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## OUR CORPORATE INVESTORS

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In connection with the enhancement of our overall competitiveness and Shareholders' value, on March 26, 2007, we entered into an agreement with Baring and IFC whereby they became our shareholders by way of the subscription of 50,000,000 Preferred Shares and 25,000,000 Preferred Shares in our Company, respectively. On July 31, 2007, all of these Preferred Shares were converted into ordinary shares of the Company on a one to one basis and all rights attached to the Preferred Shares lapsed upon such conversion. Baring and IFC had been in close contact with our Company prior to their investments in the Preferred Shares, and Baring had previously granted our Company term loan facilities prior to the subscription of the Preferred Shares. Both Baring and IFC are internationally well-established institutions engaged in private equity investments with substantial experience and knowledge in both corporate governance as well as expertise in financial and business decision making. In addition, the World Bank Group's environmental and social performance standards are internationally recognised standards adopted by many international companies as well as banks (through equator principles) and by adopting such standards the Company is improving the Group's environmental protection, social standards and safety practices to the benefit of all Shareholders in the long-run with the aim of maintaining a high standard of corporate governance and transparency of the Company to be a socially responsible corporate citizen. Our directors believe that input from Baring and IFC from their transactional experience in their other investments in China and similar ventures internationally would be invaluable to the Company and as such would improve the Company's intrinsic value as a whole and thus would enhance the Group's overall competitiveness and Shareholders' value.

IFC has also entered into a loan agreement in the principal amount of US\$50,000,000 with one of our subsidiaries on June 2, 2007.

Baring has also been maintaining close contact with us through its nominated director Mr. Shaw Sun Kan, Gordon, who has been participating in our board decisions since his appointment on April 4, 2007. Our directors believe that we could benefit from the experience, expertise and international standard of corporate governance that Baring and IFC could bring to us. Further details of our corporate investors are set out below.

### IFC

IFC, with 179 member countries and headquarters in Washington, D.C., is the private sector arm of the World Bank Group. IFC's stated aim is to promote open and competitive markets in developing countries. IFC also has as an objective to support sustainable private sector companies and other partners in generating productive jobs and delivering basic services to create opportunities for people in developing countries to reduce poverty and improve their standard of livings. It invests in for-profit ventures and charges market rates for products and services.

On June 2, 2007, Dongyue Organic Silicone entered into a loan agreement with IFC for a loan of up to US\$50,000,000 (the "IFC Loan") to finance the construction and commissioning of our designed 60,000 tons per annum green-field silicon monomer plant. This US\$50,000,000 term loan is divided into 2 tranches of US\$25,000,000 each. As one of the conditions of the IFC Loan, our Company had entered into an agreement with IFC whereby our Company guaranteed the punctual and complete repayment by Dongyue Organic Silicone pursuant to the above loan agreement, and if Dongyue Organic Silicone fails to repay under the IFC Loan, our Company will repay the IFC Loan upon demand. Other conditions for draw down included the entering into certain transaction documents ancillary to the IFC loan agreement (such as security documents, share retention agreement, and the

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delivery of legal opinions). The interest rate shall be 2.25% above LIBOR and this will be reduced to 2% above LIBOR after the Listing Date. The repayment schedule is in 14 semi-annual instalments on the interest payment dates from no earlier than the 33<sup>rd</sup> month after the first drawdown date. The Company pledged its entire shareholdings in Dongyue Chemicals, Donyue Polymers, Donyue Fluorine Silicone and Dongyue Organic Silicone to IFC to secure the loan but such security will be released as of the Listing Date. The relevant security documents provided that, amongst other things, for so long as the IFC loan is outstanding, the Company shall not deal with its equity interests in the above subsidiaries as well as the mortgaging of certain land use rights during this period of time. The IFC Loan was drawdown by the Group on September 18, 2007. As a condition to this drawdown, the Company and, amongst others, the Controlling Shareholders entered into a share retention agreement whereby Macrolink International, Macrolink and Macrolink Holdings shall, directly or indirectly, maintain at least an aggregate 45% interest in our Company so long as the IFC Loan is outstanding. Such covenant to maintain at least an aggregate 45% in our Company shall, subject to meeting the requirements of a Qualified IPO, lapse on the Listing Date. We are of the view that the Global Offering meets the criteria of a Qualified IPO. The Company shall continue to maintain a controlling stake in each of its PRC subsidiaries for as long as the IFC loan is outstanding. In respect of all the other parties to the share retention agreement, the share retention agreement shall lapse upon the Listing Date and each party's obligations thereunder shall be discharged. Further, during the same period and prior to the aforesaid Qualified IPO, the Controlling Shareholders shall not transfer their respective shareholding interests in our Company to entities which have been indicted or subject to civil penalties, or make any transfers without IFC's prior consent. According to the IFC Loan repayment schedule, the IFC Loan has a term of approximately ten years.

### **BARING**

Baring is an independent private equity firm specializing in growth capital financings and buyouts of mid-sized companies in Asia, principally in China, India and Japan. Baring distinguishes itself through a flexible, long-term partnership approach with management, supported by in-depth industry knowledge and extensive regional connections.

On December 19, 2006, we entered into a term loan facility agreement of US\$12,500,000 with Baring (the "Baring Loan") whereby Baring made available an interest-free term loan facility to us of US\$12,500,000 to be used to finance our purchase of 27.39% equity interest in our subsidiary, Dongyue Chemicals, from Zhejiang Jinggong Construction, which was completed on December 22, 2006 resulting in Dongyue Chemicals becoming our 78.61% subsidiary. Such term loan facility was subsequently capitalised for part of the 50,000,000 Preferred Shares subscribed by Baring.

On February 26, 2007, a supplemental term loan facility agreement was entered into between Baring and us, the material terms of which related to the provision by Baring to us for a further US\$5,000,000, interest free loan to us (the "Supplemental Baring Loan"). This Supplemental Baring Loan, together with the balance of the Baring Loan, was designated to purchase a 15.95% shareholding in our subsidiary, Dongyue Chemicals, from Zibo Huantai Dadi, which purchase was completed on February 15, 2007 resulting in Dongyue Chemicals becoming our 94.56% owned subsidiary. The Baring Loan and the Supplemental Baring Loan were both interest free in consideration for us granting Baring an exclusivity period (except for IFC as it was already in negotiation with us) within which to negotiate with us for the subscription of the Preferred Shares. The Baring Loan and the Supplemental Baring Loan have been capitalised to set off part of the consideration payable for the 50,000,000 Preferred Shares subscribed by Baring in the Company.

**INVESTORS' SHAREHOLDING INTEREST**

Each of Baring and IFC subscribed for the Preferred Shares at approximately US\$0.63 per Preferred Share, which was negotiated at arms length and by reference to the price/earnings ratio the relevant parties have agreed. The subscription amount paid by Baring and IFC was US\$31,466,666.67 and US\$15,733,333.33 respectively. Immediately prior to the Global Offering and the Capitalization Issue, Baring and IFC held approximately 18.18% and 9.09% of the issued shares, respectively. Taking into account the Capitalization Issue and without taking into account the possible transfer of additional Shares from the Original Shareholders as referred to below, each of Baring's and IFC's shareholding interests would be represented by 283,636,364 Shares and 141,818,182 Shares, respectively. Consequently, the price per share paid by each of Baring and IFC is approximately HK\$0.87 per share. Assuming an offer price of HK\$2.34 (being the mid-point of the offer price range), the price paid by Baring and IFC is equivalent to a discount of approximately 63.0% to such price per Offer Share. A summary of the rights attached to the Preferred Shares (all of which have been converted into ordinary shares) is as follows:

- (a) as to dividend, any dividend distribution in an amount of RMB32,500,000 shall be paid first to Shareholders which are Shareholders prior to Baring's and IFC's investment, and any amount in excess of RMB32,500,000 will be distributed to all Shareholders on a pro-rata basis, and with Baring and IFC on an as-if converted basis. The Company has undertaken not to make any distribution until the Listing Date, except for a one time dividend payout prior to the Listing Date;
- (b) as to voting, one vote per share;
- (c) as to conversion, the Preferred Shares may, at the option of each Investor, be converted into one ordinary share, subject to adjustments for capitalisation and other events to be agreed as part of the Global Offering;
- (d) as to liquidation, the entitlement to receive, prior and in preference to Shareholders, an amount equivalent to the original issue price of approximately US\$0.63 per Preferred Share and a redemption premium of 8% per annum.

On July 31, 2007, Baring and IFC converted all their respective Preferred Shares in our Company into ordinary shares and, immediately after such conversion, held 50,000,000 and 25,000,000 shares in our Company respectively.

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### AGREEMENTS ENTERED INTO WITH OUR CORPORATE INVESTORS

For the purpose of this section only, unless the context otherwise requires, the following words shall have the following meanings.

“Adjustment Right”	bears the meaning ascribed thereto in the paragraph below headed “Potential share transfers between the Original Shareholders and each of Baring and IFC after the Listing Date” in this section of the prospectus
“Equity Sponsors”	means each of Macrolink Holdings and Macrolink
“First Tradable Date”	means the first trading day after expiry of Baring’s and IFC’s share lock-up period under the Listing Rules
“Investment Shareholders”	means the Equity Sponsors, Baring, IFC and the Original Shareholders
“Milestone Dates”	means First Tradable Date and the Listing Date
“Observer”	means the observer appointed by Baring or IFC to the board of any member of the Group if they have not appointed a director to such Group member
“Original Shareholders”	Macrolink International, Dongyue Team, Dongyue Initiator and Dongyue Wealth
“Target Internal Rate of Return”	means the internal rate of return for Baring and IFC which, depending on timing of completion of the Global Offering, could be as low as 49.5% or significantly higher. This rate is calculated by taking into account (i) the length of time between April 12, 2007 (being the date on which the Preferred Shares were subscribed) and the Listing Date (expressed in years) (ii) the Offer Price and (iii) the value of the Shares held by Baring and IFC on the Milestone Dates.

The Group has entered into certain agreements with Baring and IFC whereby Baring and IFC were given special rights as strategic investors as long as they retain shareholdings in the Company. In preparation for the listing of the Company on the Hong Kong Stock Exchange, both Baring and IFC have agreed to relinquish their special rights upon the Listing Date. Although the special rights will be relinquished upon the Listing Date, there are agreements in place after the Listing Date for potential transfers of Shares between the Original Shareholders and each of Baring and IFC. In addition, the Company has retained certain provisions from the investor agreements after the Listing Date by way of adopting the same into the Company’s code on corporate governance, namely (i) maintaining adequate insurance policies; (ii) complying with the World Bank Group environmental and social performance standards, which are international standards adopted by many companies worldwide; and (iii) not to invest in certain prohibited activities or making certain prohibited payments. The board of directors will be responsible for monitoring and enforcing the code on corporate governance. However, Mr. Zhang Zhefeng is responsible for enforcing provisions in relation to insurance and prohibited

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payments. Mr. Zhang Zhefeng has over 5 years of accounting and financial experience. Provisions in relation to environmental and social policy will be supervised and enforced by Mr. Zhou Guangsheng, who has been serving the Group since 1988. Mr. Zhou Guangsheng is generally responsible for the supervision and enforcement of the Group's environmental protection policies. Further details of these provisions are set out as follows:

(a) *Insurance*

The Group shall insure and keep insured our Company's assets and businesses which can be insured.

(b) *Environmental and social policy*

The Group shall collect adequate data throughout each financial year to monitor its environmental and social status report on its environmental and social policy which covers the status of our compliance with local environmental, social, safety, and health standards; the quality and level of our gas emissions; noise, liquid effluents, solid waste, hazardous material, drinking water, employees' injuries and illnesses at work as well as other general information. The Group will also strive to achieve as a minimum the standards set out in IFC's environmental and social policies, and its environmental, health and safety guidelines. Such environmental and social policies define responsibilities for managing projects, and include performance standards in areas such as social and environmental assessment and management systems, labour and working conditions, pollution prevention and abatement, community health, safety and security, land acquisition and involuntary resettlement and others. The Group shall also comply with applicable environmental and other safety legislation and guidelines and standards in countries where the Group operates, and will appoint and maintain a technically qualified individual to be responsible for environmental management of the Company's facilities.

(c) *Prohibited payments and activities*

The Group shall not undertake or invest in certain prohibited activities (including production or activities involving harmful or exploitative forms of labor/child member) or make certain prohibited payment. Prohibited payment includes any offer, gift, or other forms of payment, directly or indirectly, to or for the use or benefit of any official, for the purpose of influencing any act or decision or omission of any official in order to obtain, retain or direct business to, or to secure any improper benefit or advantage.

*Potential share transfers between the Original Shareholders and each of Baring and IFC after the Listing Date*

Each of the Original Shareholders, Baring and IFC further entered into a share adjustment agreement dated 31 July 2007 pursuant to which it was agreed, amongst other things, that if (i) the Global Offering does not complete on or before June 30, 2008 or (ii) the Global Offering completes on or before June 30, 2008 but the Target Internal Rate of Return is not achieved on either one or both of the Milestone Dates, Baring and IFC shall have the right ("Adjustment Right") to require the Original Shareholders (in proportion to their shareholding relative to each other as at the date hereof) to transfer, subject to the requirements of the Listing Rules, to Baring and IFC (2/3 as to Baring and 1/3 as to IFC) Shares held by the Original Shareholders or, subject to alternative agreement being reached by all

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parties thereto, such other share or cash compensation alternative. As any such transfer of shares by the Original Shareholders would only take place subject to their compliance with Rule 10.07 of the Listing Rules, the earliest point in time would be 6 months after the Listing Date, which is June 10, 2008. When IFC and/or Baring exercises such Adjustment Right, the Company will make relevant announcements pursuant to the requirements of the Listing Rules.

If no alternative agreement could be reached by the parties within 15 days following June 30, 2008 in the case of paragraph (i) above or within 15 days following the relevant Milestone Date in the event the Target Internal Rate of Return is not achieved in the case of paragraph (ii) above, the number of ordinary shares in the Company to be transferred, subject to the requirements of the Listing Rules, to Baring and IFC (in aggregate) will be calculated by reference to the original issue price of the shares issued to Baring and IFC to be adjusted downwards by a fraction whereby the numerator is the 2006 net profit of the Company as adjusted by any restatement, and the denominator being RMB150 million. The maximum number of shares subject to such adjustment is 113,392,044 Shares (being approximately 5.45% of the total issued share capital of the Company immediately upon completion of the Global Offering and assuming no exercise of the Over-allotment Option and any options granted under the Share Option Schemes). Assuming the maximum number of Shares are transferred pro rata by the Original Shareholders to each of Baring and IFC in the agreed proportions, and the Shares in issue immediately after the Global Offering remain unchanged at the time of transfer of the relevant Shares to Baring and IFC (but not taking into account any Shares which may fall to be issued under the exercise of options granted under the Share Option Schemes or the Over-allotment Option), the shareholdings of the Original Shareholders, Baring and IFC will be as follows:-

<u>Name of shareholder</u>	<u>No. of Shares</u>	<u>Percentage of issued share capital*</u>
Macrolink International .....	658,643,953	31.67%
Dongyue Team .....	149,905,318	7.21%
Dongyue Wealth .....	78,628,810	3.78%
Dongyue Initiator .....	133,975,330	6.44%
Baring .....	359,231,059	17.26%
IFC .....	179,615,530	8.64%

\* This refers to the issued share capital of the Company immediately after the Global Offering and assuming this remains unchanged at time of transfer of Shares to Baring and IFC (but not taking into account any Shares which may fall to be issued under the exercise of options granted under the Share Option Schemes or the Over-allotment Option)

There will be no dilutive effect on the public shareholders as a result of the above adjustment as these transfers are between the Controlling Shareholders, Baring and IFC only.

The Original Shareholders and each of Baring and IFC also entered into a put option agreement whereby the Original Shareholders agreed to grant each of Baring and IFC the right to require the Original Shareholders to purchase the Shares held by Baring or IFC at the price being the aggregate of (i) the aggregate outstanding principal amount of the Shares based on the original issue price per Share paid by each of Baring and IFC, (ii) the yield to maturity (being 8% per annum pro-rated for periods of less than one year to the nearest calendar day calculated on the basis of a 365-day year) multiplied by the aggregate outstanding principal amounts of the Shares on April 12, 2012; and (iii) all accrued and unpaid dividend as at April 12, 2012 in the event that a Qualified IPO is not achieved by April 12, 2012. We expect the Global Offering to constitute a Qualified IPO and therefore expect the put option to lapse on the Listing Date.

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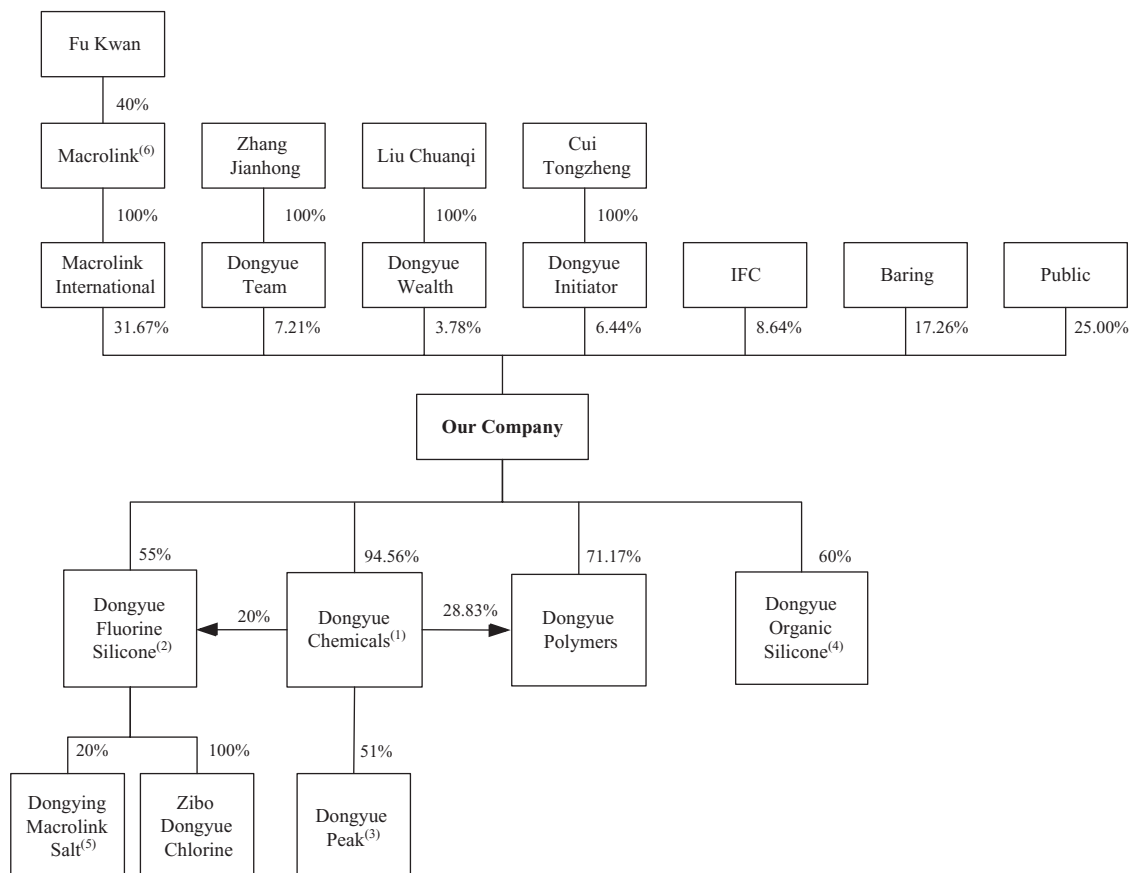
Each of Baring and IFC has undertaken to our board of directors and the Sole Global Coordinator that, it will not, without the prior written consent of our board of directors and the Sole Global Coordinator, at any time during the First Six-month Period offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of the Company or any interest therein held by it (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of the Company or any interest therein) as of the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so. The board of directors and the Sole Global Coordinator will only take into account the best interest of the shareholders as a whole in deciding whether to release Baring and IFC from their respective non-disposal undertaking.

Baring has also undertaken to the Company that it will at any time during the period commencing on the date on which the First Six-month Period expires up to and including the date falling 12 months after the Listing Date, immediately inform either one of the designated directors of the Company:

- (i) any disposal, pledges or charges or disposal of any shares or other securities of the Company beneficially owned by it and the number of such shares or other securities so disposed, pledged or charged; and
- (ii) any indication received by it, either verbal or written, from any pledge or chargee that any shares or other securities so pledged or charged will be disposed of.

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The following chart sets out the shareholding structure of our Group and our associated company immediately after the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is not exercised and no Shares are issued pursuant to the exercise of options under the Share Option Schemes) and, further, assuming no further issue of Shares thereafter, after the transfer of Shares to Baring and IFC of the maximum number of Shares under the Adjustment Right referred to above:



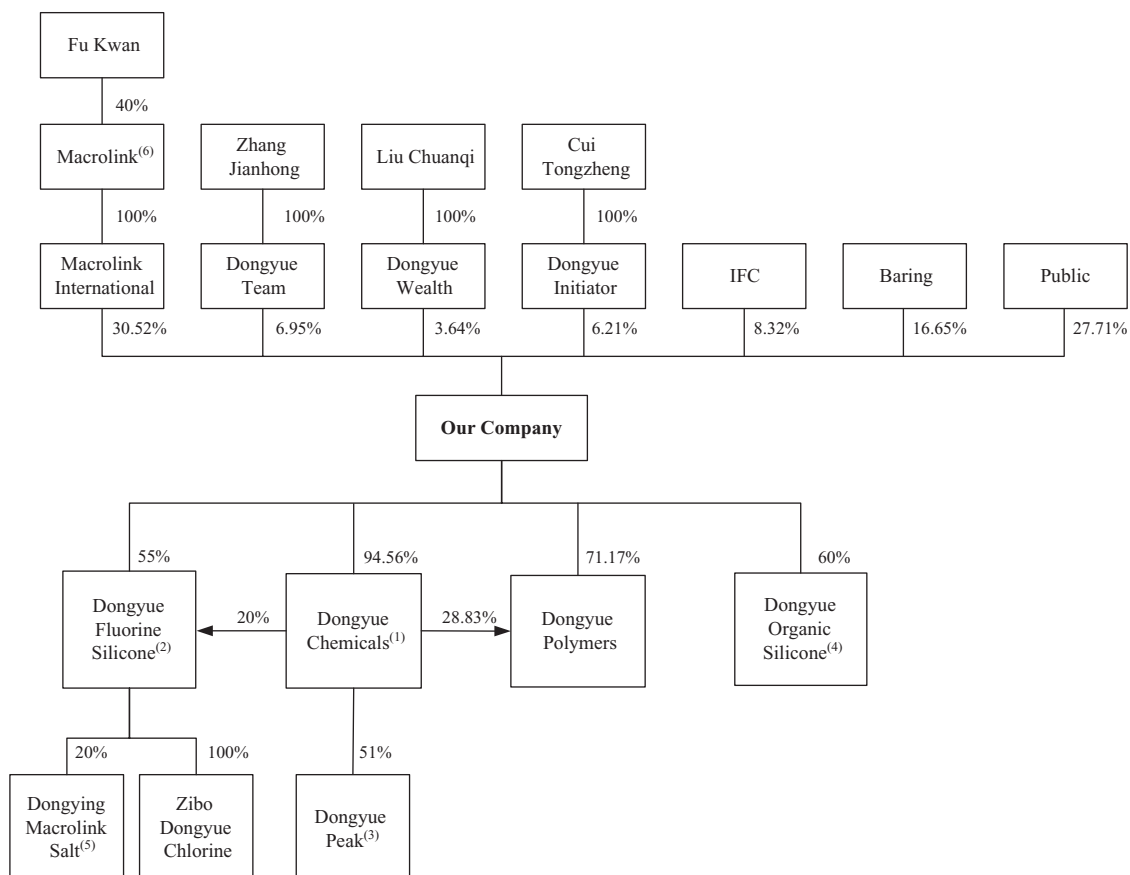
### Notes:

- (1) The remaining 5.44 % equity holder of Dongyue Chemicals is Tsinghua Holdings Limited (清華控股有限公司), a state-owned enterprise and an Independent Third Party.
- (2) The remaining 25% equity holder of Dongyue Fluorine Silicone is Shandong Hi Tech Investment Co., Ltd, a state-owned enterprise and, save for its equity holding in Dongyue Fluorine Silicone, an Independent Third Party.
- (3) The remaining 49% equity holders of Dongyue Peak are Chifeng Peak Copper (as to 19%), Kalaqin Qi Mining (as to 10%) and Xilin Tonghe (as to 20%). Chifeng Peak Copper, Kalaqin Qi Mining and Xilin Tonghe are companies ultimately owned by Zhang Zhanseng (張占森), AWang Xueyi (王學義) and Geng Yanbo (耿彥波) respectively, who are all directors of Dongyue Peak. Save for the aforesaid, Chifeng Peak Copper, Kalaqin Qi Mining and Xilin Tonghe are Independent Third Parties.
- (4) The remaining 40% equity holder of Dongyue Organic Silicone is Hong Da Mining Industry, an Independent Third Party save for its equity holding in Dongyue Organic Silicone. Its equity holders are Sun Fubao (孫夫寶), Sun Fuqiang (孫夫強), Bian Liang (邊亮), Wang Ming (王明), Zhang Shufang (張術方), Zhao Xiuhua (趙秀華), Ding Feng (丁峰), Ding Lianxin (丁連信), Duan Liantao (段連濤), Sun Zhaoyou (孫兆友), Duan Lianquan (段連全), Duan Yufeng (段玉峰), Sun Zhitao (孫志濤) and Duan Xujun (段緒君).
- (5) The remaining 80% equity holder of Dongying Macrolink salt is Macrolink Holdings which is owned as to 42.5% by Mr Fu Kwan, one of our executive directors and the remaining 57.5% equity interests are held by Wu Xiangdong (吳向東) as to 20%, Xu Junqi (許君奇) as to 2.25%, Yang Yunhua (楊雲華) as to 31.65%, Chen Yue (陳躍) as to 1.6%, Wang Xiaoming (王曉鳴) as to 1% and Tan Zhiqiang (譚志強) as to 1% who are, save for Wu Xiangdong (吳向東) who is a relative of Mr. Fu Kwan, independent to the Group. Dongying Macrolink Salt is an associated company of the Group.
- (6) The remaining 60% shareholders of Macrolink are Wu Xiangdong (吳向東) as to 15%, Fang Mingli (方明理) as to 5%, Yang Yunhua (楊雲華) as to 26%, Zeng Xianhui (曾憲輝) as to 6%, Zeng Xianguang (曾憲光) as to 6% and Li Bingkun (李丙坤) as to 2%. Save for Mr. Wu Xiangdong (a relative of Mr. Fu Kwan), these equity holders are Independent Third Parties to the Group. Save for the aforesaid and Mr. Zeng Xianhui and Mr. Zeng Xianguang being brothers of each other, the equity holders of Macrolink are independent to each other.
- (7) Baring's shareholding interest is not considered as part of the public float for so long as it is a substantial shareholder. IFC's shareholding interest is considered as part of the public float.



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The following chart sets out the shareholding structure of our Group and our associated company immediately after the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is exercised in full and no Shares are issued pursuant to the exercise of options under the Share Option Schemes) and, further, assuming no further issue of Shares thereafter, after the transfer of Shares to Baring and IFC of the maximum number of Shares under the Adjustment Right referred to above:



**Notes:**

- (1) The remaining 5.44 % equity holder of Dongyue Chemicals is Tsinghua Holdings Limited (清華控股有限公司), a state-owned enterprise and an independent third party.
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