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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 TRANSACTIONS IN RELATION TO DISPOSAL OF ASSETS

THE AGREEMENTS

On 28 December 2017 (after trading hours), Dongyue Polymers (a direct wholly-owned subsidiary of the Company) and the Purchaser (a connected person of the Company) entered into the Dongyue Polymers Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and Dongyue Polymers has conditionally agreed to sell, the Dongyue Polymers Assets for a cash consideration of RMB9,325,600 (for illustration purpose only, equivalent to approximately HK\$11,141,700). On the same day, Shandong Huaxia (an indirect wholly-owned subsidiary of the Company) and the Purchaser entered into the Shandong Huaxia Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and Shandong Huaxia has conditionally agreed to sell, the Shandong Huaxia Assets at a consideration of RMB50,822,800 (for illustration purpose only, equivalent to HK\$60,720,200).

LISTING RULES IMPLICATIONS

As stated in the Announcements, Huoer Guosi (as defined in the Announcements) and Macro-Link (as defined in the Announcements) are connected persons of the Company. Therefore, pursuant to Rule 14A.16 of the Listing Rules, the Purchaser is a connected subsidiary of the Company as it is a non-wholly owned subsidiary of the Company where any connected persons at the issuer level, individually or together, can exercise or control the exercise of 10% or more of the voting power at the Purchaser's general meeting.

Given that the Dongyue Polymers Agreement and the Shandong Huaxia Agreement are both entered into with the Purchaser, the transactions contemplated under the Agreements are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed(s) 0.1% but is/are less than 5%, the entering into of the Agreements are subject to

the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcements of the Company dated 18 December 2017 and 22 December 2017 (the **Announcements**).

The Board is pleased to announce that on 28 December 2017 (after trading hours), Dongyue Polymers (a direct wholly-owned subsidiary of the Company) and the Purchaser (a connected person of the Company) entered into the Dongyue Polymers Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and Dongyue Polymers has conditionally agreed to sell, the Dongyue Polymers Assets for a cash consideration of RMB9,325,600 (for illustration purpose only, equivalent to approximately HK\$11,141,700). On the same day, Shandong Huaxia (an indirect wholly-owned subsidiary of the Company) and the Purchaser entered into the Shandong Huaxia Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and Shandong Huaxia has conditionally agreed to sell, the Shandong Huaxia Assets at a consideration of RMB50,822,800 (for illustration purpose only, equivalent to HK\$60,720,200).

THE AGREEMENTS

The Dongyue Polymers Agreement

The principal terms of the Dongyue Polymers Agreement are set out below.

(a). Date

28 December 2017

(b). Parties

- (i) Dongyue Polymers (as vendor); and
- (ii) the Purchaser (as buyer).

(c). Subject matter

Pursuant to the Dongyue Polymers Agreement, the Purchaser has conditionally agreed to purchase, and Dongyue Polymers has conditionally agreed to sell, the Dongyue Polymers Assets in accordance with the terms and conditions in the Dongyue Polymers Agreement.

(d). Consideration

The consideration for the Dongyue Polymer Assets shall be RMB9,325,600 (for illustration purpose only, equivalent to approximately HK\$11,141,700) which shall be payable by the Purchaser to Dongyue Polymers in cash upon completion of the Dongyue

Polymers Agreement.

The Shandong Huaxia Agreement

The principal terms of the Shandong Huaxia Agreement are set out below.

(a). Date

28 December 2017

(b). Parties

- (i) Shandong Huaxia (as vendor); and
- (ii) the Purchaser (as buyer).

(c). Subject matter

Pursuant to the Shandong Huaxia Agreement, the Purchaser has conditionally agreed to purchase, and Shandong Huaxia has conditionally agreed to sell, the Shandong Huaxia Assets in accordance with the terms and conditions in the Shandong Huaxia Agreement.

(d). Consideration

The consideration for the Shandong Huaxia Assets shall be RMB50,822,800 (for illustration purpose only, equivalent to approximately HK\$60,720,200) which shall be payable by the Purchaser to Shandong Huaxia in cash upon completion of the Shandong Huaxia Agreement.

Other principal terms of the Agreements

(a). Conditions precedent

Completion of the respective Agreement is subject to, and conditional upon, the satisfaction (or, if applicable, the waiver) of the following conditions precedent:

- (i) the respective Agreement has been duly executed;
- (ii) internal approval in respect of the terms and conditions of the respective Agreement has been obtained by all parties to the respective Agreement;
- (iii) applicable procedures required by the relevant stock exchange and/or regulatory authority, including but not limited to publication of relevant announcement(s) have been fulfilled;
- (iv) the representations and warranties given by the parties in the respective Agreement are and remain true and accurate as at the date of the respective Agreements and the respective date of Completion; and

- (v). there is no material adverse change in relation to the disposal of the Dongyue Polymers Assets and the Shandong Huaxia Assets under the respective Agreements.

(b). Completion

Subject to the fulfillment (or, if applicable, the waiver) of the conditions precedent stated above, Completion shall take place within three business days after the date of the Agreements.

(c). Termination

If either party to the respective Agreement fails to perform any of its obligations or undertakings under the respective Agreement, or if the representations and warranties given by the parties in the respective Agreement are not true and accurate, the innocent party has the right to demand the defaulting party to make relevant rectification within thirty (30) days, failing which the innocent party is entitled to terminate the relevant Agreement.

(d). Conditions subsequent

Dongyue Polymers and Shandong Huaxia shall, within ninety (90) days after Completion, complete the necessary registration procedures in relation to the change of ownership of the Dongyue Polymers Assets and the Shandong Huaxia Assets as applicable.

Basis for determining the consideration

According to the valuation conducted by an independent professional valuation agency engaged by the Group (the “**Valuer**”), the market value of the Dongyue Polymers Assets and Shandong Huaxia Assets as of 30 November 2017 was RMB9,325,600 and RMB50,822,800 by adopting the cost approach respectively. The consideration under the respective Agreements was determined solely with reference to such valuations.

The Valuer has adopted the cost approach for the valuation of the patents in the Dongyue Polymers Assets and the Shandong Huaxia Assets. The cost approach refers to the approach which considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets. It is the opinion of the Valuer that the market approach is inappropriate as this approach requires market transactions of comparable assets as indications of value and they could not identify any current market transactions which are comparable. The income approach is also inappropriate as the relevant patents are not yet in use and are therefore not generating any income as at the valuation date. As such, there are no reliable projections about the future outcome from using these patents.

Regarding the machinery and equipment in the Shandong Huaxia Assets, the independent valuer has considered and excluded the income approach due to insufficient financial data being available. They have adopted both the cost approach and the market approach in arriving at the estimated market value of the machinery and equipment in the Shandong Huaxia Assets.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

As disclosed in the Announcements, the Group has been conducting and has obtained achievements in two of its key research and development projects on (i) fuel cell membrane and (ii) chlor-alkali ion membrane, and has set up the Purchaser as a joint venture to consolidate the respective strengths of the Group and the resources and network of the joint venture partners. The Dongyue Polymers Assets and the Shandong Huaxia Assets are essential parts for the development of the business engaged by the Joint Venture. As such, the injection of the Dongyue Polymers Assets and the Shandong Huaxia Assets into the Purchaser at market value is a continuation of the aforesaid business objective of the Group, with a view to develop the Purchaser to become the most suitable platform for the furtherance of the research and development and subsequent sale of the fuel cell and chlor-alkali products.

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

INFORMATION ON THE GROUP, DONGYUE POLYMERS AND SHANDONG HUAXIA

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.

Each of Dongyue Polymers and Shandong Huaxia is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company.

INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in the PRC with limited liability which is principally engaged in the business of production and sale of hydrogen energy materials, hydrogen membrane materials, lithium battery, packaging materials and fluoropolymers fiber.

As stated in the Announcements, Huoer Guosi (as defined in the Announcements) and Macro-Link (as defined in the Announcements) are connected persons of the Company. The Purchaser is held as to 40% by Shandong Huaxia, 30% by Huoer Guosi and 30% by Macro-Link, and is accounted for as a subsidiary of the Company. Therefore, pursuant to Rule 14A.16 of the Listing Rules, the Purchaser is a connected subsidiary of the Company as it is a non-wholly owned subsidiary of the Company in which each of Huoer Guosi and Macro-Link can exercise or control the exercise of 10% or more of the voting power at the Purchaser's general meeting.

LISTING RULES IMPLICATIONS

As stated above, the Purchaser is a connected person of the Company. Therefore, the entering into of the Agreements constitutes connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the Dongyue Polymers Agreement and the Shandong Huaxia Agreement are both entered into with the Purchaser, the transactions contemplated under the Agreements are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed(s) 0.1% but is/are less than 5%, the entering into of the Agreements are 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, Mr. Zhang Jianhong, Mr. Zhang Zhefeng and Mr. Zhang Bishu who have abstained from voting on the Board resolutions approving the transactions contemplated under the Agreements in view of their respective interests in the Purchaser as disclosed in the Announcements, 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 Agreements.

DEFINITIONS

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

“Agreements”	the Dongyue Polymers Agreement and the Shandong Huaxia Agreement, and “ Agreement ” shall refer to any of them
“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)
“Completion”	completion of the disposal of the Dongyue Polymers Assets and/or the Shandong Huaxia Assets pursuant to the respective Agreement
“Director(s)”	the director(s) of the Company
“Dongyue Polymers”	Shandong Dongyue Polymers Co., Ltd. (山東東岳高分子材料有限公司), a company incorporated in the PRC with limited liability and a direct wholly-owned subsidiary of the Company
“Dongyue Polymers Agreement”	an asset purchase agreement dated 28 December 2017 and entered into between Dongyue Polymers (as vendor) and the Purchaser (as buyer) in connection with the disposal of the Dongyue Polymers Assets

“Dongyue Polymers Assets”	certain patents and their associated assets and liabilities in relation to the production of hydrogen materials
“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)
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd. (山東東岳未來氫能材料有限公司), a company incorporated in the PRC with limited liability and a connected person of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Huaxia”	Shandong Huaxia Shenzhou New Materials Co., Ltd.(山東華夏神舟新材料有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Shandong Huaxia Agreement”	an asset purchase agreement dated 28 December 2017 and entered into between Shandong Huaxia (as vendor) and the Purchaser (as buyer) in connection with the disposal of the Shandong Huaxia Assets
“Shandong Huaxia Assets”	certain patents, machinery and equipment and their associated assets and liabilities in relation to the production of hydrogen membrane materials
“Shareholders”	registered holders of the Shares from time to time
“Shares”	ordinary shares of HK\$0.10 each of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	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 RMB0.837 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, 28 December 2017

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.