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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: 0189)**

### **CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITIONS OF**

- (1) THE 40% EQUITY INTEREST IN DONGYING MACROLINK SALT;**
- (2) THE 25% EQUITY INTEREST IN  
MACROLINK PRECISION CHEMICAL; AND**
- (3) THE REMAINING 16% EQUITY INTEREST IN  
DONGYUE ORGANIC SILICONE**

The Board is pleased to announce that on 29 June 2010:

- (i) Dongyue Fluorine Silicone, a subsidiary of the Company, and Macrolink Holdings entered into the 40% Agreement pursuant to which Dongyue Fluorine Silicone agreed to acquire 40% equity interest in Dongying Macrolink Salt from Macrolink Holdings at the consideration of RMB32,200,000;
- (ii) the Company and Cheung Shek Investment entered into the 25% Agreement pursuant to which the Company agreed to acquire 25% equity interest in Macrolink Precision Chemical from Cheung Shek Investment at the consideration of RMB3,000,000; and
- (iii) Dongyue Chemicals, a subsidiary of the Company, and Hong Da Mining Industry entered into the 16% Agreement pursuant to which Dongyue Chemicals agreed to acquire 16% equity interest in Dongyue Organic Silicone from Hong Da Mining Industry at the consideration of RMB148,000,000.

Macrolink Holdings, a company which is held as to 42.5% by Mr. Fu Kwan, an executive Director and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The 40% Acquisition constitutes a connected transaction for the Company. Given that each of the relevant applicable percentage ratios for determining the value of the 40% Acquisition is less than 5%, the transaction contemplated under the 40% Agreement is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Cheung Shek Investment, a company which is held as to 38.5% by Mr. Fu Kwan, an executive Director and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The 25% Acquisition constitutes a connected transaction for the Company. Given that each of the relevant applicable percentage ratios for determining the value of the 25% Acquisition is less than 5%, the transaction contemplated under the 25% Agreement is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Hong Da Mining Industry owns 16% equity interest in Dongyue Organic Silicone and is therefore a substantial shareholder and connected person of Dongyue Organic Silicone under the Listing Rules. The 16% Acquisition constitutes a connected transaction for the Company. Given that each of the relevant applicable percentage ratios for determining the value of the 16% Acquisition is less than 5%, the transaction contemplated under the 16% Agreement is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **INTRODUCTION**

The Directors are pleased to announce that on 29 June 2010:

- (i) Dongyue Fluorine Silicone, a subsidiary of the Company, and Macrolink Holdings entered into the 40% Agreement pursuant to which Dongyue Fluorine Silicone agreed to acquire 40% equity interest in Dongying Macrolink Salt from Macrolink Holdings at the consideration of RMB32,200,000;
- (ii) The Company and Cheung Shek Investment entered into the 25% Agreement pursuant to which the Company agreed to acquire 25% equity interest in Macrolink Precision Chemical from Cheung Shek Investment at the consideration of RMB3,000,000; and
- (iii) Dongyue Chemicals, a subsidiary of the Company, and Hong Da Mining Industry entered into the 16% Agreement pursuant to which Dongyue Chemicals agreed to acquire 16% equity interest in Dongyue Organic Silicone from Hong Da Mining Industry at the consideration of RMB148,000,000.

## **THE 40% ACQUISITION**

Prior to the entering into the 40% Agreement, Dongying Macrolink Salt is owned as to 20% by Dongyue Fluorine Silicone and as to 80% directly by Macrolink Holdings, a company which is held as to 42.5% by Mr. Fu Kwan, an executive Director. Details of the 40% Agreement are set out below.

## **THE 40% AGREEMENT**

Date:	29 June 2010
Parties:	Dongyue Fluorine Silicone, a subsidiary of the Company, as purchaser; and  Macrolink Holdings, principally engaged in investment holding, as vendor
Assets to be sold: and purchased	A 40% equity interest in Dongying Macrolink Salt
Consideration:	RMB32,200,000, which shall be payable in cash within 30 days after completion of all transfer procedures with the PRC authorities
Completion:	Completion will take place upon completion of all transfer procedures with the PRC authorities

## **FINANCIAL EFFECTS OF THE 40% ACQUISITION**

The Consideration of RMB32,200,000 was arrived at after arm's length negotiations between Dongyue Fluorine Silicone and Macrolink Holdings and on normal commercial terms. The 40% Consideration was agreed by reference to the financial position and prospects of Dongying Macrolink Salt, including but not limited to its consolidated net asset value of approximately RMB78.46 million as at 31 May 2010 according to its unaudited management accounts for the five months ended 31 May 2010. Having considered the above and the factors described under the section headed "Reasons for the 40% Acquisition" below, the Directors (including the independent non-executive Directors) are of the opinion that the 40% Consideration is fair and reasonable and on normal commercial terms.

After the 40% Completion, the Company through its subsidiary, Dongyue Fluorine Silicone, will own 60% equity interest in Dongying Macrolink Salt and the accounts of Dongying Macrolink Salt will be consolidated into the consolidated accounts of the Company.

The 40% Consideration shall be satisfied by Dongyue Fluorine Silicone in cash and would be funded by the Group from its internal cash resources. The funding requirement for the 40% Acquisition is not expected to have any material impact on the Group.

## **INFORMATION ON DONGYING MACROLINK SALT**

Following completion of the 40% Acquisition, the Company will own 60% equity interest in Dongying Macrolink Salt indirectly through its interest in Dongyue Fluorine Silicone. Taking into account the Company's equity interest in Dongyue Fluorine Silicone and Dongyue Chemicals, the Company will own approximately 49.93% effective equity interest in Dongying Macrolink Salt.

Dongying Macrolink Salt was established in Dongying, Shandong Province, the PRC as a limited liability company in 2005 with a registered capital of RMB70,000,000 and is principally engaged in the business of production and sale of salt. The establishment of Dongying Macrolink Salt has enabled the Group to secure a stable and quality supply of industrial salt, the key raw materials for the production of liquid alkali and chlorine and the Group's refrigerant and silicone products production.

According to the consolidated audited financial statements of Dongying Macrolink Salt prepared under the PRC generally accepted accounting principles, as at 31 December 2009, Dongying Macrolink Salt's total consolidated value of assets is approximately RMB114.17 million and its consolidated net asset value is approximately RMB78.44 million, and its consolidated profit and total comprehensive income for the years ended 31 December 2009 and 2008 are approximately RMB6.38 million and RMB2.96 million respectively.

## **REASONS FOR THE 40% ACQUISITION**

The Group is principally engaged in manufacture and sale of refrigerants, fluoropolymers and other chemical and petrochemical products such as dichloromethane and liquid alkali whilst Dongying Macrolink Salt is principally engaged in the production and sale of salt, which are essential raw materials for the production of liquid alkali and chlorine and the Group's refrigerant and silicone products production. The Directors are of the view that the 40% Acquisition is a good opportunity for the Company to increase its effective interest in Dongying Macrolink Salt from 16.64% to 49.93% and thus, enable the Group to have larger share of return in Dongying Macrolink Salt and sufficient and stable supply of industrial salt for the Group's production of liquid alkali, chlorine, refrigerant and silicone products. It was intended that, upon completion of the 40% Acquisition, the Group will expand the production capacity of Dongying Macrolink Salt in respect of industrial salts up to 150,000 tonnes per year, which is expected to meet approximately 37.5% of the annual usage of industrial salts of the Group.

The Directors (including the independent non-executive Directors) consider the terms of the 40% Agreement to be fair and reasonable as far as the Shareholders are concerned and that the 40% Agreement is in the interests of the Company and its Shareholders as a whole. Mr. Fu Kwan, an executive Director, has abstained from voting in relation to the 40% Agreement. Save for Mr. Fu Kwan, each other Director has no interest in the 40% Acquisition.

## **LISTING RULES IMPLICATIONS**

Macrolink Holdings, a company which is held as to 42.5% by Mr. Fu Kwan, an executive Director and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The 40% Acquisition constitutes a connected transaction for the Company. Given that each of the relevant applicable percentage ratios for determining the value of the 40% Acquisition is less than 5%, the transaction contemplated under the 40% Agreement is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **THE 25% ACQUISITION**

Prior to the entering into the 25% Agreement, the Company owned approximately 12.48% effective equity interest in Macrolink Precision Chemical through its interest in Dongyue Fluorine Silicone. Cheung Shek Investment, a company which is owned as to 38.5% by Mr. Fu Kwan, an executive Director and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company, currently owns the remaining 25% equity interest in Macrolink Precision Chemical. Details of the 25% Agreement are set out below.

## **THE 25% AGREEMENT**

Date: 29 June 2010

Parties: The Company as purchaser; and  
Cheung Shek Investment, engaged in investment holding, as vendor

Assets to be sold:  
and purchased A 25% equity interest in Macrolink Precision Chemical

Consideration: RMB3,000,000, which shall be payable in cash within 30 days after completion of all transfer procedures with the PRC authorities

Completion: Completion will take place upon completion of all transfer procedures with the PRC authorities

## **FINANCIAL EFFECTS OF THE 25% ACQUISITION**

The Consideration of RMB3,000,000 was arrived at after arm's length negotiations between the Company and Cheung Shek Investment and on normal commercial terms. The 25% Consideration was agreed by reference to the financial position and prospects of Macrolink Precision Chemical, including but not limited to its net asset value of approximately RMB18.00 million as at 31 May 2010 according to its unaudited management accounts for the five months ended 31 May 2010. Having considered the above and the factors described under the section headed "Reasons for the 25% Acquisition" below, the Directors (including the independent non-executive Directors) are of the opinion that the 25% Consideration is fair and reasonable and on normal commercial terms.

Immediately after the 25% Completion and on the basis of the completion of the 40% Acquisition, the Company will own approximately 62.45% effective equity interest in Macrolink Precision Chemical and the accounts of Macrolink Precision Chemical will be consolidated into the consolidated accounts of the Company.

The 25% Consideration shall be satisfied by the Company in cash and would be funded by the Group from its internal cash resources. The funding requirement for the 25% Acquisition is not expected to have any material impact on the Group.

## **INFORMATION ON MACROLINK PRECISION CHEMICAL**

Following completion of the 25% Acquisition and on the basis of the completion of the 40% Acquisition, the Company will directly own 25% direct equity interest in Macrolink Precision Chemical and own the remaining 75% equity interest indirectly through its interest in Dongyue Fluorine Silicone. Taking into account the Company's equity interest in Dongyue Fluorine Silicone and Dongying Macrolink Salt, the Company will own approximately 62.45% effective equity interest in Macrolink Precision Chemical.

Macrolink Precision Chemical was established in Dongying, Shandong Province, the PRC as a sino-foreign joint venture company in 2007 with a registered capital of RMB10,000,000 and is principally engaged in the business of production and sale of bromine.

According to the audited financial statements of Macrolink Precision Chemical prepared under the PRC generally accepted accounting principles, as at 31 December 2009, Macrolink Precision Chemical's total value of assets is approximately RMB18.85 million and its net asset value is approximately RMB18.03 million, and its profit and total comprehensive income for the years ended 31 December 2009 and 2008 are approximately RMB6.00 million and RMB4.09 million respectively.

## **REASONS FOR THE 25% ACQUISITION**

The Group is principally engaged in manufacture and sale of refrigerants, fluoropolymers and other chemical and petrochemical products such as dichloromethane and liquid alkali whilst Macrolink Precision Chemical is principally engaged in the production of bromine from the salt water in the course of production of industrial salts by Dongying Macrolink Salt and sale of bromine. The Directors are of the view that the 25% Acquisition is a good opportunity for the Company to increase its effective interest in Macrolink Precision Chemical and thus, enable the Group to have larger share of return in Macrolink Precision Chemical and advance the realization of potential operational synergies of the Group after the 25% Acquisition.

The Directors (including the independent non-executive Directors) consider the terms of the 25% Agreement to be fair and reasonable as far as the Shareholders are concerned and that the 25% Agreement is in the interests of the Company and its Shareholders as a whole. The Directors who have interest in the 25% Agreement have abstained from voting in relation to the 25% Agreement and each of the independent non-executive Directors has no interest in the 25% Acquisition.

## **LISTING RULES IMPLICATIONS**

Cheung Shek Investment, a company which is held as to 38.5% by Mr. Fu Kwan, an executive Director and one of the ultimate beneficial owners of Macrolink International, the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The 25% Acquisition constitutes a connected transaction for the Company. Given that each of the relevant applicable percentage ratios for determining the value of the 25% Acquisition is less than 5%, the transaction contemplated under the 25% Agreement is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **THE 16% ACQUISITION**

Prior to the entering into the 16% Agreement, the Company owned 84% direct equity interest in Dongyue Organic Silicone. Hong Da Mining Industry currently owns the remaining 16% equity interest in Dongyue Organic Silicone and is therefore a substantial shareholder of Dongyue Organic Silicone. Details of the 16% Agreement are set out below.

## **THE 16% AGREEMENT**

Date:	29 June 2010
Parties:	Dongyue Chemicals, a subsidiary of the Company, as purchaser; and  Hong Da Mining Industry, principally engaged in underground iron exploration and exploitation, machine processing and sales, as vendor
Assets to be sold: and purchased	A 16% equity interest in Dongyue Organic Silicone
Consideration:	RMB148,000,000, which shall be payable in cash within 30 days after completion of all transfer procedures with the PRC authorities
Completion:	Completion will take place upon completion of all transfer procedures with the PRC authorities

## **FINANCIAL EFFECTS OF THE 16% ACQUISITION**

The Consideration of RMB148,000,000 was arrived at after arm's length negotiations between the Dongyue Chemicals and Hong Da Mining Industry and on normal commercial terms. The 16% Consideration was agreed by reference to the financial position and prospects of Dongyue Organic Silicone, including but not limited to its net asset value of approximately RMB692.15 million as at 31 May 2010 according to its unaudited management accounts for the five months ended 31 May 2010. Having considered the above and the factors described under the section headed "Reasons for the 16% Acquisition" below, the Directors (including the independent non-executive Directors) are of the opinion that the 16% Consideration is fair and reasonable and on normal commercial terms.

After the 16% Completion, the Company will own 100% effective equity interest in Dongyue Organic Silicone.

The 16% Consideration shall be satisfied by Dongyue Chemicals in cash and would be funded by the Group from its internal cash resources. The funding requirement for the 16% Acquisition is not expected to have any material impact on the Group.

## **INFORMATION ON DONGYUE ORGANIC SILICONE**

Following completion of the 16% Acquisition, Dongyue Organic Silicone will become a wholly-owned subsidiary of the Company.

Dongyue Organic Silicone was established in Zibo, Shandong Province, the PRC as a sino-foreign joint venture company in 2006 with a registered capital of RMB650,000,000 and is principally engaged in the business of manufacturing and sale of organosilicon materials (including silicone monomers, silicone intermediates and further-processed silicone chemical products). The establishment of Dongyue Organic Silicone has enabled the Group to expand its business into the silicone industry and to achieve synergies arising from the recycling and the processing of chloromethane (a by-product during the Group's production process of CFM and dichloromethane) to serve as a key raw material for the production of silicone.

The first phase of the construction of silicone production facilities, with an annual production capacity of 60,000 tons, was completed in November 2007. As mentioned in the 2009 annual report of the Company, the second phase of the construction of the organic silicone project, with an annual production capacity of 100,000 tons, will be completed and commence production by late 2010. The implementation of the aforesaid construction project would enable the Group to achieve economy of scale for its organosilicon products and lower unit production costs.

According to the audited financial statements of Dongyue Organic Silicone prepared under International Financial Reporting Standards, as at 31 December 2009, Dongyue Organic Silicone's total value of assets is approximately RMB1,162.04 million and its net asset value is approximately RMB654.09 million, and its loss for the year ended 31 December 2009 and profit and total comprehensive income for the year ended 31 December 2008 are approximately RMB2.53 million and RMB19.21 million respectively.

## **REASONS FOR THE 16% ACQUISITION**

The Group is principally engaged in manufacture and sale of refrigerants, fluoropolymers and other chemical and petrochemical products such as dichloromethane and liquid alkali whilst Dongyue Organic Silicone is engaged in the manufacture and sale of organosilicon materials. The 16% Acquisition reflects the Group's strategy of expand its business into the silicone industry. The Directors are of the view that the 16% Acquisition provides a good opportunity for the Company to increase its interest in Dongyue Organic Silicone by acquiring the remaining 16% equity interest in Dongyue Organic Silicone and thus enable the Group to exercise absolute and more effective control over the business and operations of Dongyue Organic Silicone and further enhance its manufacturing and production capabilities of organosilicon materials, which is in line with the strategy of the Company.

The Directors (including the independent non-executive Directors) consider the terms of the 16% Agreement to be fair and reasonable as far as the Shareholders are concerned and that the 16% Agreement is in the interests of the Company and its Shareholders as a whole. Each Director has no interest in the 16% Acquisition.



## LISTING RULES IMPLICATIONS

Hong Da Mining Industry owns 16% equity interest in Dongyue Organic Silicone and is therefore a substantial shareholder and connected person of Dongyue Organic Silicone under the Listing Rules. The 16% Acquisition constitutes a connected transaction for the Company. Given that each of the relevant applicable percentage ratios for determining the value of the 16% Acquisition is less than 5%, the transaction contemplated under the 16% Agreement is only subject to the reporting and announcement requirements set out in Rule 14A.45 and 14A.47 of the Listing Rules and is exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

The following terms are used in this announcement:

“16% Acquisition”	acquisition of 16% equity interest in Dongyue Organic Silicone pursuant to the 16% Agreement
“16% Agreement”	the sale and purchase agreement dated 29 June 2010 entered into between Dongyue Chemicals as purchaser and Hong Da Mining Industry as vendor in relation to the 16% Acquisition
“16% Completion”	completion of the 16% Agreement
“16% Consideration”	RMB148,000,000, the consideration for the 16% Acquisition pursuant to the 16% Agreement
“25% Acquisition”	acquisition of 25% equity interest in Macrolink Precision Chemical pursuant to the 25% Agreement
“25% Agreement”	the sale and purchase agreement dated 29 June 2010 entered into between the Company as purchaser and Cheung Shek Investment as vendor in relation to the 25% Acquisition
“25% Completion”	completion of the 25% Agreement
“25% Consideration”	RMB3,000,000, the consideration for the 25% Acquisition pursuant to the 25% Agreement
“40% Acquisition”	acquisition of 40% equity interest in Dongying Macrolink Salt pursuant to the 40% Agreement
“40% Agreement”	the sale and purchase agreement dated 29 June 2010 entered into between Dongyue Fluorine Silicone as purchaser and Macrolink Holdings as vendor in relation to the 40% Acquisition

“40% Completion”	completion of the 40% Agreement
“40% Consideration”	RMB32,200,000, the consideration for the 40% Acquisition pursuant to the 40% Agreement
“CFM”	a type of methane chloride, which is one of the major raw materials for the production of difluorochloromethane
“Cheung Shek Investment”	Cheung Shek Investment Limited (長石投資有限公司), a company incorporated in the British Virgin Islands with limited liabilities, which is in aggregate owned as to 44.1% by five executive Directors (as to 38.5% by Mr. Fu Kwan, as to 2.0% by Mr. Zhang Jianhong, as to 2.0% by Mr. Liu Chuanqi, as to 1.1% by Mr. Zhang Jian and as to 0.5% by Mr. Yan Jianhua)
“Company”	Dongyue Group Limited, a company incorporated in the Cayman Islands with limited liabilities, the shares of which are listed on the main board of the Stock Exchange
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Directors”	directors of the Company
“Dongying Macrolink Salt”	Dongying Macro-Link Salt Co., Ltd. (東營新華聯鹽業有限公司), a limited liability company established in the PRC, of which 20% is indirectly owned by the Company and 80% is directly owned by Macrolink Holdings
“Dongyue Chemicals”	Shandong Dongyue Chemicals Co., Ltd. (山東東岳化工有限公司), a sino-foreign joint venture company established in the PRC
“Dongyue Fluorine Silicone”	Shandong Dongyue Fluo-Silicon Materials Co., Ltd. (山東東岳氟硅材料有限公司), a sino-foreign joint venture company established in the PRC
“Dongyue Organic Silicone”	Shandong Dongyue Organosilicon Material Co., Ltd. (山東東岳有機硅材料有限公司), a sino-foreign joint venture company established in the PRC
“Group”	the Company and its subsidiaries
“Hong Da Mining Industry”	Hong Da Mining Industry Co., Ltd (濰博宏達礦業有限公司), a limited liability company established in the PRC, which owns 16% equity interest in Dongyue Organic Silicone

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macrolink Holdings”	Macro-Link Holding Co., Ltd (新華聯控股有限公司), a limited liability company established in the PRC, which is held by Mr. Fu Kwan as to 42.5%
“Macrolink International”	Macro-Link International Investment Co., Ltd. (新華聯國際投資有限公司), a company incorporated in the British Virgin Islands, which is solely owned by Macrolink Sdn. Bhd., a limited liability company incorporated in Malaysia, which is held as to 40% by Mr. Fu Kwan
“Macrolink Precision Chemical”	Dongying Macro-Link Precision Chemical Co., Ltd. (東營新華聯精細化工有限公司), a limited liability company established in the PRC, which is owned as to 75% by Dongying Macrolink Salt and as to 25% by Cheung Shek Investment
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with nominal value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holders of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

By order of the Board  
**Dongyue Group Limited**  
**Zhang Jianhong**  
*Chairman*

the PRC, 29 June 2010

*As at the date of this announcement, the Directors are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Cui Tongzheng, Mr. Yan Jianhua and Mr. Zhang Jian as executive Directors, and Mr. Yue Run Dong, Mr. Liu Yi and Mr. Ting Leung Huel, Stephen as independent non-executive Directors.*