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(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 2013, Dongyue Fluorine Silicone, and Dongying Dongyue Salt, both non-wholly owned subsidiaries of the Company, entered into the Renewed Salt Purchase Agreement in relation to the supply of industrial salt.

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

As each of the applicable percentage ratios for the proposed 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.

BACKGROUND

On 31 December 2010, the Group entered into the Existing Salt Purchase Agreement with Dongying Dongyue Salt (then 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 Existing Salt Purchase Agreement constituted continuing connected transactions under the Listing Rules. The Existing Salt Purchase Agreement is due to expire on 31 December 2013 and details of the Existing Salt Purchase Agreement and the transactions thereunder were disclosed in the announcement of the Company dated 31 December 2010.

The Board announces that on 31 December 2013, 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 Renewed Salt Purchase Agreement in relation to the supply of industrial salt in order to continue with the transactions under the Existing Salt Purchase Agreement after 31 December 2013 under the terms of the Renewed Salt Purchase Agreement.

RENEWED SALT PURCHASE AGREEMENT

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

- Date: 31 December 2013
- 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 Renewed Salt Purchase Agreement, Dongying Dongyue Salt agreed to supply industrial salt to the Purchaser, the Group or any designated associate of the Group from time to time as requested by the Group.
- There is no provision in the Renewed Salt Purchase Agreement requiring the Group to exclusively source industrial salt from Dongying Dongyue Salt.
- Term: The Renewed Salt Purchase Agreement shall have a term for the period from 1 January 2014 to 31 December 2016.
- Purchase price: The purchase price for the industrial salt shall be on normal commercial terms which will 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, payable by means of cheque or remittance with one month credit term.

HISTORICAL AMOUNTS AND ANNUAL CAPS

The historical amounts of the continuing connected transactions under the Existing Salt Purchase Agreement for the two years ended 31 December 2012 and eleven months ended 30 November 2013 are set out below:

	For the year ended 31 December		For the eleven months ended 30 November (unaudited)
	2011	2012	2013
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Existing Salt Purchase Agreement	38,000	28,000	26,670

The Existing Annual Caps for the three years ended 31 December 2013 are set out below:

	For the year ended 31 December		
	2011	2012	2013
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Existing Salt Purchase Agreement	64,000	87,000	119,700

Given that the applicable percentage ratios for the historical amounts of the continuing connected transactions under the Existing Salt Purchase Agreement were more than 0.1% but less than 5% for each of the relevant financial year, the transactions under the Existing Salt Purchase Agreement were subject to reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The proposed Revised Annual Caps for each of the three years ending 31 December 2016 are set out below:

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

The proposed Revised Annual Caps are determined by reference to a number of factors such as historical transaction amounts, the sales orders received, marketing plan of the Group's products, the expected improvements in the macro economy of the PRC and therefore, a possible growth in demand for the Group's products, the expected increase in costs of raw materials and the currently anticipated increase in production capacity of Dongying Dongyue Salt in 2014 and 2015 as a result of its expansion plans.

If the amount under the Continuing Connected Transactions for any of the three years ending 31 December 2016 exceeds the proposed 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 REVISED ANNUAL CAPS AND 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. Being well positioned to benefit from the PRC's strong economic growth which leads to higher consumer and industrial spending in the PRC, the Group anticipates steady growth in the domestic demand for its refrigerants, fluoropolymers, organic silicone and other related products. 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 reliable 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. Due to its relationship with the Group (as a non wholly-owned subsidiary and a connected person of the Company), it is expected that Dongying Dongyue Salt will give priority to purchase orders from the Group and allow flexibility in handling the Group's orders, enabling the Group to ensure a continual and reliable supply of raw materials to satisfy the demand and production needs of the Group. In addition, the relatively close vicinity of Dongying Dongyue Salt (compared to the geographical locations of independent suppliers) would enable the Group to save costs and time of transportation. 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. Furthermore, it is currently anticipated that Dongying Dongyue Salt will be undergoing expansion plans in 2014 and 2015 which will lead to an expected increase in its production capacity and hence, the ability to increase its supply of quality industrial salt in bulk to the Group and to increase its take-up of the Group's purchase orders. Based on the factors set out above, the Group intends to increase its purchase of industrial salt from Dongying Dongyue Salt for the three years ending 31 December 2016.

Apart from the above, in determining the proposed Revised Annual Caps for the Renewed Salt Purchase Agreement, the Directors have made the following assumptions: (a) approximate 250,000 units, 350,000 units and 450,000 units of purchase of industrial salt for 2014, 2015 and 2016 respectively; (b) an assumption of a growth rate of approximately 40% and approximately 28.57% of purchase units for 2015 and 2016; (c) an expected increase in the unit purchase price of approximately 8.69%, 16.79% and 14.38% for 2014, 2015 and 2016 respectively; and (d) the successful implementation of production expansion plans of Dongying Dongyue Salt.

In view of the steady improvements in the macro economy of the PRC, the Directors consider that the Existing Annual Caps may not be sufficient to cater for any potential growth for the demand of the products of the Group. Furthermore, the Directors also consider that the Existing Annual Caps should be revised to reflect the inflation in the PRC and the increase in market price of raw materials. The Directors therefore consider that the upward adjustment of the Existing Annual Caps is warranted.

As agreed under the 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 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 course of business of the Group and the Renewed Salt Purchase Agreement and the proposed 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.

Dongying Dongyue Salt, a non wholly-owned subsidiary of the Company, was established in the PRC as a limited liability company in 2005 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 Mr. Fu Kwan, an executive Director, and Macrolink International, a substantial shareholder of the Company and therefore, a connected person of the Company. Hence, the transactions contemplated under the Renewed Salt Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As each of the applicable percentage ratios for the proposed 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 requirements under Chapter 14A of the Listing Rules.

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 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
“Existing Annual Caps”	the previously obtained annual caps of the transactions contemplated under the Existing Salt Purchase Agreement for the three years ended 31 December 2013
“Existing Salt Purchase Agreement”	The agreement dated 31 December 2010 entered into between Dongying Dongyue Salt (then 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
“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 Xi Zang Cheung Shek Investment Limited (西藏長石投資有限公司). Macro-Link Holding Ltd. is a limited liability company established in the PRC, which is held by Xi Zang Cheung Shek Investment Limited as to 75% and by Mr. Fu Kwan as to 10.63%, respectively. Xi Zang Cheung Shek Investment Limited is a limited liability company established in the PRC. Mr. Fu Kwan owns 53.35% of the equity interests in Xi Zang 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, which is solely 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
“Revised Annual Caps”	the revised annual caps for the Continuing Connected Transactions for the three years ending 31 December 2016
“Renewed Salt Purchase Agreement”	The agreement dated 31 December 2013 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 2016
“RMB”	Renminbi, the lawful currency of the PRC
“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

“HK\$” the lawful currency of Hong Kong

“%” per cent

By order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 31 December 2013

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