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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)**

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS**

The Board announces that on 31 December 2016, Dongyue Fluorine Silicone, and Dongying Dongyue Salt, both non-wholly owned subsidiaries of the Company, entered into the Second Renewed Salt Purchase Agreement in relation to the supply of industrial salt.

Dongying Dongyue Salt is an associate of (i) Mr. Fu Kwan, an executive Director, and (ii) Macrolink International, a substantial shareholder of the Company and hence, a connected person of the Company. The transactions contemplated under the Second Renewed Salt Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As each of the applicable percentage ratios for the Second Revised Annual Caps is more than 0.1% but less than 5%, the Continuing Connected Transactions are only subject to reporting, annual review and announcement requirements and are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As Dongying Dongyue Salt is an associate (as defined under the Listing Rules) of Mr. Fu Kwan, an executive Director, Mr. Fu, who has a material interest in the transactions under the Second Renewed Salt Purchase Agreement, had abstained from voting in the board resolution(s) of the Company for approving the Second Renewed Salt Purchase Agreement and the proposed Second Revised Annual Caps.

#### **BACKGROUND**

Reference is made to the announcement of the Company dated 31 December 2013 regarding the First Renewed Salt Purchase Agreement entered into between Dongyue Fluorine Silicone and Dongying Dongyue Salt (formerly known as Dongying Macrolink Salt Co., Ltd.), pursuant to which Dongying Dongyue Salt agreed to supply industrial salt to the Group. The transactions contemplated under the First Renewed Salt Purchase Agreement constituted continuing connected transactions of the Company under the Listing Rules. The First Renewed Salt Purchase Agreement is due to expire on 31

December 2016 and further details of the First Renewed Salt Purchase Agreement and the First Revised Annual Caps were disclosed in the said announcement of the Company dated 31 December 2013.

The Board announces that on 31 December 2016, Dongyue Fluorine Silicone, a non-wholly owned subsidiary of the Company, and Dongying Dongyue Salt, a non-wholly owned subsidiary and a connected person of the Company, entered into the Second Renewed Salt Purchase Agreement in order to continue with the sale and purchase of industrial salt after 31 December 2016 under the terms of the Second Renewed Salt Purchase Agreement.

## **SECOND RENEWED SALT PURCHASE AGREEMENT**

Details of the Second Renewed Salt Purchase Agreement are set out below:

### **Second Renewed Salt Purchase Agreement**

Date: 31 December 2016

Parties: Purchaser: Dongyue Fluorine Silicone, the equity interest of which is directly owned as to 69.79% and indirectly owned as to 13.43% by the Company

Supplier: Dongying Dongyue Salt, an associate of Mr. Fu Kwan, an executive Director, and Macrolink International, a substantial shareholder of the Company, the equity interest of which is owned as to 60% by Dongyue Fluorine Silicone and as to 40% by Macrolink Asset Investment. Dongying Dongyue Salt is a connected person of the Company

Subject: Pursuant to the Second Renewed Salt Purchase Agreement, Dongying Dongyue Salt agreed to supply industrial salt to the Purchaser, the Company or any designated close associate of the Company from time to time as requested by the Company.

There is no provision in the Second Renewed Salt Purchase Agreement requiring the Group to exclusively source industrial salt from Dongying Dongyue Salt.

Term: The Second Renewed Salt Purchase Agreement shall have a term for the period from 1 January 2017 to 31 December 2019.

Purchase price: The purchase price for the industrial salt shall be on normal commercial terms which shall be determined after arm's length negotiation between the parties with reference to the then prevailing market price of industrial salt that is no less favourable than that offered to independent third parties, and payable by means of bank remittance, bill of exchange or other agreed payment method(s) with one month credit term.

## **HISTORICAL AMOUNTS AND FIRST REVISED ANNUAL CAPS**

The historical amounts of the continuing connected transactions under the First Renewed Salt Purchase Agreement for the two years ended 31 December 2015 and eleven months ended 30 November 2016 are set out below:

	<b>For the year ended 31 December</b>		<b>For the eleven months ended 30 November</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
		(unaudited)	(unaudited)
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
First Renewed Salt Purchase Agreement	20,752	27,042	17,553

The First Revised Annual Caps for the three years ended 31 December 2016 are set out below:

	<b>For the year ended 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
First Renewed Salt Purchase Agreement	64,100	104,700	153,850

## **PROPOSED SECOND REVISED ANNUAL CAPS FOR THE SECOND RENEWED SALT PURCHASE AGREEMENT**

The proposed Second Revised Annual Caps for each of the three years ending 31 December 2019 are set out below:

	<b>For the year ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Second Renewed Salt Purchase Agreement	44,000	62,500	75,000

The proposed Second Revised Annual Caps are determined by reference to a number of factors such as historical transaction amounts, the sales orders for the Group's products received so far, sales plan of the Group's products and the expected increase in costs of raw materials.

If the amount under the Continuing Connected Transactions for any of the three years ending 31 December 2019 exceeds the Second Revised Annual Caps, the Company will comply with the relevant requirements as stipulated under Chapter 14A of the Listing Rules.

## **REASONS FOR AND BENEFITS OF SECOND REVISED ANNUAL CAPS AND SECOND RENEWED SALT PURCHASE AGREEMENT**

The Group is principally engaged in manufacture and sale of refrigerants, fluoropolymers, organic silicone and other products such as dichloromethane, polyvinyl chloride and liquid alkali. Given the nature, size and growth of the Group's business, the Group is required, and it is of paramount significance, to source and procure raw materials including industrial salt in bulk quantity from reliable suppliers at a competitive price for use in its manufacturing process.

Dongying Dongyue Salt has established itself as a supplier to the Group providing raw materials which are reasonably priced and able to meet the Group's sizable demand in quantity, stringent quality requirements and product variety. Sourcing raw materials from Dongying Dongyue Salt would also enable the Group to streamline and centralise its raw materials procurement process, which has an effect of boosting production efficiency and reducing the overall production costs of the Group.

Apart from the above, in determining the proposed Second Revised Annual Caps for the Second Renewed Salt Purchase Agreement, the Directors have made the following assumptions: (a) approximate 200,000 units, 250,000 units and 250,000 units of purchase of industrial salt for the year ending 31 December 2017, 2018 and 2019 respectively; (b) an assumption of a growth rate of approximately 25% of purchase units for the year ending 31 December 2018 but remains unchanged for the year ending 31 December 2019 and (c) an expected increase in the unit purchase price of approximately 13.64% and 20% for the year ending 31 December 2018 and 2019 respectively.

During the three years ended 31 December 2016, Dongying Dongyue Salt has decreased the units of industrial salt supplied to Dongyue Fluorine Silicon compared to the three years ended 31 December 2013, after considering a higher transportation cost incurred for sales to Dongyue Fluorine Silicon compared to its other customers. Therefore, Dongyue Fluorine Silicon has sourced industrial salt from other independent suppliers instead and has not fully utilised the First Revised Annual Cap. As such, the Directors consider that the First Revised Annual Caps should be revised by downward adjustment.

As agreed under the Second Renewed Salt Purchase Agreement, the price of purchases by the Group will be negotiated on an arm's length basis, with reference to the prevailing market price and on no less favourable terms than that offered by Dongying Dongyue Salt to independent third parties. The Group is not obligated to purchase raw materials from Dongying Dongyue Salt and would only do so

if it is in the commercial interests of the Group. The Group is free to source its raw materials from independent third parties which have historically supplied to the Group and there is no restriction in respect of the same under the Second Renewed Salt Purchase Agreement.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group and the terms of the Second Renewed Salt Purchase Agreement and the proposed Second Revised Annual Caps are based on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **INFORMATION ON THE GROUP AND DONGYING DONGYUE SALT**

The Group is principally engaged in manufacturing and sale of refrigerants, fluoropolymers, organic silicone and other products such as dichloromethane, polyvinyl chloride and liquid alkali and property development.

Dongying Dongyue 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 production and sale of industrial salt, which are essential raw materials for the production of liquid alkali and chlorine (an essential intermediate raw material for the Group's refrigerants, fluoropolymers and silicone products production).

## **IMPLICATIONS OF THE LISTING RULES**

Dongying Dongyue Salt is an associate of (i) Mr. Fu Kwan, an executive Director, and (ii) Macrolink International, a substantial shareholder of the Company and therefore, a connected person of the Company. Hence, the transactions contemplated under the Second Renewed Salt Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As each of the applicable percentage ratios for the Second Revised Annual Caps is more than 0.1% but less than 5%, the Continuing Connected Transactions are only subject to reporting, annual review and announcement requirements and are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As Dongying Dongyue Salt is an associate (as defined under the Listing Rules) of Mr. Fu Kwan, an executive Director, Mr. Fu, who has a material interest in the transactions under the Second Renewed Salt Purchase Agreement, had abstained from voting in the board resolution(s) of the Company for approving the Second Renewed Salt Purchase Agreement and the proposed Second Revised Annual Caps.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“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 (stock code: 189)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transactions”	the transactions between the Group and Dongying Dongyue Salt pursuant to Second Renewed Salt Purchase Agreement
“Director(s)”	the director(s) of the Company
“Dongying Dongyue Salt”	東營東岳鹽業有限公司 (Dongying Dongyue Salt Co., Ltd.), formerly known as 東營新華聯鹽業有限公司 (Dongying Macrolink Salt Co., Ltd.), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company. Its equity interest is held as to 60% indirectly by the Company and 40% directly by Macrolink Asset Investment
“Dongyue Fluorine Silicone”	山東東岳氟硅材料有限公司 (Shandong Dongyue Fluo-Silicon Materials Co., Ltd.), a sino-foreign joint venture company established in the PRC and a non-wholly owned subsidiary of the Company, held as to 83.22% directly and indirectly by the Company
“First Revised Annual Caps”	the previously obtained annual caps of the transactions contemplated under the First Renewed Salt Purchase Agreement for the three years ended 31 December 2016
“First Renewed Salt Purchase Agreement”	The agreement dated 31 December 2013 entered into between Dongying Dongyue Salt (formerly known as Dongying Macrolink Salt Co., Ltd.) and Dongyue Fluorine Silicone in relation to the supply of industrial salt from Dongying Dongyue Salt
“Group”	the Company and its subsidiaries

“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macrolink Asset Investment”	Macro-Link Asset Investment Co., Ltd (新華聯產業投資有限公司), a limited liability company established in the PRC, which is held as to 80% by Macro-Link Holding Ltd. (新華聯控股有限公司) and 20% by Cheung Shek Investment Limited (長石投資有限公司). Macro-Link Holding Ltd. is a limited liability company established in the PRC, which is held by Cheung Shek Investment Limited as to 75% and by Mr. Fu Kwan as to 10.63%, respectively. Cheung Shek Investment Limited is a limited liability company established in the PRC. Mr. Fu Kwan owns 53.35% of the equity interests in Cheung Shek Investment Limited.
“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 and wholly-owned by Macro-Link Industrial Investment Limited (新華聯實業投資有限公司). Macro-Link Industrial Investment Limited is a limited liability company established in Hong Kong, which is wholly-owned by Macro-Link Holding Ltd.
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Second Revised Annual Caps”	the revised annual caps for the Continuing Connected Transactions for the three years ending 31 December 2019
“Second Renewed Salt Purchase Agreement”	The agreement dated 31 December 2016 entered into between Dongying Dongyue Salt and Dongyue Fluorine Silicone in relation to the supply of industrial salt for a term up to 31 December 2019
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“substantial shareholder” has the meaning ascribed thereto under the Listing Rules

“%” per cent

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

The PRC, 31 December 2016

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