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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)

CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 40% EQUITY INTEREST IN DONGYING DONGYUE SALT CO., LTD.

THE SHARE TRANSFER AGREEMENT

On 18 May 2018 (after trading hours), Dongyue Chemical (an indirect wholly-owned subsidiary of the Company) and the Vendor (a connected person of the Company) entered into the Share Transfer Agreement, pursuant to which Dongyue Chemical has agreed to purchase, and the Vendor has agreed to sell, 40% equity interest in the Target Company for a cash consideration of RMB86,463,600 (for illustration purpose only, equivalent to approximately HK\$106,745,185).

LISTING RULES IMPLICATIONS

The Vendor is an associate of Macro-Link, which is an indirect substantial shareholder of the Company, and hence the Vendor is a connected person of the Company. As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed(s) 0.1% but are all less than 5%, the entering into of the Share Transfer Agreement is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 18 May 2018 (after trading hours), Dongyue Chemical (an indirect wholly-owned subsidiary of the Company) and the Vendor (a connected person of the Company) entered into the Share Transfer Agreement, pursuant to which Dongyue Chemical has agreed to purchase, and the Vendor has agreed to sell, 40% equity interest in the Target Company for a cash consideration of RMB86,463,600 (for illustration purpose only, equivalent to approximately HK\$106,745,185).

THE SHARE TRANSFER AGREEMENT

The principal terms of the Share Transfer Agreement are set out below.

Date

18 May 2018 (after trading hours)

Parties

- (i) the Vendor (as seller); and
- (ii) Dongyue Chemical (as buyer).

Subject matter

Pursuant to the Share Transfer Agreement, Dongyue Chemical has agreed to purchase, and the Vendor has agreed to sell, 40% equity interest in the Target Company in accordance with the terms and conditions of the Share Transfer Agreement.

Pursuant to the Share Transfer Agreement, Dongyue Chemical and the Vendor shall assist the Target Company to submit the application for change of business registration and change of records in the commercial bureau in respect of the Acquisition after the date of the Share Transfer Agreement.

Consideration

The Consideration for the Acquisition shall be RMB86,463,600 (for illustration purpose only, equivalent to approximately HK\$106,745,185) and shall be payable by Dongyue Chemical to the Vendor in the following manner:

- (1) as to 80% of the Consideration within 10 business days from the date of the Share Transfer Agreement; and
- (2) as to the remaining 20% of the Consideration within 10 business days from the date of completion of the change of business registration.

The Consideration shall be settled by Dongyue Chemical in cash. The Company intends to finance the Acquisition by the internal resources of the Group.

For the purpose of the Acquisition, the Group has engaged an independent professional valuation agency (the “**Valuer**”) to conduct a valuation on the entire equity interest in the Target Company. According to the report issued by the Valuer, the market value, by adopting the asset-based approach, of the entire equity interest in Target Company as of 31 December 2017 was RMB256,159,000. The Consideration was determined with reference to such valuation less the dividend of an amount of RMB16,000,000 distributed by the Target Company to its shareholders for the year ended 31 December 2017.

Completion

Upon completion of the Share Transfer Agreement, the Target Company will be held as to 40% directly by Dongyue Chemical and 60% directly by Dongyue Fluo-Silicon, an indirect non-wholly owned subsidiary of the Company.

INFORMATION ON THE GROUP AND DONGYUE CHEMICAL

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

Dongyue Chemical is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Dongyue Chemical is principally engaged in, among others, the production and sale of green refrigerants products and chemicals such as chlorodifluoromethane, difluoroethane and hydrogen fluoride.

INFORMATION ON THE VENDOR

The Vendor is a company incorporated in the PRC with limited liability which is principally engaged in project investment, investment management, corporate management, technological transfer and technical advisory.

The Vendor is a non-wholly owned subsidiary and thus an associate of Macro-Link, an indirect substantial shareholder of the Company. Therefore, the Vendor is a connected person of the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company was established in Dongying, Shandong Province, the PRC as a limited liability company in 2005 with a registered capital of RMB80,000,000 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 production of refrigerants).

As at the date of this announcement, the Target Company is held as to 60% directly by Dongyue Fluo-Silicon, an indirect non-wholly owned subsidiary of the Company, and 40% directly by the Vendor.

Set out below is a summary of the key financial information of the Target Company for the two years ended 31 December 2016 and 2017:

	Year ended 31 December 2016 <i>(audited)</i> <i>RMB'000</i>	Year ended 31 December 2017 <i>(audited)</i> <i>RMB'000</i>
Net profit/(loss) before taxation	(14,443)	18,925
Net profit/(loss) after taxation	(14,466)	18,927

As at 31 December 2017

(audited)

RMB'000

Net asset value

126,800

The aggregate contribution made by the Vendor in respect of its interest in the Target Company is RMB32,000,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in, among others, manufacturing and sale of refrigerants, fluoropolymers, organic silicone and other products such as dichloromethane, polyvinyl chloride and liquid alkali. The Target Company, a non-wholly owned subsidiary of the Company and is currently undergoing stable development, has now established itself as a reliable supplier of industrial salt 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. In order to enhance internal management and strengthen supply chain synergy, the Directors decide to conduct the Acquisition and consider that the Acquisition is beneficial to the Group as it is a major step for the Group to develop and extend to the supply of upstream raw materials and thereby facilitates the improvement of the overall planning of the Group with regard to the industry chain as a whole and may mitigate the effect of fluctuation in the raw material market on the production costs of the Group and minimize market risks.

The Directors (including the independent non-executive Directors) consider the terms of the Share Transfer Agreement, which were determined after arm's length negotiations between the parties thereto, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As stated above, the Vendor is a connected person of the Company. Therefore, the entering into of the Share Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed(s) 0.1% but are all less than 5%, the entering into of the Share Transfer Agreement is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, apart from Mr. Fu Kwan who has abstained from voting on the Board resolutions approving the transactions contemplated under the Share Transfer Agreement in view of his interest in Macro-Link and thus the Vendor, no other Directors were in any way materially interested in and therefore have abstained from voting on the Board resolutions approving the transactions contemplated under the Share Transfer Agreement. Nevertheless, Mr. Zhang Bishu and Mr. Zhang Jian have also abstained from voting on the Board resolutions approving the transactions contemplated under the Share Transfer Agreement by virtue of their directorship in the Vendor.

DEFINITIONS

In this announcement, the following expressions have the following meanings, unless the context otherwise requires:

“Acquisition”	acquisition by Dongyue Chemical of 40% equity interest in the Target Company from the Vendor in accordance with the terms and conditions of the Share Transfer Agreement
“Board”	the board of Directors
“Company”	Dongyue Group Limited (東岳集團有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 189)
“Consideration”	RMB86,463,600 (for illustration purpose only, equivalent to approximately HK\$106,745,185), being the consideration for the Acquisition
“Director(s)”	the director(s) of the Company
“Dongyue Chemical”	Shandong Dongyue Chemical Co., Ltd. (山東東岳化工有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Dongyue Fluo-Silicon”	Shandong Dongyue Fluo-Silicon Materials Co., Ltd. (山東東岳氟硅材料有限公司), a limited liability company established in the PRC and a subsidiary of the Company held as to 83.22% indirectly by the Company and 16.78% by an independent third party
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macro-Link”	Macro-link Holdings Limited (新華聯控股有限公司), a limited liability company established in the PRC which is indirectly controlled by Mr. Fu Kwan (an executive Director), and a connected person of the Company
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	registered holders of the Shares from time to time
“Shares”	ordinary shares of HK\$0.10 each of the Company
“Share Transfer Agreement”	an agreement dated 18 May 2018 and entered into between Dongyue Chemical and the Vendor in relation to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Dongying Dongyue Salt Co., Ltd. (東營東岳鹽業有限公司), a limited liability company established in the PRC which is held as to 60% directly by Dongyue Fluo-Silicon and 40% directly by the Vendor as at the date of this announcement
“Vendor”	Macro-link Asset Investment Co., Ltd. (北京新華聯產業投資有限公司), a limited liability company established in the PRC held as to 80% by Macro-Link and 20% by Cheung Shek Investment Limited (長石投資有限公司), and a connected person of the Company
“%”	per cent

In this announcement, unless the context otherwise requires, the terms “associate(s)”, “close associate(s)”, “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

For the purpose of this announcement, unless the context otherwise requires, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB0.81 to HK\$1.00. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such or any other rate or at all.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 18 May 2018

As at the date of this announcement, the directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Liu Chuanqi, Mr. Zhang Zhefeng, Mr. Zhang Bishu 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.