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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 the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
DONGYUE ORGANOSILICONE
ON THE SHENZHEN STOCK EXCHANGE,
POSSIBLE MAJOR TRANSACTION IN RELATION TO
DEEMED DISPOSAL OF INTEREST IN DONGYUE ORGANOSILICONE
AND
NOTICE OF EGM**

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



云锋金融

**Yunfeng Financial Markets Limited
(A member of Yunfeng Financial Group)**

A notice convening the EGM of the Company to be held at Meeting Room, Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 31 October 2018 at 11:00 a.m., is set out on pages 42 to 43 of this circular. A form of proxy for use at the EGM is enclosed with 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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.

15 October 2018

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“A share(s)”	domestic share(s) issued by companies and listed on a stock exchange in the PRC
“Announcement”	the announcement of the Company dated 12 October 2018 in relation to, among other things, the Proposed Spin-off
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Company”	Dongyue Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Hong Kong Stock Exchange
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company
“Dongyue Future Corporate”	Shandong Dongyue Future Corporate Management Consultancy Services Co., Ltd. (山東東岳未來企業管理諮詢服務有限公司), a wholly-owned subsidiary of the Company
“Dongyue Organosilicone”	Shandong Dongyue Organosilicone Materials Co., Ltd. (山東東岳有機硅材料股份有限公司), a joint stock limited company incorporated in the PRC and an indirect non-wholly-owned subsidiary of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 31 October 2018 for the purpose of considering and, if thought fit, approving the Proposed Spin-off
“Group”	the Company and its subsidiaries, including Dongyue Organosilicone
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board, comprising all the independent non-executive Directors, established to advise the Shareholders on the Proposed Spin-off
“Independent Financial Adviser” or “Yunfeng Financial”	Yunfeng Financial Markets Limited (雲鋒金融市場有限公司), a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, the independent financial adviser appointed by the Independent Board Committee for the purpose of advising the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off
“Latest Practicable Date”	11 October 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“PN15”	Practice Note 15 of the Listing Rules
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Proposed Spin-off”	the proposed spin-off and separate listing of Dongyue Organosilicone on ChiNext of the Shenzhen Stock Exchange by way of issuance of new A shares of Dongyue Organosilicone
“Remaining Group”	the Group, excluding Dongyue Organosilicone
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of the Company
“%”	per cent.

In this circular, the English names of the PRC entities are transliteration of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

LETTER FROM THE BOARD



DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

Executive Directors:

Mr. Zhang Jianhong (*Chairman*)

Mr. Fu Kwan

Mr. Liu Chuanqi

Mr. Zhang Zhefeng

Mr. Zhang Bishu

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. Yue Rundong

Mr. Yang Xiaoyong

Principal place of business

in Hong Kong:

Room 02, 15th Floor

Capital Centre

151 Gloucester Road

Wan Chai

Hong Kong

15 October 2018

To the Shareholders

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
DONGYUE ORGANOSILICONE
ON THE SHENZHEN STOCK EXCHANGE AND
POSSIBLE MAJOR TRANSACTION IN RELATION TO
DEEMED DISPOSAL OF INTEREST IN DONGYUE ORGANOSILICONE**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Proposed Spin-off.

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance

LETTER FROM THE BOARD

with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. As at the Latest Practicable Date, no formal application has been submitted by Dongyue Organosilicone to the CSRC for the listing of its shares on the Shenzhen Stock Exchange.

The Proposed Spin-off, if approved and proceeded with, may constitute a possible major transaction of the Company under Chapter 14 of the Listing Rules. The Board therefore convenes the EGM to obtain the Shareholders' approval for the Proposed Spin-off as required under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

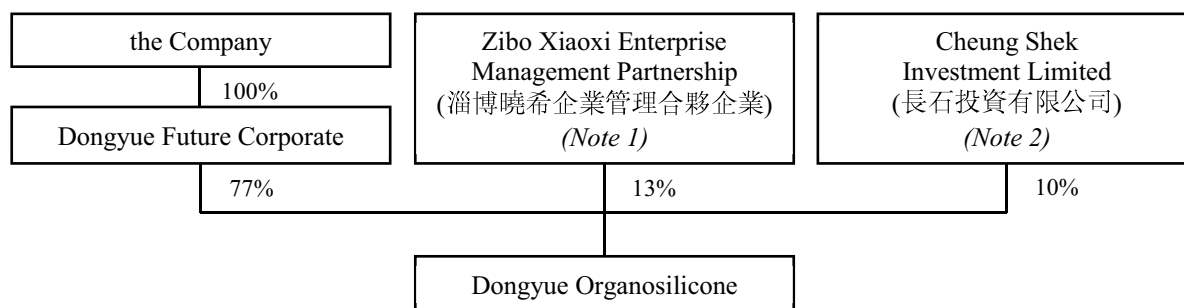
The purpose of this circular is to provide you with, among others, (i) information on the Proposed Spin-off and the waiver in respect of the assured entitlement requirement under the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser regarding the Proposed Spin-off; and (iii) a notice of the EGM.

THE PROPOSED SPIN-OFF

In connection with the Proposed Spin-off, Dongyue Organosilicone will issue certain number of new A shares on ChiNext of the Shenzhen Stock Exchange by way of initial public offering to the public in the PRC, or other methods as approved by the CSRC. Based on the Board's estimate and the funding needs of Dongyue Organosilicone, it is proposed that Dongyue Organosilicone will issue not more than 300,000,000 new A shares (the "Offer Shares"), representing 25% of the total number of issued shares of Dongyue Organosilicone as enlarged by the Proposed Spin-off, such that Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company upon completion of the Proposed Spin-off. The actual number of Offer Shares to be issued by Dongyue Organosilicone will be subject to the market conditions and the relevant rules and regulations of the CSRC as amended from time to time.

Effects of the Proposed Spin-off on the shareholding structure of Dongyue Organosilicone

As at the Latest Practicable Date, Dongyue Organosilicone had an aggregate of 900,000,000 shares in issue, and the Company indirectly controlled 77% interest in Dongyue Organosilicone. Set out below is a simplified corporate structure of Dongyue Organosilicone as at the Latest Practicable Date:



Notes:

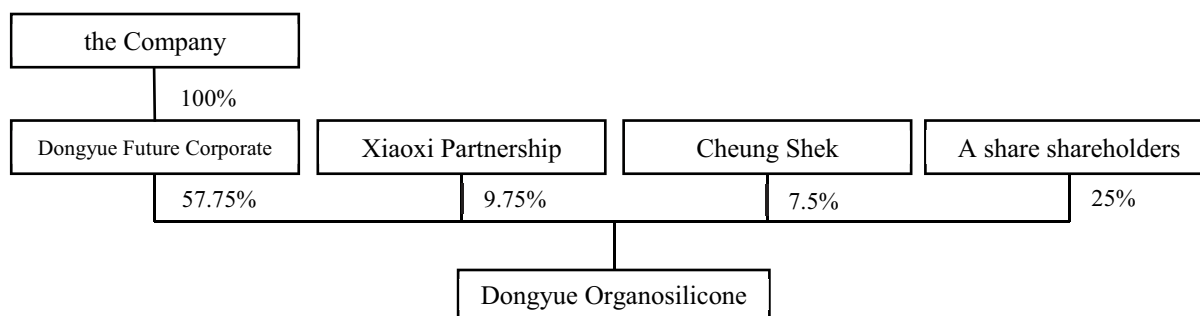
1. Zibo Xiaoxi Enterprise Management Partnership (淄博曉希企業管理合夥企業) ("Xiaoxi Partnership") is a PRC limited partnership owned by certain senior management and employees of the Group. In particular, as at the Latest Practicable Date, (i) an aggregate of approximately 42.48% interest was owned by Mr. Zhang

LETTER FROM THE BOARD

Jianhong and Mr. Zhang Zhefeng (both executive Directors); (ii) an aggregate of approximately 41.75% interest was owned by certain directors of the Company's subsidiaries (apart from Mr. Zhang Jianhong and Mr. Zhang Zhefeng); and (iii) the remaining interest was owned by certain senior management and employees of the Group who are not connected persons of the Company under the Listing Rules.

- As at the Latest Practicable Date, Cheung Shek Investment Limited (長石投資有限公司) (“**Cheung Shek**”) was held by Mr. Fu Kwan (an executive Director) as to 53.35%; Mr. Zhang Jian (an executive Director) as to 3.33%; and independent third parties as to 43.32%.

It is expected that immediately upon completion of the Proposed Spin-off, the Company will indirectly control not less than approximately 57.75% interest in Dongyue Organosilicone, and therefore Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company. Set out below is a simplified corporate structure of Dongyue Organosilicone immediately upon completion of the Proposed Spin-off (assuming that the Offer Shares to be issued will represent 25% of the enlarged share capital of Dongyue Organosilicone):



In any event, Dongyue Organosilicone shall not cease to be a subsidiary of the Company as a result of the Proposed Spin-off.

Proceeds to be raised from the Proposed Spin-off

The offer price per Offer Share (the “**Offer Price**”) will be subject to market conditions close to the launch of the proposed A share issuance and determined by a book-building process organised by the lead underwriter of the Proposed Spin-off and to be agreed by Dongyue Organosilicone. In determination of the Offer Price, Dongyue Organosilicone shall take in account of (i) the operating results and performance of Dongyue Organosilicone, including the net profit of Dongyue Organosilicone in the financial year preceding the launch of the A share issuance; (ii) the net asset value per share of Dongyue Organosilicone at the time of the launch; (iii) the expansion plan and the capital need of Dongyue Organosilicone; (iv) the then responses to price consultation to the A share issuance in the book-building process; and (v) an appropriate price to earnings ratio to be determined by Dongyue Organosilicone and the lead underwriter having considered the CSRC guidelines governing A share issuance in the PRC, as well as other comparable companies listed in the PRC in the same industry as Dongyue Organosilicone.

Notwithstanding the above, the Directors consider that it is appropriate and is in the best interests of the Company and its Shareholders as a whole that the Offer Price shall be not less than the unaudited net asset value per share of Dongyue Organosilicone as at 31 August 2018 (i.e. approximately RMB1.98 per share) or such lower unaudited net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance, which represents the minimum value per share of Dongyue Organosilicone

LETTER FROM THE BOARD

with reference to its assets and liabilities. The Directors consider that it would not be in the best interests of the Company and its Shareholders as a whole for Dongyue Organosilicone to issue the Offer Shares at a price lower than such minimum value per share.

Based on the above factors, the Board estimates that the gross proceeds to be raised from the Proposed Spin-off will be not more than RMB4.5 billion. Such estimated amount of gross proceeds is arrived at based on the expected financial performance of Dongyue Organosilicone for the year ending 31 December 2018 and the adoption of a P/E ratio as determined by the Company with reference to the P/E ratios of comparable companies listed in the PRC in the same industry as Dongyue Organosilicone at the time of the launch of the A share issuance. However, investors should be aware that the expected offering size, the indicative P/E ratio and the estimated gross proceeds referred to above is for illustration purposes only and the actual amount raised, if the Proposed Spin-off is completed, will depend on the PRC domestic market conditions at the time of the launch of the A share offering and may vary substantially from the amount estimated above. In the event that within a period of 12 months from the date of CSRC's approval of the Proposed Spin-off, (i) the indicative Offer Price is less than the unaudited net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance; and (ii) the indicative P/E ratio in respect of the proposed Offer Price is lower than all prevailing P/E ratios of comparable companies listed in the PRC in the same industry as Dongyue Organosilicone at the time of the launch of the A share issuance, the Board shall reconsider whether it is appropriate to proceed with the Proposed Spin-off with the indicative Offer Price and review the appropriate timing and offering size of the A share issuance taking into consideration of the then prevailing market conditions and the terms of the A share issuance. Should the Board consider it in the interests of the Company and its Shareholders to proceed with the Proposed Spin-off notwithstanding the indicative Offer Price falling below the above two thresholds in view of the strategies and capital need of Dongyue Organosilicone and the prevailing marketing conditions, the Company shall notify the Shareholders by way of announcement(s) setting out the reasons for its decision and basis of the A share issuance as and when appropriate.

The Company shall reassess the applicable percentage ratios in respect of the Proposed Spin-off if the actual gross proceeds raised from the Proposed Spin-off exceed the estimated maximum amount as disclosed herein, and re-comply with the relevant requirements for notifiable transaction including the Shareholders' approval requirement in accordance with Chapter 14 of the Listing Rules should the Proposed Spin-off constitute a very substantial disposal of the Company.

Proposed use of proceeds

Dongyue Organosilicone intends to apply the proceeds to be raised from the Proposed Spin-off for investment in the following projects based on their importance and urgency in the following manner:

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Project	Description of the project	Current status of the project	Expected time of completion	Amount of proceeds to be invested in the project (RMB)	Percentage of proceeds	
1.	Organic silicone monomer and organic silicone downstream products deep processing project	A new production base of approximately 283,000 square meters which consists of production facilities, warehouses and engineering facilities for the production and deep processing of silicone monomer and silicone downstream products, including silica, silicone glue, silicone oil, liquid glue, rubber compound and silicone resin	<ul style="list-style-type: none"> - In the process of obtaining all necessary licenses and permits - construction not yet commenced 	By 2020	2,980,740,200 according to the following breakdown: <ul style="list-style-type: none"> - 47% for purchase of equipment and device; - 20% for construction cost; - 15% for other costs and expenses of the construction; - 14% for initial working capital for start-up of production; and - 4% for installation fee. 	66.24%
2.	Organic silicone monomer production device energy saving and environmental protection technology reform project	Modification, upgrading, improvement and replacement of existing equipment, including production devices and environmental protection equipment, for the production of organic silicone monomer	<ul style="list-style-type: none"> - In the process of obtaining all necessary licenses and permits - construction not yet commenced 	By 2020	498,000,000 according to the following breakdown: <ul style="list-style-type: none"> - 64% for upgrading and modification of existing equipment and device; - 24% for automation upgrade; - 10% for modification of waste incineration system; and - 2% for modification of water processing system. 	11.07%
3.	Research and development centre project	A new five-floor building of approximately 11,000 square meters consisting of laboratories, analysis rooms, emergency operations centre and information control centre, exhibition hall and conference rooms	<ul style="list-style-type: none"> - In the process of obtaining all necessary licenses and permits - construction not yet commenced 	By 2019	200,000,000 according to the following breakdown: <ul style="list-style-type: none"> - 50% for the laboratories and analysis rooms; - 20% for the information control centre; - 10% for the main building; - 10% for the emergency operations centre; - 5% for the exhibition hall; - 2.5% for the conference rooms; and - 2.5% for miscellaneous expenses. 	4.44%
4.	General working capital	Approximately 85% for the purchase of raw materials and increased labor costs after the expansion of production scale; and approximately 15% as back-up capital			821,259,800	18.25%
Total					4,500,000,000	100.00%

LETTER FROM THE BOARD

The respective expected investment amounts for the first, second and third projects referred to above were determined by the Company's internal budgeting based on the estimated costs and expenses on construction of buildings, purchase and installation of equipment, upgrading of systems and facilities and other related expenditure. In order to seize the market opportunities and facilitate the completion of the above projects as soon as possible, Dongyue Organosilicone will invest in some of the projects through its internally generated funds and/or bank financings, and then use the proceeds from the Proposed Spin-off to replenish such funds which were applied by Dongyue Organosilicone for those projects.

The completion of the above projects is not dependent on the Proposed Spin-off. If the actual amount of the proceeds from the Proposed Spin-off is less than the total investment amount for these projects, priority will be given to the first project and Dongyue Organosilicone will use other available funds, including internally generated funds and third party financings, to make up the shortfall for the second and the third projects.

Lock-up and non-competition undertakings

In connection with the listing of Dongyue Organosilicone's shares on ChiNext of the Shenzhen Stock Exchange, as required by the Rules Governing the Listing of Shares on the Chinext of Shenzhen Stock Exchange, among others:

- (i) each of Dongyue Future Corporate, Xiaoxi Partnership, Cheung Shek and Mr. Fu Kwan (the controlling shareholder of Cheung Shek) will, in accordance with the Rules Governing the Listing of Shares on the Chinext of Shenzhen Stock Exchange, undertake (the "**Lock-up Undertaking**") that within at least 36 months (in the case of the controlling shareholder or controller(s) of Dongyue Organosilicone, namely Dongyue Future Corporate, Cheung Shek and Mr. Fu Kwan) or 12 months (in the case of other shareholder(s) of Dongyue Organosilicone, namely Xiaoxi Partnership) from the date of listing of Dongyue Organosilicone's shares on ChiNext of the Shenzhen Stock Exchange (the "**Lock-up Period**"), it/he will not transfer or entrust others to manage the shares in Dongyue Organosilicone directly or indirectly held by it/him before the Proposed Spin-off, or allow Dongyue Organosilicone to repurchase any of such shares;
- (ii) each of Dongyue Future Corporate, Cheung Shek and Mr. Fu Kwan will further undertake that if it/he reduces its/his shareholding in Dongyue Organosilicone within 2 years from the end of the Lock-up Period, the selling price(s) for the relevant disposal(s) shall not be less than the Offer Price; and
- (iii) each of Dongyue Future Corporate and Mr. Fu Kwan will undertake (the "**Non-competition Undertaking**") that it/he will not engage in, or establish or acquire any entity which engages in, the same or similar business as Dongyue Organosilicone, or establish, operate or develop any business, enterprise, project or other activity which competes or may compete with the business of Dongyue Organosilicone.

The Lock-up Undertaking and the Non-competition Undertaking to be provided by Dongyue Future Corporate do not involve, and therefore in the Directors' view, will not have any material adverse impact on the operations and businesses of the Remaining Group.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

As mentioned above, Dongyue Organosilicone will continue to be a non-wholly-owned subsidiary of the Company upon the completion of the Proposed Spin-off. Accordingly, the operating results of Dongyue Organosilicone will continue to be consolidated into the financial statements of the Company. The following is the expected financial impact of the Proposed Spin-off on the Group:

Earnings

The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in Dongyue Organosilicone. It is expected that there would be no expected gain or loss on the deemed disposal credited to the Company's consolidated income statement as gain or loss upon the completion of the Proposed Spin-off in accordance with the relevant accounting policies. The difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration received will be recorded in equity attributed to the Shareholders. In addition, as the proportion of the Company's shareholding in Dongyue Organosilicone will be diluted to a maximum extent to 57.75% immediately after the completion of the Proposed Spin-off, it is expected that the earnings attributable to owners of the Company contributed by Dongyue Organosilicone will decrease while the earnings attributable to non-controlling interests of the Company will increase.

Assets and liabilities

The Proposed Spin-off will increase the number of shares of Dongyue Organosilicone and raise corresponding funds. The proceeds of the Proposed Spin-off will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly, thereby improving the structure of the Group's assets and liabilities.

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board believes that it is commercially beneficial to the Group and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (i) the Proposed Spin-off will enhance the liquidity and value of the shares of Dongyue Organosilicone and thereby allow the Company and its Shareholders an opportunity to realise the fair value of their investment in the business of Dongyue Organosilicone;
- (ii) the proceeds from the Proposed Spin-off will support and accelerate the future development of the business of Dongyue Organosilicone and allow it to expand the scale of its business;
- (iii) the Proposed Spin-off will enable Dongyue Organosilicone to obtain a separate listing status and an independent fund-raising platform, allowing Dongyue Organosilicone to gain direct access to the capital markets for equity and/or debt financing without reliance on the Company, which will accelerate its expansion and improve its operating and financial performance, in turn providing better reward to the shareholders of both Dongyue Organosilicone and the Company;

LETTER FROM THE BOARD

- (iv) the Proposed Spin-off will increase the operational and financial transparency and improve the corporate governance of Dongyue Organosilicone and provide investors, financial institutions and rating agencies with greater clarity on its businesses and financial status, and such improvement will help build investors' confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of Dongyue Organosilicone;
- (v) the Proposed Spin-off will enable Dongyue Organosilicone to enhance its corporate profile, thereby increasing its ability to attract strategic investors for investment in and forming strategic partnerships directly with Dongyue Organosilicone;
- (vi) the Proposed Spin-off will clearly delineate the businesses and products of Dongyue Organosilicone and the Remaining Group, allowing separate platforms for Dongyue Organosilicone and the Remaining Group to develop their own business strategies and growth paths; and
- (vii) as Dongyue Organosilicone will continue to be a subsidiary of the Company and the operating results of Dongyue Organosilicone will continue to be consolidated into the financial statements of the Company upon the completion of the Proposed Spin-off, the Company will continue to enjoy the benefits arising from the future business development and growth of Dongyue Organosilicone.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is primarily engaged in the six 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 (through Dongyue Organosilicone); (iv) manufacturing and sale of dichloromethane, polyvinyl chloride (PVC) and liquid alkali; (v) others, mainly comprising by-products from the above operating segments such as ammonium bifluoride, hydrofluoric acid and bromine; and (vi) property development.

INFORMATION ON DONGYUE ORGANOSILICONE

Dongyue Organosilicone is a joint stock limited company incorporated in the PRC and is an indirect non-wholly owned subsidiary of the Company. It is primarily engaged in manufacturing and sale of organic silicone products, which are widely applied in military, aviation, automotive, electronic, construction and other industries 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 financial information of Dongyue Organosilicone prepared in accordance with PRC GAAP for the two years ended 31 December 2017:

	For the year ended 31 December 2016	For the year ended 31 December 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit (loss) before taxation	60,735	401,732
Net profit (loss) after taxation	44,033	285,348
		As at
		31 December 2017
		<i>RMB'000</i>
Net asset value		743,125

INFORMATION ON THE REMAINING GROUP

Upon completion of the Proposed Spin-off, the Remaining Group will continue to be primarily engaged in (i) manufacturing and sale of fluoropolymers; (ii) manufacturing and sale of refrigerants; (iii) manufacturing and sale of dichloromethane, polyvinyl chloride (PVC) and liquid alkali; (iv) others, mainly comprising by-products from the other operating segments such as ammonium bifluoride, hydrofluoric acid and bromine; and (v) property development.

CONDITIONS OF THE PROPOSED SPIN-OFF

The Proposed Spin-off will be conditional upon, among other things, the following:

- (i) approval by the Shareholders in relation to the Proposed Spin-off at the EGM;
- (ii) approval by the CSRC and the Shenzhen Stock Exchange in relation to the Proposed Spin-off; and
- (iii) any other PRC regulatory approvals for the listing of and permission to deal in the Offer Shares to be issued by Dongyue Organosilicone.

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable.

Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange, and therefore may or may not proceed. Accordingly, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

APPLICATION TO CSRC AND THE HONG KONG STOCK EXCHANGE

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. Please refer to the paragraph headed “Waiver from strict compliance with paragraph 3(f) of PN15” below for further details.

As at the Latest Practicable Date, no formal application has been submitted by Dongyue Organosilicone to the CSRC for the listing of its shares on the Shenzhen Stock Exchange.

WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(f) OF PN15

Paragraph 3(f) of PN15 requires the Company to have due regard to the interests of its existing Shareholders by providing them with an assured entitlement to shares in Dongyue Organosilicone, either by way of a distribution in specie of existing shares in Dongyue Organosilicone or by way of preferred application in any offering of existing or new shares in Dongyue Organosilicone.

If the Proposed Spin-off is implemented, the Offer Shares will be offered in the domestic market in the PRC and be listed and traded on ChiNext of the Shenzhen Stock Exchange. As advised by the PRC counsel of Dongyue Organosilicone, shares publicly offered and listed on the Shenzhen Stock Exchange may only be offered to domestic investors in the PRC and certain foreign investors qualified under the relevant PRC laws and regulations, including (i) qualified foreign institutional investors; (ii) foreign investors approved by the Ministry of Commerce of the PRC or relevant PRC authorities; (iii) foreigners who have obtained a permanent right of abode in the PRC; and (iv) citizens of Hong Kong, Macau and Taiwan with valid working or residential proof in the PRC. As such, the Company would not be allowed to provide its existing Shareholders with an assured entitlement to the Offer Shares unless the Company is satisfied that they are PRC investors or foreign investors qualified under the relevant PRC laws and regulations. However, it would be unduly burdensome and practically impossible for the Company to obtain and verify the background information of all Shareholders for the purpose of ascertaining whether they are so qualified. Furthermore, based on the information available from the Company’s branch share registrar in Hong Kong, many existing Shareholders are not reasonably considered as qualified foreign investors.

In addition, as advised by Dongyue Organosilicone’s PRC counsel, according to the relevant PRC laws, during the issuance of shares by a joint stock company, each share of the same class shall rank *pari passu* and the issuance price and conditions for each share of the same class issued at the same time shall be the same. Therefore, the issuance conditions for the Offer Shares shall be the same for all investors, and it is impossible for Dongyue Organosilicone to make preferential allocations of the Offer Shares to the Company’s existing Shareholders in Hong Kong under the relevant PRC laws and regulations.

Given the above PRC legal impediments, it is not feasible for the Company to comply with paragraph 3(f) of PN15 in connection with the Proposed Spin-off. Accordingly, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

LETTER FROM THE BOARD

Having taken into account the above reasons, the Board is of the view that the Proposed Spin-off and the non-provision of assured entitlement in connection therewith are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the shareholding of the Company in Dongyue Organosilicone is expected to be diluted from 77% to approximately 57.75% to a maximum extent upon completion of the Proposed Spin-off, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Dongyue Organosilicone under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Dongyue Organosilicone, and the expected offering terms for the Offer Shares, one or more of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but are all less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

EGM

The Company will seek Shareholders' approval at the EGM for the Proposed Spin-off. As far as the Directors are aware, no Shareholder has a material interest in the Proposed Spin-off which is different from those of the other Shareholders. As such, no Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Proposed Spin-off at the EGM.

A notice convening the EGM to be held at Meeting Room, Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 31 October 2018 at 11:00 a.m. is set out on pages 42 to 43 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 Level 22, Hopewell Centre, 183 Queen's Road East, 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.

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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 30 October 2018.

RECOMMENDATION

The Directors (including the independent non-executive Directors having taken into account of the advice of the Independent Financial Adviser) consider that the Proposed Spin-off and the waiver in respect of the assured entitlement requirement are fair and reasonable and in the interests of the Company and its

LETTER FROM THE BOARD

Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution (s) to be proposed at the EGM to approve the Proposed Spin-off.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee, (ii) the letter from the Independent Financial Adviser and (iii) the additional information set out in the appendices to this circular and the notice of the EGM.

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



DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

15 October 2018

To the Shareholders

Dear Sir or Madam,

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
DONGYUE ORGANOSILICONE
ON THE SHENZHEN STOCK EXCHANGE AND
POSSIBLE MAJOR TRANSACTION IN RELATION TO
DEEMED DISPOSAL OF INTEREST IN DONGYUE ORGANOSILICONE**

We refer to the circular of the Company dated 15 October 2018 (the “**Circular**”) of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Shareholders as to whether the Proposed Spin-off and the waiver in respect of the assured entitlement requirement under the Propose Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser as set out in the Circular.

Having considered the advice given by the Independent Financial Adviser, we are of the opinion that the Proposed Spin-off and the waiver in respect of the assured entitlement requirement under the Propose Spin-off are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Spin-off.

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

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

Mr. Yue Rundong
*Independent non-executive
Director*

Mr. Yang Xiaoyong
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Yunfeng Financial Markets Limited, the independent financial adviser to the Independent Board Committee and the Shareholders, for the purpose of incorporation into this circular.



Suites 3201-3204
One Exchange Square
8 Connaught Place
Hong Kong

15 October 2018

*The Independent Board Committee and the Shareholders of
Dongyue Group Limited*

Dear Sirs

PROPOSED SPIN-OFF AND SEPARATE LISTING OF DONGYUE ORGANOSILICONE ON THE SHENZHEN STOCK EXCHANGE AND POSSIBLE MAJOR TRANSACTION IN RELATION TO DEEMED DISPOSAL OF INTEREST IN DONGYUE ORGANOSILICONE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 15 October 2018 (the “**Circular**”) of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15 and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. The Hong Kong Stock Exchange has also granted a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under the Proposed Spin-off as required by paragraph 3(f) of PN15. As at the Latest Practicable Date, no formal application has been submitted by Dongyue Organosilicone to the CSRC for the listing of its shares on the ChiNext of the Shenzhen Stock Exchange.

As the equity interest of the Company in Dongyue Organosilicone is expected to be diluted from 77% to approximately 57.75% to a maximum extent upon completion of the Proposed Spin-off, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company’s equity interest in Dongyue Organosilicone under Rule 14.29 of the Listing Rules. Based on the expected offering terms for the Offer Shares, one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules will be more than 25% but are all less than 75%. Therefore, as mentioned in the Letter from the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Board, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

As mentioned in the "Letter from the Board", the Company shall reassess the applicable percentage ratios in respect of the Proposed Spin-off if the actual gross proceeds raised from the Proposed Spin-off exceed the estimated maximum amount as disclosed herein, and re-comply with the relevant requirements for notifiable transaction including the Shareholders' approval requirement in accordance with Chapter 14 of the Listing Rules should the Proposed Spin-off constitute a very substantial disposal of the Company.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Yue Rundong, has been established to give advice and recommendation to the Shareholders in relation to the Proposed Spin-off.

Yunfeng Financial Markets Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders as to (i) whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned; and (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Shareholders should vote in respect of the resolution(s) to approve the Proposed Spin-off at the EGM.

In formulating our opinion, we have relied upon the information, facts and representations contained in the announcements of the Company dated 29 March 2018 and 12 October 2018, the Circular and those supplied or made available by the management of and advisers to the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate as at the Latest Practicable Date and can be relied upon. We have no reason to doubt the truth, accuracy or completeness of such information and representations and have confirmed with the Directors and the management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group (including Dongyue Organosilicone) and its associates.

During the past two years, there have been no engagements between the Company and Yunfeng Financial Markets Limited. As at the Latest Practicable Date, we are not aware of any relationships or interests between (a) Yunfeng Financial Markets Limited; and (b) the Group or its associates that could reasonably be considered to affect the independence of Yunfeng Financial Markets Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Shareholders, we have taken into account the following principal factors:

Business of the Group and Dongyue Organosilicone

Business of the Group

The Group is positioned as a high-tech enterprise in the fluorosilicone industry. It is currently engaged in six business segments including (i) the manufacturing and sale of fluoropolymers (the “**Fluoropolymer Business**”); (ii) the manufacturing and sale of refrigerants (the “**Refrigerants Business**”); (iii) the manufacturing and sale of organic silicone (the “**Organic Silicone Business**”); (iv) the manufacturing and sale of dichloromethane, polyvinyl chloride (“**PVC**”) and liquid alkali (the “**Dichloromethane, PVC and Liquid Alkali Business**”); (v) others, mainly comprising by-products from the above operating segments, such as ammonium bifluoride, hydrofluoric acid and bromine (“**Others**”); and (vi) property development.

Upon completion of the Proposed Spin-off, other than the Organic Silicone Business, the Remaining Group will continue to be primarily engaged in the remaining five businesses (the “**Retained Businesses**”).

We set out below a summary of the financial information of the Group prepared in accordance with IFRS for the years ended 31 December 2016 and 2017 (prepared based on the annual report of the Group for the year ended 31 December 2017) and for the six months ended 30 June 2017 and 2018 (prepared based on the interim report of the Company for the six months ended 30 June 2018):

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2018 RMB'000
Revenue	7,969,773	10,137,137	4,789,657	7,373,158
<i>Comprised of the following segmental revenues:</i>				
Fluoropolymer Business	2,187,639	2,927,843	1,417,108	2,030,656
Refrigerants Business	1,828,048	2,502,275	1,215,491	1,635,984
Organic Silicone Business	1,684,716	2,428,256	1,129,495	1,783,005
Dichloromethane, PVC and Liquid Alkali Business	1,211,244	1,604,099	796,873	891,740
Property development	871,162	285,510	99,335	132,163
Others	186,964	389,154	131,355	899,610
Gross profit	1,641,055	3,064,272	1,505,442	2,478,411
Profit before tax	862,114	2,141,773	952,709	1,845,417
Profit for the period	615,466	1,681,799	750,432	1,365,167

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's total revenue in 2017 amounted to approximately RMB10,137.1 million, which represents an increase of 27.19% as compared with that in 2016 of approximately RMB7,969.8 million. As mentioned in the Company's annual report for the year ended 31 December 2017, as a result of the combined effect of the changes in supply and demand, the prices of all the products in the fluorosilicone industry increased. Along with increased product prices, the Group benefited from enhanced processes and technology, as well as development of new products and distribution channels. In 2017, revenue generated from each of the Fluoropolymer Business, Refrigerants Business, Organic Silicone Business, and Dichloromethane, PVC and Liquid Alkali Business showed an increase of approximately 33.84%, 36.88%, 44.13% and 32.43% respectively. The Group's net profit for 2017 amounted to approximately RMB1,681.8 million, showing an increase of approximately 173.26% from the previous year of approximately RMB615.5 million.

In the first half of 2018, the Group's revenue amounted to approximately RMB7,373.2 million, which represents an increase of approximately 53.94% as compared with that for the same period in 2017 of approximately RMB4,789.7 million. Revenue generated from each of the Fluoropolymer Business, Refrigerants Business, Organic Silicone Business, and Dichloromethane, PVC and Liquid Alkali Business showed an increase of approximately 43.30%, 34.59%, 57.86% and 11.90% respectively. The Group's net profit for the first half of 2018 increased by approximately 81.92% as compared with that for the same period in 2017.

As at 30 June 2018, the Group's unaudited total assets based on its financial statements prepared in accordance with IFRS amounted to approximately RMB14,589.3 million and the Group's unaudited equity attributable to the owners of the Company amounted to approximately RMB7,461.5 million.

Business of Dongyue Organosilicone

We are informed by the management of the Company that the Group's Organic Silicone Business is operated principally by Dongyue Organosilicone, which is engaged in the manufacturing and sale of organic silicone products.

Certain financial information of Dongyue Organosilicone is not separately reported in the audited financial statements of the Company. The Company has provided us with financial statements of Dongyue Organosilicone for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2018 prepared in accordance with the PRC GAAP (the "DO's PRC GAAP Accounts"). We are informed by the management of the Company that the segmental results represented as "Organic Silicone Business" in the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company's annual report for the year ended 31 December 2017 and the interim report for the six months ended 30 June 2018 overlap with substantially most of Dongyue Organosilicone's results. We set out below an extract of certain financial information from the DO's PRC GAAP Accounts:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Six months ended 30 June 2018 RMB'000
Revenue	1,692,312	2,441,939	1,790,049
Profit before tax	60,735	401,732	598,755
Profit for the year/period	44,033	285,348	449,002
Net asset value		743,125	1,607,322

The revenue of Dongyue Organosilicone amounted to approximately RMB2,441.9 million in 2017, representing an increase of approximately 44.30% compared with the previous year of approximately RMB1,692.3 million. As set out in the Company's interim report for the six months ended 30 June 2018, the Organic Silicone Business maintained a strong upward market trend brought about by the overall landscape of the fluorosilicone industry and the Group's business efforts continuing from the previous year (as set out in the paragraph headed "Business of the Group"). For the six months ended 30 June 2018, among all business segments of the Group, the Organic Silicone Business is the most prominent segment which had the largest increase in revenue (i.e. approximately 57.86%) as compared to the same period in 2017.

The net profit of Dongyue Organosilicone increased significantly from approximately RMB44.0 million in 2016 to approximately RMB285.3 million in 2017, showing an increase of over 5 times.

As at 30 June 2018, according to the DO's PRC GAAP Accounts, the net asset value of Dongyue Organosilicone amounted to approximately RMB1,607.3 million.

Background to and reasons for the Proposed Spin-off

Background to the Proposed Spin-off

The Group is principally engaged in six business segments. As set out in the paragraph headed "Business of Dongyue Organosilicone" of this letter above, the Group's Organic Silicone Business is operated principally by Dongyue Organosilicone and has been an important revenue driver of the Group which contributed approximately 23.95% and 24.18% of the total revenue of the Group for the year ended 31 December 2017 and the six months ended 30 June 2018 respectively.

As mentioned in the "Letter from the Board", organic silicone is widely applied in military, aviation, automotive, electronic, construction and other industries as a key ingredient in industrial processes, mainly in the form of sealants, additives, chemical stabilizers and lubricants. Products from Dongyue Organosilicone mainly include dimethylcyclosiloxane ("DMC", a kind of upstream organic silicone intermediate which is used as raw materials for the production of silicone rubber and silicone resins), silicone rubber, and other by-products such as gaseous silica and silicone oils. Dongyue Organosilicone produces silicone monomers into silicone intermediates (mainly DMC). A portion of the silicone intermediates is for sale and the remaining portion is used to produce other silicone rubber products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are informed by the management of the Company that the products of the Remaining Group will principally consist of:

- Fluoropolymers: widely used as coating material, lining for wire insulation layers, thin-walled tubes, heat shrinkable tubes, pumps, valves and pipes, and for use in the fields of aerospace, automotive, machine and petro-chemical industries;
- Refrigerants: widely used as refrigerant in household appliances and air conditioners of automobile, blowing agent, aerosol, cleaning agent, temperature-control medium and intermediate of aviation propellant;
- Dichloromethane, PVC and liquid alkali: main products of this segment are (i) methane chloride, which is mainly used to produce antibiotics and serve as a foaming mode of polyurethane, and used as raw materials for production in the refrigerants and organic silicone segments; (ii) liquid alkali, which is used as a basic chemical product for the production of methane chloride and used in the textile, power and materials industries; and (iii) PVC, which is mainly used in the construction industry to replace traditional building materials;
- By-products including ammonium bifluoride, hydrofluoric acid and bromine: (i) ammonium bifluoride is mainly used as glass etchants, disinfectants, anti-corrosive agents, metal beryllium solvents, surface treatment agents for silicone steel plate and in the production of ceramic and magnesium alloy; (ii) hydrofluoric acid is mainly used for the production of refrigerants, fluoride and fluorosilicate; and (iii) bromine is generally applied for the production of medicine, pesticide and veterinary drugs and can also be used for producing flame retardants and fire extinguishing agent; and
- Property development: currently there are four residential projects located in 1) Huantai County, Zibo City, Shandong Province, 2) Zhangdian District, Zibo City, Shandong Province, 3) Licheng City, Shandong Province, and 4) Zhangjiajie City, Hunan Province, in the PRC.

We understand that the management of the Company considers that the products of the Remaining Group and their respective applications are of natures which are different from that of the Organic Silicone Business. As such, the Directors are of the view that the Proposed Spin-off will result in a delineation of the Group's Organic Silicone Business and the Group's Retained Businesses and promote an alignment with an appropriate investor base for each of them.

Reasons for and benefits of the Proposed Spin-off

As set out in the "Letter from the Board", the Company considers that:

- (i) the Proposed Spin-off will enhance the liquidity and value of the shares of Dongyue Organosilicone and thereby allow the Company and its Shareholders an opportunity to realise the fair value of their investment in the business of Dongyue Organosilicone;
- (ii) the proceeds from the Proposed Spin-off will support and accelerate the future development of the business of Dongyue Organosilicone and allow it to expand the scale of its business;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the Proposed Spin-off will enable Dongyue Organosilicone to obtain a separate listing status and an independent fund-raising platform, allowing Dongyue Organosilicone to gain direct access to the capital markets for equity and/or debt financing without reliance on the Company, which will accelerate its expansion and improve its operating and financial performance, in turn providing better reward to the shareholders of both Dongyue Organosilicone and the Company;
- (iv) the Proposed Spin-off will increase the operational and financial transparency and improve the corporate governance results of Dongyue Organosilicone and provide investors, financial institutions and rating agencies with greater clarity on its businesses and financial status, and such improvement will help build investors' confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of Dongyue Organosilicone;
- (v) the Proposed Spin-off will enable Dongyue Organosilicone to enhance its corporate profile, thereby increasing its ability to attract strategic investors for investment in and forming strategic partnerships directly with Dongyue Organosilicone;
- (vi) the Proposed Spin-off will clearly delineate the businesses and products of Dongyue Organosilicone and the Remaining Group, allowing separate platforms for Dongyue Organosilicone and the Remaining Group to develop their own business strategies and growth paths; and
- (vii) as Dongyue Organosilicone will continue to be a subsidiary of the Company and the operating results of Dongyue Organosilicone will continue to be consolidated into the financial statements of the Company upon completion of the Proposed Spin-off, the Company will continue to enjoy the benefits arising from the future business development and growth of Dongyue Organosilicone.

Having considered the reasons for and benefits of the Proposed Spin-off mentioned above, in particular (i) the proceeds raised from the Proposed Spin-off will support further development of the business of Dongyue Organosilicone in view of the intended use of proceeds (as discussed below); (ii) Dongyue Organosilicone will continue to be consolidated into the financial statements of the Company upon completion of the Proposed Spin-off and the Company will continue to enjoy the benefits arising from the future business development and growth of Dongyue Organosilicone; and (iii) the Proposed Spin-off allows Dongyue Organosilicone to gain direct access to the capital markets without reliance on the Company, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Principal structure of the Proposed Spin-off

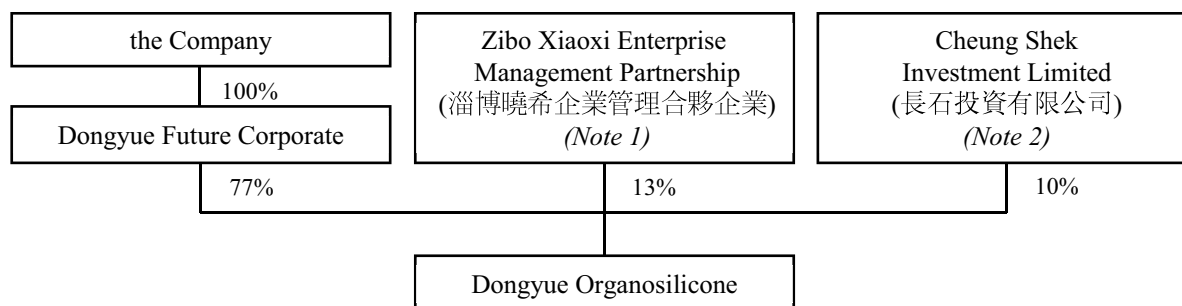
Subject to approvals by the Shareholders and the relevant PRC regulators, the Company proposes that Dongyue Organosilicone will issue new A shares on the ChiNext of the Shenzhen Stock Exchange by way of initial public offering to the public in the PRC, or other methods as may be approved by the CSRC. As set out in the section headed "The Proposed Spin-off" in the "Letter from the Board", it is proposed that Dongyue Organosilicone will issue not more than 300,000,000 new A shares (the "**Offer Shares**"),

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

representing 25% of the total number of issued shares of Dongyue Organosilicone as enlarged by the Proposed Spin-off, such that Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company upon completion of the Proposed Spin-off. The actual number of Offer Shares to be issued by Dongyue Organosilicone will be subject to the market conditions and the relevant rules and regulations of the CSRC as may be amended from time to time.

As set out in the section headed “The Proposed Spin-off” in the “Letter from the Board”, as at the Latest Practicable Date, Dongyue Organosilicone had 900,000,000 shares in issue, and the Company ultimately controlled 77% equity interest in Dongyue Organosilicone. It is expected that immediately upon completion of the Proposed Spin-off, the Company will ultimately control not less than approximately 57.75% equity interest in Dongyue Organosilicone, and therefore Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company.

We consider that such dilution, albeit not immaterial, is acceptable to the Shareholders taking into consideration the benefits which may be derived from the Proposed Spin-off and the possible effects on the Group as discussed in the section headed “Reasons for and benefits of the Proposed Spin-off” of this letter. Set out below is an illustrative corporate structure of Dongyue Organosilicone as at the Latest Practicable Date:

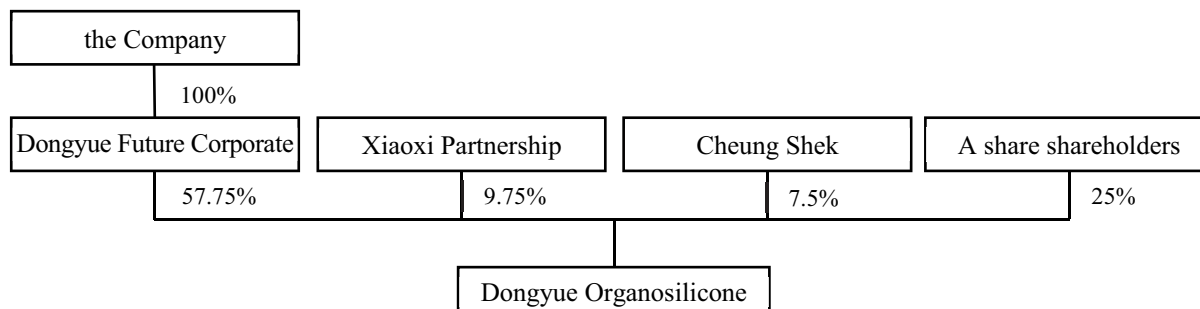


Notes:

1. Zibo Xiaoxi Enterprise Management Partnership (淄博曉希企業管理合夥企業) (“**Xiaoxi Partnership**”) is a PRC limited partnership owned by certain senior management and employees of the Group. In particular, as at the Latest Practicable Date, (i) an aggregate of approximately 42.48% interest was owned by Mr. Zhang Jianhong and Mr. Zhang Zhefeng (both executive Directors); (ii) an aggregate of approximately 41.75% interest was owned by certain directors of the Company’s subsidiaries (apart from Mr. Zhang Jianhong and Mr. Zhang Zhefeng); and (iii) the remaining interest was owned by certain senior management and employees of the Group who are not connected persons of the Company under the Listing Rules.
2. As at the Latest Practicable Date, Cheung Shek Investment Limited (長石投資有限公司) (“**Cheung Shek**”) was held by Mr. Fu Kwan (an executive Director) as to 53.35%; Mr. Zhang Jian (an executive Director) as to 3.33%; and independent third parties as to 43.32%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is an illustrative corporate structure of Dongyue Organosilicone immediately upon completion of the Proposed Spin-off (assuming that the Offer Shares to be issued will represent 25% of the enlarged share capital of Dongyue Organosilicone):



Conditions of the Proposed Spin-off

As set out in the section headed “Conditions of the Proposed Spin-off” in the “Letter from the Board”, the Proposed Spin-off will be conditional upon, among other things, (i) approval by the Shareholders in relation to the Proposed Spin-off at the EGM; (ii) approval by the CSRC and the Shenzhen Stock Exchange in relation to the Proposed Spin-off; and (iii) any other PRC regulatory approvals for the listing of and permission to deal in the Offer Shares to be issued by Dongyue Organosilicone.

Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange, and therefore may or may not proceed. Accordingly, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

Other commitment

As mentioned in the “Letter from the Board”, in respect of the listing of Dongyue Organosilicone’s shares on the ChiNext of the Shenzhen Stock Exchange, certain entities/individuals including, among others, Dongyue Future Corporate (a wholly-owned subsidiary of the Company), are required to provide certain undertakings (e.g. lock-up undertaking and non-competition undertaking) in accordance with the Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange. We have discussed with the management of the Company, considering that the undertakings aforementioned do not involve the Remaining Group’s operations and business, the Company does not expect to have material adverse impact on the operations and business of the Remaining Group by complying with the requirements under the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange.

Offer Price

The offer price per Offer Share (the “Offer Price”) is subject to market conditions closer to the launch of the proposed A share issuance and determined by a book-building process organized by the lead underwriter of the Proposed Spin-off and to be agreed by Dongyue Organosilicone.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the section headed “The Proposed Spin-off” in the “Letter from the Board”, in determination of the Offer Price, Dongyue Organosilicone shall take into account (i) the operating results and performance of Dongyue Organosilicone, including the net profit of Dongyue Organosilicone in the financial year preceding the launch of the A share issuance; (ii) the net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance; (iii) the expansion plan and the capital need of Dongyue Organosilicone; (iv) the then responses to price consultation to the A share issuance in the book-building process; and (v) an appropriate price to earnings ratio (“**PER**”) to be determined by Dongyue Organosilicone and the lead underwriter considering the CSRC guidelines governing A share issuance in the PRC, as well as other comparable companies listed in the PRC in the same industry as Dongyue Organosilicone. Notwithstanding the above, the Directors consider that it is appropriate and is in the best interests of the Company and its Shareholders as a whole that the Offer Price shall be not less than the lower of the unaudited net asset value per share of Dongyue Organosilicone as at 31 August 2018 (i.e. approximately RMB1.98 per share), or the unaudited net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance, which represents the minimum value per share of Dongyue Organosilicone with reference to its assets and liabilities.

On the basis set out above, the Company estimates that the gross proceeds from the Proposed Spin-off will be not more than RMB4.5 billion. According to the “Letter from the Board”, such estimated amount of gross proceeds is arrived at based on the expected financial performance of Dongyue Organosilicone for the year ending 31 December 2018 and the adoption of a PER as determined by the Company and with reference to the PERs of comparable companies listed in the PRC in the same industry as Dongyue Organosilicone at the time of the launch of the A share issuance. However, investors should be aware that the expected offering size, the indicative PER and the estimated gross proceeds referred to above is for illustration purposes only and the actual amount raised, if the Proposed Spin-off is completed, will depend on the PRC domestic market conditions at the time of the launch of the A share offering and may vary substantially from the amount estimated above. In the event that within a period of 12 months from the date of CSRC’s approval of the Proposed Spin-off, (i) the indicative Offer Price is less than the unaudited net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance; and (ii) the indicative PER in respect of the proposed Offer Price is lower than all prevailing PERs of comparable companies listed in the PRC in the same industry as Dongyue Organosilicone at the time of the launch of the A share issuance, the Board shall reconsider whether it is appropriate to proceed with the Proposed Spin-off with the indicative Offer Price and review the appropriate timing and offering size of the A share issuance taking into consideration of the then prevailing market conditions and the terms of the A share issuance. Should the Board consider it in the interests of the Company and its Shareholders to proceed with the Proposed Spin-off notwithstanding the indicative Offer Price falling below the above two thresholds in view of the strategies and capital need of Dongyue Organosilicone and the prevailing marketing conditions, the Company shall notify the Shareholders by way of announcement(s) setting out the reasons for its decision and basis of the A share issuance as and when appropriate.

Overview of the Organic Silicone Business

Organic silicone, also known as polysiloxane, is the principal chemical used in producing silicone rubber, silicone resins and silicone oil for a wide scope of applications, including infrastructure, industrial, medical and automobile etc.

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According to “Annual Report of China Polysiloxane Market” (the “**Report**”) published by Strategic Alliance of Green Silicon Industry Development Nationwide in May 2018 (Note), the organic silicone industry worldwide and in the PRC shows an expanding trend. Global production of organic silicone reached almost 2 million tons in 2017, with most of it coming from the PRC. It is expected that till 2022, global production of organic silicone will increase to 2.5 million tons. Global consumption of organic silicone in 2017 was recorded at 2 million tons, which showed an increase of 7.9% as compared with 2016. In the PRC, it is expected that the consumption of organic silicone will grow at an annual rate of 8.1% from 2017 to 2022. The demand for organic silicone in 2017 was mainly driven by the construction, electronics/home appliances, power/new energy, medical/personal care, textile and industrial additives sectors. Production of organic silicone rose from 0.3 million tons in 2010 to over 1 million tons in 2017, representing an increase of 233.3%. The Report also estimated that this increasing trend will continue till 2022.

In view of the information mentioned in the Report, we concur that the Directors have reasonable basis to consider that there are potential market opportunities in the organic silicone sector in the coming few years.

Note: According to the website of Strategic Alliance of Green Silicon Industry Development Nationwide (“**SAGSI**”) (全國硅產業綠色發展戰略聯盟) (www.chinasilicon.com), SAGSI was established in 2008 and changed to a national industry organization under the custody of China Petroleum and Chemical Industry Federation (SME) (中國石油和化學工業聯合會(中小委)) in 2010. Principal activities of SAGSI include, among others, undertaking of consulting, planning, evaluation and research services covering industries in relation to, among others, organic silicone, polycrystalline silicone and metallic silicone.

Intended use of proceeds

As set out in the section headed “The Proposed Spin-off” in the “Letter from the Board”, Dongyue Organosilicone intends to use the proceeds to be raised from the Proposed Spin-off (as may be reduced by the expenses in respect of the Proposed Spin-off) for investment in the following purposes based on their importance and urgency in the following manner:

Project	Description of the project	Current status of the project	Expected time of completion	Amount of proceeds to be invested in the project (RMB)	Percentage of proceeds
1.	Organic silicone monomer and organic silicone downstream products deep processing project	A new production base of approximately 283,000 square meters which consists of production facilities, warehouses and engineering facilities for the production and deep processing of silicone monomer and silicone downstream products, including silica, silicone glue, silicone oil, liquid glue, rubber compound and silicone resin	<ul style="list-style-type: none"> - In the process of obtaining all necessary licenses and permits - construction not yet commenced 	By 2020 2,980,740,200 according to the following breakdown: <ul style="list-style-type: none"> - 47% for purchase of equipment and device; - 20% for construction cost; - 15% for other costs and expenses of the construction; - 14% for initial working capital for start-up of production; and - 4% for installation fee. 	66.24%

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Project	Description of the project	Current status of the project	Expected time of completion	Amount of proceeds to be invested in the project (RMB)	Percentage of proceeds
2.	Organic silicone monomer production device energy saving and environmental protection technology reform project	Modification, upgrading, improvement and replacement of existing equipment, including production devices and environmental protection equipment, for the production of organic silicone monomer	- In the process of obtaining all necessary licenses and permits - construction not yet commenced	By 2020 498,000,000 according to the following breakdown: - 64% for upgrading and modification of existing equipment and device; - 24% for automation upgrade; - 10% for modification of waste incineration system; and - 2% for modification of water processing system.	11.07%
3.	Research and development centre project	A new five-floor building of approximately 11,000 square meters consisting of laboratories, analysis rooms, emergency operations centre and information control centre, exhibition hall and conference rooms	- In the process of obtaining all necessary licenses and permits - construction not yet commenced	By 2019 200,000,000 according to the following breakdown: - 50% for the laboratories and analysis rooms; - 20% for the information control centre; - 10% for the main building; - 10% for the emergency operations centre; - 5% for the exhibition hall; - 2.5% for the conference rooms; and - 2.5% for miscellaneous expenses.	4.44%
4.	General working capital	Approximately 85% for the purchase of raw materials and increased labor costs after the expansion of production scale and approximately 15% as back-up capital		821,259,800	18.25%
Total				4,500,000,000	100.00%

The Company has informed us that a major reason for the Proposed Spin-off is to raise fund for the expansion of its existing Organic Silicone Business. The Company believes that the proceeds to be raised from the Proposed Spin-off will give Dongyue Organosilicone a financial support to enhance its production and research capacity, expedite the growth of its Organic Silicone Business, and increase its competitiveness in the market.

As set out in the section headed “The Proposed Spin-off” in the “Letter from the Board”, the respective expected investment amounts for the first, second and third projects referred to above were determined by the Company’s internal budgeting based on the estimated costs and expenses on construction

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of buildings, purchase and installation of equipment, upgrading of systems and facilities and other related expenditure. The three projects in aggregate will require 81.75% of the estimated gross proceeds of RMB4.5 billion to be raised from the Proposed Spin-off. We note that the Company has received quotations and calculated the estimated funding for these three production and facilities improvement projects after taking into account a line-by-line sum of a number of expenditures including construction, purchase of equipment, installation contractor fees, technology and equipment upgrading, environmental protection control enhancement, production automation enhancement, building and various related expenditures. The remaining 18.25% of the gross proceeds to be raised will be allocated to supplement working capital, which includes raw materials cost and labor cost, and funds for enhancing processes and technology, as well as potential strategic investments.

We understand from the management of the Company that in order to seize the market opportunities and facilitate completion of the above projects as soon as possible, Dongyue Organosilicone will invest in some of the projects through its internally generated funds and/or bank financings, and then use the proceeds from the Proposed Spin-off to replenish such funds which have been applied by Dongyue Organosilicone for those projects. The completion of the above projects is not dependent on the Proposed Spin-off. If the actual amount of the proceeds from the Proposed Spin-off is less than the total investment amount for these projects, priority will be given to the first project and Dongyue Organosilicone will use other available sources, including internally generated funds and third party financings, to make up the shortfall for the second and the third projects.

An Overview of the Illustrative Valuation of Dongyue Organosilicone

We present here, for illustrative purpose, the PER of Dongyue Organosilicone offered i) when the amount of gross proceeds to be raised reaches its maximum level (i.e. RMB4.5 billion), and ii) when the Offer Price is at the unaudited net asset value per share of Dongyue Organosilicone as at 31 August 2018 (i.e. approximately RMB1.98 per share).

i) When the gross proceeds amounts to RMB4.5 billion

Derived from the illustrative maximum proceeds of RMB4.5 billion times 4 (RMB4.5 billion to be raised from the maximum number of 300,000,000 Offer Shares, representing approximately 25% of the issued share capital of Dongyue Organosilicone to be enlarged by the Proposed Spin-off), the illustrative market capitalization of Dongyue Organosilicone is RMB18 billion. Based on (i) the illustrative market capitalization of RMB18 billion and (ii) the net profit of Dongyue Organosilicone for the year ended 31 December 2017 of approximately RMB285.3 million, the illustrative implied historical PER of Dongyue Organosilicone is deduced to be approximately 63.1 times.

ii) When the offer price is set at RMB1.98 per share of Dongyue Organosilicone

Derived from the illustrative proceeds of RMB594 million (RMB1.98 per share times the maximum number of 300,000,000 Offer Shares, representing approximately 25% of the issued share capital of Dongyue Organosilicone to be enlarged by the Proposed Spin-off) times 4, the illustrative market capitalization of Dongyue Organosilicone is RMB2.376 billion. Based on (i) the illustrative market

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capitalization of RMB2.376 billion and (ii) the net profit of Dongyue Organosilicone for the year ended 31 December 2017 of approximately RMB285.3 million, the illustrative implied historical PER of Dongyue Organosilicone is deduced to be approximately 8.3 times.

To illustrate the valuation of companies listed in the PRC which are principally engaged in the Organic Silicone Business, we have conducted a search on Bloomberg on a best effort basis for companies (the “**Comparable Companies**”) primarily listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange with more than 50% of revenue generated from the Organic Silicone Business for the latest financial year based on information as set out in their latest published annual reports available as at the date immediately prior to the Latest Practicable Date. The following table sets out the historical PER of the Comparable Companies for reference purpose:

Comparable Companies	Closing share price as at the Latest Practicable Date	Basic earnings per share	Historical PER
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(Approximately times)</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>
Hubei Huitian New Materials Co., Ltd. (stock code: 300041.SZ)	9.26	0.2671	34.67
Guangzhou Jointas Chemical Joint Stock Co., Ltd. (stock code: 002909.SZ)	13.17	0.48	27.44
Ningbo Runhe High-Tech Materials Co., Ltd. (stock code: 300727.SZ)	19.87	0.64	31.05
Jiangsu Hongda New Material Co., Ltd. (stock code: 002211.SZ)	4.31	0.05	86.20
Chengdu Guibao Science & Technology Co., Ltd. (stock code: 300019.SZ)	5.63	0.1572	35.81
		High	35.81
		Low	27.44
		Average	
		<i>(Note 4)</i>	32.24

Notes:

1. The closing share prices of the Comparable Companies are sourced from Bloomberg.
2. The figures are extracted from the latest published annual report of the Comparable Companies available as at the date immediately prior to the Latest Practicable Date.
3. The historical PER of the Comparable Companies are calculated based on their respective basic earnings per share set out in note 2 above and their respective closing price as at the Latest Practicable Date set out in note 1 above.

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4. The average of historical PERs is calculated without considering an outlier of Jiangsu Hongda New Material Co., Ltd which has a historical PER of approximately 86.20 times.

Shareholders should note that the actual amount of gross proceeds to be raised and the actual PER of Dongyue Organosilicone in respect of the Proposed Spin-off will be subject to the prevailing capital market conditions in the PRC at the time closer to the launch of the proposed A share issuance, the regulatory guidance in respect of A share offerings that may be issued from time to time and the financial performance of Dongyue Organosilicone before its listing. Shareholders should note that the illustration above does not represent the actual range of valuation and PER of Dongyue Organosilicone at the time of the A share issuance. The illustration is not intended to support or substantiate the final valuation of Dongyue Organosilicone at the time of the A share issuance.

As we set out above, the illustrative PER of Dongyue Organosilicone of approximately 63.1 times is derived based on the maximum possible gross proceeds of RMB4.5 billion and its net profits for the year ended 31 December 2017 of approximately RMB285.3 million. The illustrative PER of Dongyue Organosilicone of approximately 8.3 times is derived based on its unaudited net asset value per share as at 31 August 2018 of RMB1.98 and its net profits for the year ended 31 December 2017 of approximately RMB285.3 million. The average of the Comparable Companies' PERs of 32.24 times represents the average of the actual PERs we have identified based on our market research which is within the range of the illustrative PERs of Dongyue Organosilicone (i.e. from 8.3 times to 63.1 times). We emphasize that the illustration above does not represent the actual range of PER of Dongyue Organosilicone at the time of the A share issuance and we do not form any view on whether the illustrative PERs of Dongyue Organosilicone mentioned above are reasonable or not.

Assured entitlement

Pursuant to paragraph 3(f) of PN15 of the Listing Rules, the Company is required to have due regard to the interests of its existing Shareholders by providing them with an assured entitlement to shares in Dongyue Organosilicone, either by way of a distribution in specie of existing shares in Dongyue Organosilicone or by way of preferred application in any offering of existing or new shares in Dongyue Organosilicone.

As stated in the section headed "Waiver from strict compliance with paragraph 3(f) of PN15" in the "Letter from the Board", the PRC counsel of Dongyue Organosilicone advised that shares publicly offered and listed on the Shenzhen Stock Exchange may only be offered to domestic investors in the PRC and certain foreign investors qualified under the relevant PRC laws and regulations. As such, the Company would not be allowed to provide its existing Shareholders with an assured entitlement to the Offer Shares unless the Company is satisfied that they are PRC investors or foreign investors qualified under the relevant PRC laws and regulations. The Board considers that it would be unduly burdensome and practically impossible for the Company to obtain and verify the background information of all Shareholders for the purpose of ascertaining whether they are so qualified. Furthermore, based on the information available from the Company's branch share registrar in Hong Kong, many existing Shareholders are not reasonably considered as qualified foreign investors.

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In addition, as advised by Dongyue Organosilicone's PRC counsel, according to the relevant PRC laws, during the issuance of shares by a joint stock company, each share of the same class shall rank pari passu and the issuance price and conditions for each share of the same class issued at the same time shall be the same. Therefore, the issuance conditions for the Offer Shares shall be the same for all investors, and it is impossible for Dongyue Organosilicone to make preferential allocations of the Offer Shares to the Company's existing Shareholders in Hong Kong under the relevant PRC laws and regulations.

Given the above PRC legal impediments, it is not feasible for the Company to comply with paragraph 3(f) of PN15 in connection with the Proposed Spin-off. Accordingly, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

Possible effects of the Proposed Spin-off on the Group

It is expected that immediately after completion of the Proposed Spin-off, the Company will have no less than approximately 57.75% equity interest in Dongyue Organosilicone. As set out in the section headed "Financial effects of the Proposed Spin-off on the Group" in the "Letter from the Board", the Directors are of the view that the Company will be able to continue to account for Dongyue Organosilicone as its subsidiary. Therefore, the financials of Dongyue Organosilicone will continue to be consolidated into the Group's financial statements following completion of the Proposed Spin-Off.

Effect on assets and liabilities

The proceeds from the Proposed Spin-off will increase the cash held in the consolidated balance sheet of the Group and total assets will increase. The Proposed Spin-off will not affect the liabilities of the Group, unless any of the proceeds are used to pay off loans, which is not presently intended. The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in Dongyue Organosilicone. Although it is expected that there would be no expected gain or loss on the deemed disposal credited to the Company's consolidated income statement as gain or loss upon completion of the Proposed Spin-off in accordance with the relevant accounting policies, the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration received will be recorded in equity attributed to the Shareholders.

Effect on earnings

As the proportion of the Company's equity interest in Dongyue Organosilicone will be diluted to a maximum extent to approximately 57.75% immediately after completion of the Proposed Spin-off, it is expected that the earnings attributable to owners of the Company contributed by Dongyue Organosilicone will decrease while the earnings attributable to non-controlling interests of the Company will increase.

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Remaining business of the Group

For the year ended 31 December 2017, in accordance to IFRS, the Group recorded a revenue of approximately RMB10,137.1 million of which approximately RMB2,428.3 million was generated from its Organic Silicone Business. On this basis, the revenue of the Remaining Group (excluding the Organic Silicone Business) for the year ended 31 December 2017 represented approximately 76% of the total revenue of the Group.

The Group and Dongyue Organosilicone had net asset attributable to owners of the company of approximately RMB7,461.5 million and approximately RMB1,579.4 million as at 30 June 2018 respectively (in accordance with IFRS). On this basis, the Remaining Group's net assets attributable to owners of the company as at 30 June 2018 represented approximately 78.8% of that of the Group.

On the basis set out above, we consider that the Remaining Group will continue to have a substantial business and assets after completion of the Proposed Spin-off.

Taking into account that (i) the valuation of the Proposed Spin-off will be determined with reference to (a) the financial performance of listing applicant and other listed comparable companies at the time of public offering and (b) the market response to price consultation in the book-building process, which are parameters commonly applicable to determine the offer price in respect of spin-off transactions; (ii) the reasons for and benefits of the Proposed Spin-off; (iii) the principal structure of the Proposed Spin-off; (iv) the possible operational and financial impact on the Remaining Group; and (v) the Board would reconsider whether to proceed with the Proposed Spin-off or consider and determine the appropriate timing and the offering size of the A share issuance in the event that the Board considers that the indicative Offer Price or the indicative PER does not justify it, we consider that the Proposed Spin-off, including its terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we consider that the Proposed Spin-off, including its terms, is fair and reasonable so far as the Company and the Shareholders are concerned, and that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. We advise the Independent Board Committee to recommend the Shareholders, as well as the Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
For and on behalf of
Yunfeng Financial Markets Limited
Charlotte Yen
Managing Director

Ms. Charlotte Yen is a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and has over 15 years of experience in the corporate finance industry.

1. INDEBTEDNESS STATEMENT

At the close of business on 31 August 2018, being latest practicable date prior to this circular for ascertaining certain information relating to the indebtedness statement, the indebtedness of the Group was as follows:

Bank and other borrowings

The Group had an outstanding unsecured bank borrowings of approximately RMB2,082,800,000 and secured bank borrowings of approximately RMB63,000,000 of which RMB40,000,000 was secured by the Group's buildings with the aggregate carrying amount of RMB26,513,000, prepaid land lease payment with the aggregate carrying amount of RMB3,340,000 and RMB23,000,000 was secured by the Group's property for sale of approximately RMB285,551,000. The bank borrowings of approximately RMB551,000,000 and RMB1,531,800,000 is repayable within one year and within two to five years respectively. The bank borrowings carry interest at 4.35% to 6.37% per annum.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of the borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at 31 August 2018.

Save as aforementioned in this indebtedness statement, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 August 2018, up to and including the Latest Practicable Date.

2. STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinions that, having regard to the financial resources available to the Group, including internally generated funds, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is primarily engaged in the six 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 (through Dongyue Organosilicone); (iv) manufacturing and sale of dichloromethane, polyvinyl chloride (PVC) and liquid alkali; (v) others, mainly comprising by-products from the above operating segments such as ammonium bifluoride, hydrofluoric acid and bromine; and (vi) property development.

In the first half of 2018, by capitalizing on the advantages of the Group's presence across the whole industry chain, scientific and technological innovation capability, abundant market experience and excellent production and operation management level and after overcoming the stress caused by various aspects of the domestic and international markets, the Group made great efforts on safety and environment protection, scientific and technological innovation and improvement in management level in line with policies on deleveraging, supply-side reform and environment protection, and realized tremendous increases in various operating indicators. In the first half of 2018, against the present domestic economic condition and the industry landscape, the Group still managed to record increases in its income, profit and gross profit margin to different extents, mainly thanks to its advantage in the industry chain, excellent production and operation management as well as its over-thirty-year experience in the sector. Despite the situation remaining grim for the domestic fluorosilicone industry, the Company continued to manage to fully achieve both production and sales targets because of the above-mentioned advantages, thereby lifting its income and profit given the increase in industry price. In the first half of 2018, the most important segments of the Group, including the fluoropolymer segment, the refrigerants segment and the organic silicone segment, recorded varying degrees of increases.

In the first half of 2018, the organic silicone segment maintained its strong upward market trend of last year. The Group has continued to improve its technical expertise, stabilise its production utilisation rate and thereby increase its productivity. Meanwhile, the proportion of sale of deep processed products has increased as the Group continued to develop new products by enhancing the production expertise. In addition, the market was in short supply and the gap between supply and demand was further widened, enabling product prices to increase substantially. This segment was the most prominent segment of the Group in terms of results growth in the past two years. It took merely two years for this segment to transform itself from the long-lasting slack segment into the second profitable segment and become one of the most important drivers for the substantial improvement in the Group's results in the past two years. The Proposed Spin-off will enable the market to better appraise and assess the value of the Group and Dongyue Organosilicone more effectively, and provide a separate fund raising platform for Dongyue Organosilicone, which will facilitate the development of the Group as well as Dongyue Organosilicone in the long run.

The Company will continue to strive for business growth and seize opportunities for enhancing the returns to the Shareholders.

4. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that there was no material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Group have been made up, and up to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules 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, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors

(a) *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 <i>(Note 1)</i>	% of issued share capital
Zhang Jianhong	Corporate interest <i>(Note 2)</i>	178,277,273 (L)	8.44
	Beneficial interest	7,147,636 (L)	0.34
Fu Kwan	Corporate interest <i>(Note 3)</i>	616,646,818 (L)	29.20
Liu Chuanqi	Corporate interest <i>(Note 4)</i>	75,634,000 (L)	3.58
	Beneficial interest	6,353,454 (L)	0.30
Zhang Jian	Beneficial interest	397,091 (L)	0.02
Zhang Zhefeng	Beneficial interest	650,000 (L)	0.03

Notes:

- The letter "L" denotes a long position in such securities.

2. Pursuant to the SFO, as Zhang Jianhong holds 100% interest in Dongyue Team Limited, Zhang Jianhong is deemed to be interested in the 178,277,273 Shares (L) held by Dongyue Team Limited.
3. These Shares are directly held by Macro-Link International Investment Co. Ltd. (“**Macro-Link International**”) which in turn is wholly owned by Macro-Link Industrial Investment Limited (“**Macro-Link Industrial**”). Macro-Link Holding Limited (“**Macro-Link Holding**”), a company owned by Cheung Shek as to 90% and by Fu Kwan as to 4.25%, respectively, wholly owns Macro-Link Industrial. In addition, Fu Kwan and Xiao Wenhui directly own Cheung Shek as to 53.35% and 33.33%, respectively.
4. Pursuant to the SFO, as Liu Chuanqi holds 100% interest in Dongyue Wealth Limited, Liu Chuanqi is deemed to be interested in the 75,634,000 Shares (L) held by Dongyue Wealth Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the 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 entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

(b) Directors’ interests in assets and contracts of the Company

As at the Latest Practicable Date, save as disclosed in the Company’s announcements dated 1 January 2018 and 18 May 2018, (i) none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up; and (ii) none of the Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

(c) Directors’ service contracts

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

(d) 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.

(ii) **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 executives of the Company, the following persons (not being a Director or chief executive of the Company) has an interest or 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 and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares (Note 1)	% of issued share capital
Macro-Link International	Beneficial interest (Note 2)	616,646,818 (L)	29.20
Macro-Link Industrial	Corporate interest (Note 2)	616,646,818 (L)	29.20
Macro-Link Holding	Corporate interest (Note 2)	616,646,818 (L)	29.20
Cheung Shek	Corporate interest (Note 2)	616,646,818 (L)	29.20
Xiao Wenhui	Corporate interest (Note 2)	616,646,818 (L)	29.20
Dongyue Team Limited	Beneficial interest (Note 3)	178,277,273 (L)	8.44
Cui Tongzheng	Corporate interest (Note 4)	156,852,363 (L)	7.43
	Beneficial interest	5,162,180 (L)	0.24
Dongyue Initiator Limited	Beneficial interest (Note 4)	156,852,363 (L)	7.43

Notes:

- The letter "L" denotes a long position in such securities.
- These Shares are directly held by Macro-Link International which in turn is wholly owned by Macro-Link Industrial. Macro-Link Holding, a company owned by Cheung Shek as to 90% and by Fu Kwan as to 4.25%, respectively, wholly owns Macro-Link Industrial. In addition, Fu Kwan and Xiao Wenhui directly own Cheung Shek as to 53.35% and 33.33%, respectively.
- Pursuant to the SFO, as Zhang Jianhong holds 100% interest in Dongyue Team Limited, Zhang Jianhong is deemed to be interested in the 178,277,273 Shares (L) held by Dongyue Team Limited.
- Pursuant to the SFO, as Cui Tongzheng holds 100% interest in Dongyue Initiator Limited, Cui Tongzheng is deemed to be interested in the 156,852,363 Shares (L) held by Dongyue Initiator Limited.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

3. LITIGATION

Save as disclosed in the Company's announcements dated 25 January 2017, 4 December 2017, 27 June 2018 and 13 July 2018, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

4. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular:

- (i) articles and association entered into among Shandong Dongyue Polymers Co., Ltd. (a subsidiary of the Company) ("**Dongyue Polymers**"), China Minsheng Investment Corp., Ltd., Shandong State-owned Assets Investment Holding Co., Ltd., Shandong Development Investment Holding Group Co., Ltd., Wantong Haixin Holding Co., Ltd. and Beijing Xizhi Capital Management Co., Ltd. on 26 January 2017 in relation to the establishment of a limited liability company under the laws of the PRC, details of which are set out in the Company's announcement dated 26 January 2017;
- (ii) an investment agreement dated 28 June 2017 entered into among Shandong Dongyue Chemicals Co., Ltd. (a subsidiary of the Company) ("**Dongyue Chemicals**"), Shandong Dongyue Union Property Co., Ltd. (a subsidiary of the Company) ("**Union Property**") and Shandong Qianrun Construction Engineering Co., Ltd. ("**Qianrun Construction**") in relation to the subscription for 36% of the enlarged registered capital of Union Property by Qianrun Construction, details of which are set out in the Company's announcement dated 28 June 2017;
- (iii) a share transfer agreement dated 28 June 2017 entered into among Union Property, Hengli Holdings Group Co., Ltd., Ms. Xu Jian and Mr. Liu Fangshi in relation to the acquisition of 100% equity interest in Shandong Boda Real Estate Development Co., Ltd., details of which are set out in the Company's announcement dated 28 June 2017;
- (iv) articles and association entered into among Shandong Huaxia Shenzhou New Materials Co., Ltd. (a subsidiary of the Company), Huoer Guosi Xuri Equity Investment Partnership and Macro-Link Holdings on 18 December 2017 in relation to the establishment of Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd. ("**Dongyue Future Hydrogen**"), details of which are set out in the Company's announcement dated 18 December 2017;
- (v) an asset purchase agreement dated 28 December 2017 entered into between Dongyue Polymers and Dongyue Future Hydrogen in relation to the disposal of certain patents and their associated assets and liabilities in relation to the production of hydrogen materials, details of which are set out in the Company's announcement dated 28 December 2017;

- (vi) a capital injection agreement dated 18 January 2018 entered into among Cheung Shek, Dongyue Organosilicone, Dongyue Future Corporate and Dongyue Chemicals in relation to capital contribution by Cheung Shek to Dongyue Organosilicone, details of which are set out in the Company's announcement dated 18 January 2018;
- (vii) a capital injection agreement dated 18 January 2018 entered into among Xiaoxi Partnership, Dongyue Organosilicone, Dongyue Future Corporate and Dongyue Chemicals in relation to capital contribution by Xiaoxi Partnership to Dongyue Organosilicone, details of which are set out in the Company's announcement dated 18 January 2018; and
- (viii) an agreement dated 18 May 2018 entered into between Dongyue Chemicals and Macro-Link Asset Investment Co., Ltd. ("**Macro-Link Asset**") in relation to the acquisition by Dongyue Chemicals of 40% equity interest in Dongying Dongyue Salt Co., Ltd. from Macro-Link Asset, details of which are set out in the Company's announcement dated 18 May 2018.

5. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

Name	Qualification
Yunfeng Financial	A corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, being the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders on the Proposed Spin-off

As at the Latest Practicable Date, the expert named above does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2017 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The expert named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they are included.

6. MISCELLANEOUS

- (i) The company secretary of the Company is Mrs. Chung Tak Lai, a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

- (ii) 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.
- (iii) The principal place of business of the Company in Hong Kong is at Flat 02, 15th Floor, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong.
- (iv) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Flat 02, 15th Floor, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong during normal business hours from the date of this circular up to 14 days thereafter:

- (i) memorandum and articles of association of the Company;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 15 to 16 of this circular;
- (iii) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 33 of this circular;
- (iv) the written consent as referred to in the paragraph headed "Expert and Consent" in this appendix;
- (v) the material contracts as referred to in the paragraph headed "Material Contracts" in this appendix;
- (vi) the annual reports of the Company for the two years ended 31 December 2016 and 31 December 2017; and
- (vii) this circular.

NOTICE OF EGM



DONGYUE GROUP LIMITED

東岳集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 189)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of shareholders (the “EGM”) of Dongyue Group Limited (the “Company”) will be held at Meeting Room, Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 31 October 2018 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the proposed spin-off of Shandong Dongyue Organosilicone Materials Co., Ltd. (山東東岳有機硅材料股份有限公司) (“**Dongyue Organosilicone**”), a non-wholly-owned subsidiary of the Company, and a separate listing of the shares of Dongyue Organosilicone on ChiNext of the Shenzhen Stock Exchange by way of the issuance and offering of new shares of Dongyue Organosilicone (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) any one director of the Company be and is hereby authorized on behalf of the Company to do all such acts and sign all such documents and to enter into all such transactions and arrangements as may be necessary or expedient in order to ensure smooth implementation of and to give effect to the Proposed Spin-off.”

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 15 October 2018

NOTICE OF EGM

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 attorney or authority must be delivered to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM.
- (3) 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 30 October 2018.
- (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) As at the date of this notice, the executive directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Zhang Zhefeng, Mr. Zhang Bishu and Mr. Zhang Jian; and the independent non-executive directors of the Company are Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Yue Rundong.