jian	Beneficial interest	91 (L)	0.00 (L)

Notes:

- Pursuant to the SFO, as Mr. Zhang holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 258,948,451 Shares (L) held by Dongyue Team Limited.
- These Shares in which 150,000,000 Share (L) are directly held by Macrolink Overseas (a wholly owned subsidiary of MACRO-LINK International) and 370,977,818 Shares (L) directly held by MACRO-LINK International which in turn is wholly owned by Macrolink Industrial. MLH, a company owned by Cheung Shek as to 93.4% and by Mr. Fu as to 2.83%, respectively, wholly owns Macrolink Industrial. In addition, Mr. Fu and Ms. Xiao Wenhui directly own Cheung Shek as to 59.76% and 33.46%, respectively. All of 150,000,000 Shares held by Macrolink Overseas and 50,000,000 Shares out of 370,977,818 Shares held by MACRO-LINK International are subject to shares charges as security of borrowings
- The letter “L” denotes a long position in such securities.

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 HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have 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 HKSE pursuant to the Model Code.

(ii) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

As at the Latest Practicable Date, there were no service contracts with the Group or associated companies of the Company in force for Directors (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

(iii) Directors' interests in assets and contracts of the Company

As at the Latest Practicable Date, (i) none of the Directors had direct or indirect material interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Group; and (ii) none of the Director was materially interested in any contract or arrangement subsisting as at the date of this circular which is significant in relation to the business of the Group.

(iv) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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

As at 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 as recorded in the register required to be kept under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Nature of interest	Number of Shares or underlying Shares	% of issued share capital
Macrolink Overseas	Beneficial interest ¹	150,000,000 (L)	6.66 (L)
MACRO-LINK International	Beneficial interest ¹ Corporate interest ¹	370,977,818 (L) 150,000,000 (L)	16.46 (L) 6.66 (L)
Macrolink Industrial	Corporate interest ¹	520,977,818 (L)	23.12 (L)
MLH	Corporate interest ¹	520,977,818 (L)	23.12 (L)
Cheung Shek	Corporate interest ¹	520,977,818 (L)	23.12 (L)
Ms. Xiao Wenhui	Corporate interest ¹	520,977,818 (L)	23.12 (L)
Dongyue Team Limited	Beneficial interest ²	258,948,451 (L)	11.49 (L)

Notes:

1. These Shares in which 150,000,000 Share (L) are directly held by Macrolink Overseas (a wholly owned subsidiary of MACRO-LINK International) and 370,977,818 Shares (L) directly held by MACRO-LINK International which in turn is wholly owned by Macrolink Industrial. MLH, a company owned by Cheung Shek as to 93.4% and by Mr. Fu as to 2.83%, respectively, wholly owns Macrolink Industrial. In addition, Mr. Fu and Ms. Xiao Wenhui directly own Cheung Shek as to 59.76% and 33.46%, respectively. All of 150,000,000 Shares held by Macrolink Overseas and 50,000,000 Shares out of 370,977,818 Shares held by MACRO-LINK International are subject to shares charges as security of borrowings
2. Pursuant to the SFO, as Mr. Zhang holds 100% interest in Dongyue Team Limited, Mr. Zhang is deemed to be interested in the 258,948,451 Shares (L) held by Dongyue Team Limited.
3. The letter "L" denotes a long position in such securities.

(c) Interests in other members of the Group

Name of the Company's subsidiary	Name of substantial shareholder of such subsidiary	Nature of interest	% of issued share capital/ registered capital of such subsidiary
Inner Mongolia Dongyue Peak Fluorine Chemicals Co., Ltd.	Chifeng Zhongxing Information Technology Co., Ltd.	Corporate	49
Chifeng HuaSheng Mining Co., Ltd.	Chifeng Zhongxing Information Technology Co., Ltd.	Corporate	20
Yucheng Boyu Real Estate Marketing Planning Co., Ltd	Dalian Zhongyu Investment Co., Ltd.	Corporate	30
Zibo Xiaoshuo Enterprise Management Co., Ltd.	Qilu Asset Management (Zibo) Co., Ltd.	Corporate	49

Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, 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.

(d) Share dealings

The table below sets out the dealings in the Shares by the relevant parties during the Relevant Period:

Name	Date	Description of event	Number of Shares involved	Share Price (HK\$)
Ms. Fu Shuangshuang	15 May 2023	on market sale of Shares	655,000	7.80
Mr. Ma Chenshan	15 June 2023	on market acquisition of Shares	24,000	5.63
	15 August 2023	on market acquisition of Shares	71,000	7.44
	4 September 2023	on market acquisition of Shares	78,000	6.71
	4 September 2023	on market acquisition of Shares	39,000	6.75
	5 September 2023	on market acquisition of Shares	16,000	6.70
	6 September 2023	on market acquisition of Shares	1,000	6.58
	21 September 2023	on market acquisition of Shares	120,000	5.92
	28 September 2023	on market acquisition of Shares	74,000	5.76
	16 October 2023	on market acquisition of Shares	5,000	5.53
Ms. Xiao Wenhui	25 April 2023	on market acquisition of Shares	107,000	7.60
	27 April 2023	on market sale of Shares	7,000	8.05
	7 June 2023	on market acquisition of Shares	100,000	7.20
	7 June 2023	on market sale of Shares	500,000	6.99
	9 June 2023	on market sale of Shares	300,000	7.06
	12 June 2023	on market sale of Shares	100,000	7.12
	15 June 2023	on market acquisition of Shares	400,000	5.63
	15 June 2023	on market sale of Shares	100,000	5.63
	19 June 2023	on market acquisition of Shares	100,000	5.55
	28 June 2023	on market acquisition of Shares	100,000	5.78
	13 July 2023	on market sale of Shares	200,000	7.30
	14 July 2023	on market sale of Shares	100,000	7.40
	24 July 2023	on market acquisition of Shares	200,000	7.70
	27 July 2023	on market acquisition of Shares	50,000	7.50
	12 September 2023	on market acquisition of Shares	50,000	6.39
	14 September 2023	on market acquisition of Shares	20,000	6.01
19 September 2023	on market acquisition of Shares	30,000	5.90	
25 September 2023	on market acquisition of Shares	20,000	5.90	
New Pacific Glory Limited (Note)	14 September 2023	on market acquisition of Shares	347,000	6.03
	20 September 2023	on market acquisition of Shares	300,000	5.88
	26 September 2023	on market acquisition of Shares	127,000	5.72
	27 September 2023	on market acquisition of Shares	73,000	5.72
Qixin Investment	25 July 2023	on market acquisition of Shares	774,000	7.79

Note: New Pacific Glory Limited is wholly-owned by Ms. Liu Jing (a director of the Vendors, MLH, Macrolink Industrial and Cheung Shek).

6. LITIGATION AND CLAIMS

At as the Latest Practicable Date, neither the Company or any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Group.

7. MATERIAL CONTRACTS

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

- (a) the Share Buy-back Agreement; and
- (b) the Equity Transfer Agreement.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have provided their opinions or advices, which are contained in this circular:

Name	Qualification
Somerley Capital Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee in respect of the Share Buy-back Agreement and the Disposal
Elite Partners CPA Limited	Certified Public Accountants under the Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Accounting and Financial Reporting Council Ordinance (Cap. 588)
International Valuation Limited	Independent Professional Valuer

Each of the experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter and/or report or the references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the experts had have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group and none of the experts had any interest, either direct or indirect, in any assets which had since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. GENERAL

The English text of this circular shall prevail over the Chinese text in case of inconsistency. The company secretary of the Company is Ms. Chung Tak Lai, who is a member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

The registered office of the Company is at Vistra (Cayman) Limited, P.O. Box 31119, Grand Pavillion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands, and its principal place of business in Hong Kong is at Room 2621, 26/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong. The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be available on (i) the Company's website (<http://www.dongyuechem.com>); (ii) and the website of the Stock Exchange (www.hkexnews.hk) and (iii) the website of the SFC (www.sfc.hk), from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in the circular;
- (iii) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (iv) the letter from Somerley Capital Limited, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;
- (v) the annual reports of the Company for the three years ended 31 December 2020, 2021, and 2022, and the interim report of the Company for the six months ended 30 June 2023;
- (vi) the report on the unaudited pro forma financial information of the Group issued by Elite Partners CPA Limited, the text of which is set out in Appendix II to this circular;

- (vii) the business valuation report of the Target Companies, the text of which is set out in Appendix III in this circular;
- (viii) the report from Somerley Capital Limited on the business valuation report, the text of which is set out in Appendix IV in this circular;
- (ix) the letter from Elite Partners CPA Limited on the Profit Forecast, the text of which is set out in Appendix V in this circular;
- (x) the letter from Somerley Capital Limited on the Profit Forecast, the text of which is set out in Appendix V in this circular;
- (xi) the Share Buy-back Agreement;
- (xii) the Equity Transfer Agreement;
- (xiii) the written consent as referred to in the paragraph headed “Experts and Consents” in this appendix;
- (xiv) the material contracts as referred to in the paragraph headed “Material Contracts” in this appendix; and
- (xv) this circular.

NOTICE OF EGM



**DONGYUE
FEDERATION**
DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 189)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Dongyue Group Limited (the “**Company**”) will be held at Event Space D, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 18 December 2023 at 10 a.m. for the purposes of considering and, if thought fit, passing the following as special and ordinary resolutions of the Company, with or without amendments:

Unless otherwise specified, capitalized terms used in this notice shall have the same meaning as those defined in the circular of the Company dated 30 November 2023 (the “**Circular**”).

SPECIAL RESOLUTION

1. “**THAT:**

- (a) subject to the approval having been granted by the Executive (as defined in the Circular) and such approval not having been withdrawn, the Share Buy-back Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any director of the Company (“**Director(s)**”) be and is hereby authorised to take all such steps or do all such acts and things and to sign and execute all such documents, instruments and agreements (or make any changes, modifications, amendments, waivers, variations to such documents, instruments and agreements) for and on behalf of the Company as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Share Buy-back Agreement and the transactions contemplated thereunder; and
- (c) the Buy-back Shares be cancelled upon the Share Buy-back Completion and the Disposal Completion.”

NOTICE OF EGM

ORDINARY RESOLUTION

2. “**THAT:**

- (a) the Equity Transfer Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any Director be and is hereby authorised to take all such steps or do all such acts and things and to sign and execute all such documents, instruments and agreements (or make any changes, modifications, amendments, waivers, variations to such documents, instruments and agreements) for and on behalf of the Company as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Equity Transfer Agreement and the transactions contemplated thereunder.”

By order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 30 November 2023

Registered office:

Vistra (Cayman) Limited
P.O. Box 31119
Grand Pavillion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

*Principal place of business
in Hong Kong:*

Room 2621, 26/F, Tower 1
Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

Notes:

- (1) Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on the poll, vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be delivered to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the EGM.
- (3) The register of members of the Company will be closed from Wednesday, 13 December 2023 to Monday, 18 December 2023 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Tuesday, 12 December 2023.

NOTICE OF EGM

- (4) Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personal or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for such purpose seniority shall be determined by the order in which name stand in the register of members in respect of the joint holdings.
- (5) The resolution at the EGM will be taken by poll and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company.
- (6) Pursuant to the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, resolution numbered 1 above must be approved by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at the EGM.
- (7) As at the date of this notice, the executive directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Wang Weidong, Mr. Zhang Zhefeng and Mr. Zhang Jian; and the independent non-executive directors of the Company are Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Ma Zhizhong.