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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)**

### **PROPOSED SPIN-OFF AND SEPARATE LISTING OF DONGYUE ORGANOSILICONE ON THE SHENZHEN STOCK EXCHANGE, POSSIBLE MAJOR TRANSACTION IN RELATION TO DEEMED DISPOSAL OF INTEREST IN DONGYUE ORGANOSILICONE**

#### **THE PROPOSED SPIN-OFF**

Reference is made to the announcement of the Company dated 29 March 2018 in relation to the proposed spin-off and separate listing of Dongyue Organosilicone, an indirect non-wholly-owned subsidiary of the Company which is primarily engaged in manufacturing and sale of organic silicone products, on ChiNext of the Shenzhen Stock Exchange.

As at the date of this announcement, the Company indirectly controlled 77% interest in Dongyue Organosilicone. In connection with the Proposed Spin-off, Dongyue Organosilicone will issue certain number of new A shares on ChiNext of the Shenzhen Stock Exchange by way of initial public offering to the public in the PRC, or other methods as approved by the CSRC. Based on the Board's estimate and the funding needs of Dongyue Organosilicone, it is proposed that Dongyue Organosilicone will issue not more than 300,000,000 new A shares (the "Offer Shares"), representing 25% of the total number of issued shares of Dongyue Organosilicone as enlarged by the Proposed Spin-off. The actual number of Offer Shares to be issued by Dongyue Organosilicone will be subject to the market conditions and the relevant rules and regulations of the CSRC as amended from time to time. It is expected that immediately upon completion of the Proposed Spin-off, the Company will indirectly control not less than approximately 57.75% interest in Dongyue Organosilicone, and therefore Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company.

## **APPLICATION TO CSRC AND THE HONG KONG STOCK EXCHANGE**

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

As at the date of this announcement, no formal application has been submitted by Dongyue Organosilicone to the CSRC for the listing of its shares on the Shenzhen Stock Exchange.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the shareholding of the Company in Dongyue Organosilicone is expected to be diluted from 77% to approximately 57.75% to a maximum extent upon completion of the Proposed Spin-off, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Dongyue Organosilicone under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Dongyue Organosilicone, and the expected offering terms for the Offer Shares, one or more of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but are all less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The Company shall reassess the applicable percentage ratios in respect of the Proposed Spin-off if the actual gross proceeds raised from the Proposed Spin-off exceed the estimated maximum amount as disclosed herein, and re-comply with the relevant requirements for notifiable transaction including the Shareholders' approval requirement in accordance with Chapter 14 of the Listing Rules should the Proposed Spin-off constitute a very substantial disposal of the Company.

## **EGM**

The Company will seek Shareholders' approval at the EGM for the Proposed Spin-off. As far as the Directors are aware, no Shareholder has a material interest in the Proposed Spin-off which is different from those of the other Shareholders. As such, no Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Proposed Spin-off at the EGM.

A circular containing, among other things, (i) the details of the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser regarding the Proposed Spin-off; and (iii) a notice of the EGM, will be despatched to the Shareholders on or around 15 October 2018.

**Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange, and therefore may or may not proceed. Accordingly, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

## INTRODUCTION

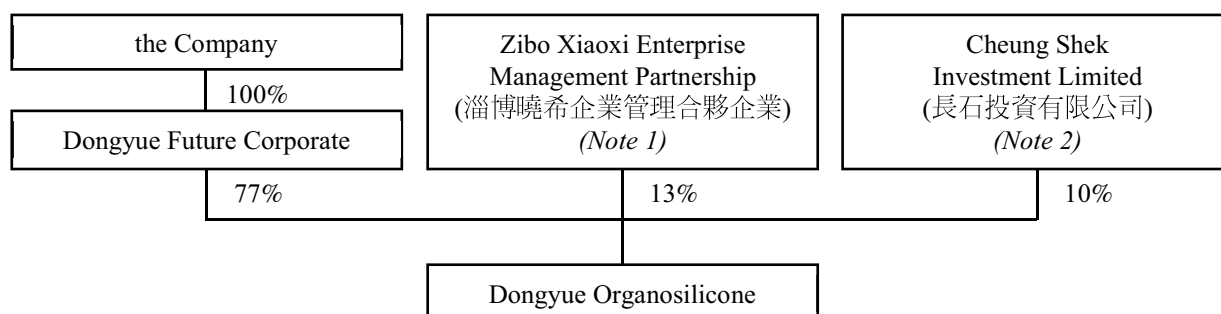
Reference is made to the announcement of the Company dated 29 March 2018 in relation to the proposed spin-off and separate listing of Dongyue Organosilicone, an indirect non-wholly-owned subsidiary of the Company which is primarily engaged in manufacturing and sale of organic silicone products, on ChiNext of the Shenzhen Stock Exchange.

## THE PROPOSED SPIN-OFF

In connection with the Proposed Spin-off, Dongyue Organosilicone will issue certain number of new A shares on ChiNext of the Shenzhen Stock Exchange by way of initial public offering to the public in the PRC, or other methods as approved by the CSRC. Based on the Board's estimate and the funding needs of Dongyue Organosilicone, it is proposed that Dongyue Organosilicone will issue not more than 300,000,000 new A shares (the "**Offer Shares**"), representing 25% of the total number of issued shares of Dongyue Organosilicone as enlarged by the Proposed Spin-off, such that Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company upon completion of the Proposed Spin-off. The actual number of Offer Shares to be issued by Dongyue Organosilicone will be subject to the market conditions and the relevant rules and regulations of the CSRC as amended from time to time.

## Effects of the Proposed Spin-off on the shareholding structure of Dongyue Organosilicone

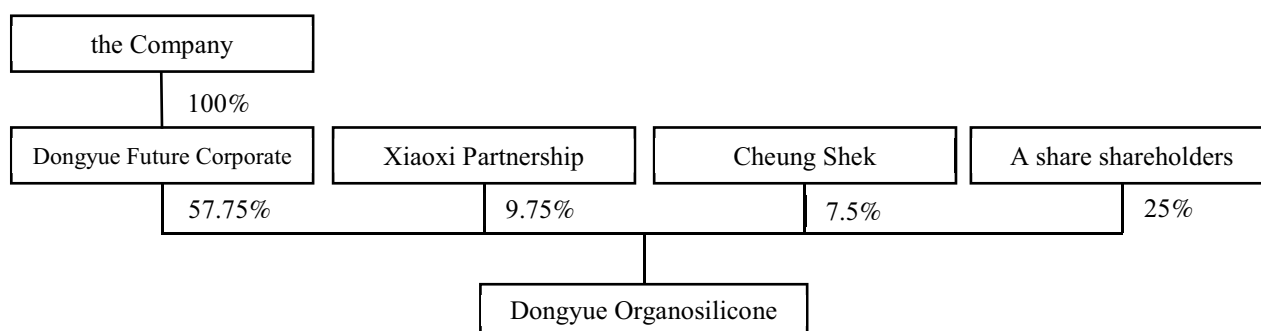
As at date of this announcement, Dongyue Organosilicone had an aggregate of 900,000,000 shares in issue, and the Company indirectly controlled 77% interest in Dongyue Organosilicone. Set out below is a simplified corporate structure of Dongyue Organosilicone as at the date of this announcement:



Notes:

1. Zibo Xiaoxi Enterprise Management Partnership (淄博曉希企業管理合夥企業) (“**Xiaoxi Partnership**”) is a PRC limited partnership owned by certain senior management and employees of the Group. In particular, as at the date of this announcement, (i) an aggregate of approximately 42.48% interest was owned by Mr. Zhang Jianhong and Mr. Zhang Zhefeng (both executive Directors); (ii) an aggregate of approximately 41.75% interest was owned by certain directors of the Company’s subsidiaries (apart from Mr. Zhang Jianhong and Mr. Zhang Zhefeng); and (iii) the remaining interest was owned by certain senior management and employees of the Group who are not connected persons of the Company under the Listing Rules.
2. As at the date of this announcement, Cheung Shek Investment Limited (長石投資有限公司) (“**Cheung Shek**”) was held by Mr. Fu Kwan (an executive Director) as to 53.35%; Mr. Zhang Jian (an executive Director) as to 3.33%; and independent third parties as to 43.32%.

It is expected that immediately upon completion of the Proposed Spin-off, the Company will indirectly control not less than approximately 57.75% interest in Dongyue Organosilicone, and therefore Dongyue Organosilicone will remain as a non-wholly-owned subsidiary of the Company. Set out below is a simplified corporate structure of Dongyue Organosilicone immediately upon completion of the Proposed Spin-off (assuming that the Offer Shares to be issued will represent 25% of the enlarged share capital of Dongyue Organosilicone):



In any event, Dongyue Organosilicone shall not cease to be a subsidiary of the Company as a result of the Proposed Spin-off.

### **Proceeds to be raised from the Proposed Spin-off**

The offer price per Offer Share (the “**Offer Price**”) will be subject to market conditions close to the launch of the proposed A share issuance and determined by a book-building process organised by the lead underwriter of the Proposed Spin-off and to be agreed by Dongyue Organosilicone. In determination of the Offer Price, Dongyue Organosilicone shall take in account of (i) the operating results and performance of Dongyue Organosilicone, including the net profit of Dongyue Organosilicone in the financial year preceding the launch of the A share issuance; (ii) the net asset value per share of Dongyue Organosilicone at the time of the launch; (iii) the expansion plan and the capital need of Dongyue Organosilicone; (iv) the then responses to price consultation to the A

share issuance in the book-building process; and (v) an appropriate price to earnings ratio to be determined by Dongyue Organosilicone and the lead underwriter having considered the CSRC guidelines governing A share issuance in the PRC, as well as other comparable companies listed in the PRC in the same industry as Dongyue Organosilicone.

Notwithstanding the above, the Directors consider that it is appropriate and is in the best interests of the Company and its Shareholders as a whole that the Offer Price shall be not less than the unaudited net asset value per share of Dongyue Organosilicone as at 31 August 2018 (i.e. approximately RMB1.98 per share) or such lower unaudited net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance, which represents the minimum value per share of Dongyue Organosilicone with reference to its assets and liabilities. The Directors consider that it would not be in the best interests of the Company and its Shareholders as a whole for Dongyue Organosilicone to issue the Offer Shares at a price lower than such minimum value per share.

Based on the above factors, the Board estimates that the gross proceeds to be raised from the Proposed Spin-off will be not more than RMB4.5 billion. Such estimated amount of gross proceeds is arrived at based on the expected financial performance of Dongyue Organosilicone for the year ending 31 December 2018 and the adoption of a P/E ratio as determined by the Company with reference to the P/E ratios of comparable companies listed in the PRC in the same industry as Dongyue Organosilicone at the time of the launch of the A share issuance. However, investors should be aware that the expected offering size, the indicative P/E ratio and the estimated gross proceeds referred to above is for illustration purposes only and the actual amount raised, if the Proposed Spin-off is completed, will depend on the PRC domestic market conditions at the time of the launch of the A share offering and may vary substantially from the amount estimated above. In the event that within a period of 12 months from the date of CSRC's approval of the Proposed Spin-off, (i) the indicative Offer Price is less than the unaudited net asset value per share of Dongyue Organosilicone at the time of the launch of the A share issuance; and (ii) the indicative P/E ratio in respect of the proposed Offer Price is lower than all prevailing P/E ratios of comparable companies listed in the PRC in the same industry as Dongyue Organosilicone at the time of the launch of the A share issuance, the Board shall reconsider whether it is appropriate to proceed with the Proposed Spin-off with the indicative Offer Price and review the appropriate timing and offering size of the A share issuance taking into consideration of the then prevailing market conditions and the terms of the A share issuance. Should the Board consider it in the interests of the Company and its Shareholders to proceed with the Proposed Spin-off notwithstanding the indicative Offer Price falling below the above two thresholds in view of the strategies and capital need of Dongyue Organosilicone and the prevailing marketing conditions, the Company shall notify the Shareholders by way of announcement(s) setting out the reasons for its decision and basis of the A share issuance as and when appropriate.

The Company shall reassess the applicable percentage ratios in respect of the Proposed Spin-off if the actual gross proceeds raised from the Proposed Spin-off exceed the estimated maximum amount as disclosed herein, and re-comply with the relevant requirements for notifiable transaction including the Shareholders' approval requirement in accordance with Chapter 14 of the Listing Rules should the Proposed Spin-off constitute a very substantial disposal of the Company.

## Proposed use of proceeds

Dongyue Organosilicone intends to apply the proceeds to be raised from the Proposed Spin-off for investment in the following projects based on their importance and urgency in the following manner:

Project	Description of the project	Current status of the project	Expected time of completion	Amount of proceeds to be invested in the project (RMB)	Percentage of proceeds
1. Organic silicone monomer and organic silicone downstream products deep processing project	A new production base of approximately 283,000 square meters which consists of production facilities, warehouses and engineering facilities for the production and deep processing of silicone monomer and silicone downstream products, including silica, silicone glue, silicone oil, liquid glue, rubber compound and silicone resin	<ul style="list-style-type: none"> <li>- In the process of obtaining all necessary licenses and permits</li> <li>- Construction not yet commenced</li> </ul>	By 2020	2,980,740,200 according to the following breakdown: <ul style="list-style-type: none"> <li>- 47% for purchase of equipment and device;</li> <li>- 20% for construction cost;</li> <li>- 15% for other costs and expenses of the construction;</li> <li>- 14% for initial working capital for start-up of production; and</li> <li>- 4% for installation fee.</li> </ul>	66.24%
2. Organic silicone monomer production device energy saving and environmental protection technology reform project	Modification, upgrading, improvement and replacement of existing equipment, including production devices and environmental protection equipment, for the production of organic silicone monomer	<ul style="list-style-type: none"> <li>- In the process of obtaining all necessary licenses and permits</li> <li>- Construction not yet commenced</li> </ul>	By 2020	498,000,000 according to the following breakdown: <ul style="list-style-type: none"> <li>- 64% for upgrading and modification of existing equipment and device;</li> <li>- 24% for automation upgrade;</li> <li>- 10% for modification of waste incineration system; and</li> <li>- 2% for modification of water processing system.</li> </ul>	11.07%
3. Research and development centre project	A new five-floor building of approximately 11,000 square meters consisting of laboratories, analysis rooms, emergency operations centre and information control centre, exhibition hall and conference rooms	<ul style="list-style-type: none"> <li>- In the process of obtaining all necessary licenses and permits</li> <li>- Construction not yet commenced</li> </ul>	By 2019	200,000,000 according to the following breakdown: <ul style="list-style-type: none"> <li>- 50% for the laboratories and analysis rooms;</li> <li>- 20% for the information control centre;</li> <li>- 10% for the main building;</li> <li>- 10% for the emergency operations centre;</li> <li>- 5% for the exhibition hall;</li> <li>- 2.5% for the conference rooms; and</li> <li>- 2.5% for miscellaneous expenses.</li> </ul>	4.44%
4. General working capital	Approximately 85% for the purchase of raw materials and increased labor costs after the expansion of production scale; and approximately 15% as back-up capital			821,259,800	18.25%
<b>Total</b>				<b>4,500,000,000</b>	<b>100.00%</b>

The respective expected investment amounts for the first, second and third projects referred to above were determined by the Company's internal budgeting based on the estimated costs and expenses on construction of buildings, purchase and installation of equipment, upgrading of systems and facilities and other related expenditure. In order to seize the market opportunities and facilitate the completion of the above projects as soon as possible, Dongyue Organosilicone will invest in some of the projects through its internally generated funds and/or bank financings, and then use the proceeds from the Proposed Spin-off to replenish such funds which were applied by Dongyue Organosilicone for those projects.

The completion of the above projects is not dependent on the Proposed Spin-off. If the actual amount of the proceeds from the Proposed Spin-off is less than the total investment amount for these projects, priority will be given to the first project and Dongyue Organosilicone will use other available funds, including internally generated funds and third party financings, to make up the shortfall for the second and the third projects.

### **Lock-up and non-competition undertakings**

In connection with the listing of Dongyue Organosilicone's shares on ChiNext of the Shenzhen Stock Exchange, as required by the Rules Governing the Listing of Shares on the Chinext of Shenzhen Stock Exchange, among others:

- (i) each of Dongyue Future Corporate, Xiaoxi Partnership, Cheung Shek and Mr. Fu Kwan (the controlling shareholder of Cheung Shek) will, in accordance with the Rules Governing the Listing of Shares on the Chinext of Shenzhen Stock Exchange, undertake (the "**Lock-up Undertaking**") that within at least 36 months (in the case of the controlling shareholder or controller(s) of Dongyue Organosilicone, namely Dongyue Future Corporate, Cheung Shek and Mr. Fu Kwan) or 12 months (in the case of other shareholder(s) of Dongyue Organosilicone, namely Xiaoxi Partnership) from the date of listing of Dongyue Organosilicone's shares on ChiNext of the Shenzhen Stock Exchange (the "**Lock-up Period**"), it/he will not transfer or entrust others to manage the shares in Dongyue Organosilicone directly or indirectly held by it/him before the Proposed Spin-off, or allow Dongyue Organosilicone to repurchase any of such shares;
- (ii) each of Dongyue Future Corporate, Cheung Shek and Mr. Fu Kwan will further undertake that if it/he reduces its/his shareholding in Dongyue Organosilicone within 2 years from the end of the Lock-up Period, the selling price(s) for the relevant disposal(s) shall not be less than the Offer Price; and
- (iii) each of Dongyue Future Corporate and Mr. Fu Kwan will undertake (the "**Non-competition Undertaking**") that it/he will not engage in, or establish or acquire any entity which engages in, the same or similar business as Dongyue Organosilicone, or establish, operate or develop any business, enterprise, project or other activity which competes or may compete with the business of Dongyue Organosilicone.

The Lock-up Undertaking and the Non-competition Undertaking to be provided by Dongyue Future Corporate do not involve, and therefore in the Directors' view, will not have any material adverse impact on the operations and businesses of the Remaining Group.

## **FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP**

As mentioned above, Dongyue Organosilicone will continue to be a non-wholly-owned subsidiary of the Company upon the completion of the Proposed Spin-off. Accordingly, the operating results of Dongyue Organosilicone will continue to be consolidated into the financial statements of the Company. The following is the expected financial impact of the Proposed Spin-off on the Group:

### **Earnings**

The Proposed Spin-off will be regarded as a transaction with non-controlling interest, the carrying amount of the non-controlling interest will be adjusted to reflect the proportionate change in the non-controlling interest in Dongyue Organosilicone. It is expected that there would be no expected gain or loss on the deemed disposal credited to the Company's consolidated income statement as gain or loss upon the completion of the Proposed Spin-off in accordance with the relevant accounting policies. The difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration received will be recorded in equity attributed to the Shareholders. In addition, as the proportion of the Company's shareholding in Dongyue Organosilicone will be diluted to a maximum extent to 57.75% immediately after the completion of the Proposed Spin-off, it is expected that the earnings attributable to owners of the Company contributed by Dongyue Organosilicone will decrease while the earnings attributable to non-controlling interests of the Company will increase.

### **Assets and liabilities**

The Proposed Spin-off will increase the number of shares of Dongyue Organosilicone and raise corresponding funds. The proceeds of the Proposed Spin-off will increase the cash recorded in the consolidated balance sheet of the Group and increase the total assets of the Group correspondingly, thereby improving the structure of the Group's assets and liabilities.

## **REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF**

The Board believes that it is commercially beneficial to the Group and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (i) the Proposed Spin-off will enhance the liquidity and value of the shares of Dongyue Organosilicone and thereby allow the Company and its Shareholders an opportunity to realise the fair value of their investment in the business of Dongyue Organosilicone;
- (ii) the proceeds from the Proposed Spin-off will support and accelerate the future development of the business of Dongyue Organosilicone and allow it to expand the scale of its business;



- (iii) the Proposed Spin-off will enable Dongyue Organosilicone to obtain a separate listing status and an independent fund-raising platform, allowing Dongyue Organosilicone to gain direct access to the capital markets for equity and/or debt financing without reliance on the Company, which will accelerate its expansion and improve its operating and financial performance, in turn providing better reward to the shareholders of both Dongyue Organosilicone and the Company;
- (iv) the Proposed Spin-off will increase the operational and financial transparency and improve the corporate governance of Dongyue Organosilicone and provide investors, financial institutions and rating agencies with greater clarity on its businesses and financial status, and such improvement will help build investors' confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of Dongyue Organosilicone;
- (v) the Proposed Spin-off will enable Dongyue Organosilicone to enhance its corporate profile, thereby increasing its ability to attract strategic investors for investment in and forming strategic partnerships directly with Dongyue Organosilicone;
- (vi) the Proposed Spin-off will clearly delineate the businesses and products of Dongyue Organosilicone and the Remaining Group, allowing separate platforms for Dongyue Organosilicone and the Remaining Group to develop their own business strategies and growth paths; and
- (vii) as Dongyue Organosilicone will continue to be a subsidiary of the Company and the operating results of Dongyue Organosilicone will continue to be consolidated into the financial statements of the Company upon the completion of the Proposed Spin-off, the Company will continue to enjoy the benefits arising from the future business development and growth of Dongyue Organosilicone.

Having considered the above, the Directors (save and except for the independent non-executive Directors whose view will be contained in the circular to be despatched to the Shareholders) are of the view that the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **INFORMATION ON THE GROUP**

The Group is primarily engaged in the six operating and reportable business segments of (i) manufacturing and sale of fluoropolymers; (ii) manufacturing and sale of refrigerants; (iii) manufacturing and sale of organic silicone (through Dongyue Organosilicone); (iv) manufacturing and sale of dichloromethane, polyvinyl chloride (PVC) and liquid alkali; (v) others, mainly comprising by-products from the above operating segments such as ammonium bifluoride, hydrofluoric acid and bromine; and (vi) property development.

## INFORMATION ON DONGYUE ORGANOSILICONE

Dongyue Organosilicone is a joint stock limited company incorporated in the PRC and is an indirect non-wholly-owned subsidiary of the Company. It is primarily engaged in manufacturing and sale of organic silicone products, which are widely applied in military, aviation, automotive, electronic, construction and other industries as key ingredients in industrial processes, mainly in the form of sealants, additives, chemical stabilizers and lubricants.

Set out below is the financial information of Dongyue Organosilicone prepared in accordance with PRC GAAP for the two years ended 31 December 2017:

	<b>For the year ended 31 December 2016 <i>RMB'000</i></b>	<b>For the year ended 31 December 2017 <i>RMB'000</i></b>
Net profit (loss) before taxation	60,735	401,732
Net profit (loss) after taxation	44,033	285,348
		<b>As at 31 December 2017 <i>RMB'000</i></b>
Net asset value		743,125

## INFORMATION ON THE REMAINING GROUP

Upon completion of the Proposed Spin-off, the Remaining Group will continue to be primarily engaged in (i) manufacturing and sale of fluoropolymers; (ii) manufacturing and sale of refrigerants; (iii) manufacturing and sale of dichloromethane, polyvinyl chloride (PVC) and liquid alkali; (iv) others, mainly comprising by-products from the other operating segments such as ammonium bifluoride, hydrofluoric acid and bromine; and (v) property development.

## CONDITIONS OF THE PROPOSED SPIN-OFF

The Proposed Spin-off will be conditional upon, among other things, the following:

- (i) approval by the Shareholders in relation to the Proposed Spin-off at the EGM;
- (ii) approval by the CSRC and the Shenzhen Stock Exchange in relation to the Proposed Spin-off;  
and

(iii) any other PRC regulatory approvals for the listing of and permission to deal in the Offer Shares to be issued by Dongyue Organosilicone.

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable.

## **APPLICATION TO CSRC AND THE HONG KONG STOCK EXCHANGE**

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. Please refer to the paragraph headed “Waiver from strict compliance with paragraph 3(f) of PN15” below for further details.

As at the date of this announcement, no formal application has been submitted by Dongyue Organosilicone to the CSRC for the listing of its shares on the Shenzhen Stock Exchange.

## **WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(f) OF PN15**

Paragraph 3(f) of PN15 requires the Company to have due regard to the interests of its existing Shareholders by providing them with an assured entitlement to shares in Dongyue Organosilicone, either by way of a distribution in specie of existing shares in Dongyue Organosilicone or by way of preferred application in any offering of existing or new shares in Dongyue Organosilicone.

If the Proposed Spin-off is implemented, the Offer Shares will be offered in the domestic market in the PRC and be listed and traded on ChiNext of the Shenzhen Stock Exchange. As advised by the PRC counsel of Dongyue Organosilicone, shares publicly offered and listed on the Shenzhen Stock Exchange may only be offered to domestic investors in the PRC and certain foreign investors qualified under the relevant PRC laws and regulations, including (i) qualified foreign institutional investors; (ii) foreign investors approved by the Ministry of Commerce of the PRC or relevant PRC authorities; (iii) foreigners who have obtained a permanent right of abode in the PRC; and (iv) citizens of Hong Kong, Macau and Taiwan with valid working or residential proof in the PRC. As such, the Company would not be allowed to provide its existing Shareholders with an assured entitlement to the Offer Shares unless the Company is satisfied that they are PRC investors or foreign investors qualified under the relevant PRC laws and regulations. However, it would be unduly burdensome and practically impossible for the Company to obtain and verify the background information of all Shareholders for the purpose of ascertaining whether they are so qualified. Furthermore, based on the information available from the Company’s branch share registrar in Hong Kong, many existing Shareholders are not reasonably considered as qualified foreign investors.

In addition, as advised by Dongyue Organosilicone’s PRC counsel, according to the relevant PRC laws, during the issuance of shares by a joint stock company, each share of the same class shall rank *pari passu* and the issuance price and conditions for each share of the same class issued at the same

time shall be the same. Therefore, the issuance conditions for the Offer Shares shall be the same for all investors, and it is impossible for Dongyue Organosilicone to make preferential allocations of the Offer Shares to the Company's existing Shareholders in Hong Kong under the relevant PRC laws and regulations.

Given the above PRC legal impediments, it is not feasible for the Company to comply with paragraph 3(f) of PN15 in connection with the Proposed Spin-off. Accordingly, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

Having taken into account the above reasons, the Directors (save and except for the independent non-executive Directors whose view will be contained in the circular to be despatched to the Shareholders) are of the view that the Proposed Spin-off and the non-provision of assured entitlement in connection therewith are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the shareholding of the Company in Dongyue Organosilicone is expected to be diluted from 77% to approximately 57.75% to a maximum extent upon completion of the Proposed Spin-off, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Dongyue Organosilicone under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Dongyue Organosilicone, and the expected offering terms for the Offer Shares, one or more of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but are all less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

## **GENERAL**

The Company will seek Shareholders' approval at the EGM for the Proposed Spin-off. As far as the Directors are aware, no Shareholder has a material interest in the Proposed Spin-off which is different from those of the other Shareholders. As such, no Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Proposed Spin-off at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed for the purpose of advising the Shareholders in respect of the Proposed Spin-off. The Company has, with the approval of the Independent Board Committee, appointed Yunfeng Financial as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholder in respect of the Proposed Spin-off.

A circular containing, among other things, (i) the details of the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of the Independent Financial Adviser regarding the Proposed Spin-off; and (iii) a notice of the EGM, will be despatched to the Shareholders on or around 15 October 2018.

**Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange, and therefore may or may not proceed. Accordingly, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

## **DEFINITIONS**

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

“A share(s)”	domestic share(s) issued by companies and listed on a stock exchange in the PRC
“Board”	the board of directors of the Company
“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 Hong Kong Stock Exchange (stock code: 189)
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company
“Dongyue Future Corporate”	Shandong Dongyue Future Corporate Management Consultancy Services Co., Ltd. (山東東岳未來企業管理諮詢服務有限公司), a wholly-owned subsidiary of the Company
“Dongyue Organosilicone”	Shandong Dongyue Organosilicone Materials Co., Ltd. (山東東岳有機硅材料股份有限公司), a company incorporated in the PRC and an indirect non-wholly-owned subsidiary of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Proposed Spin-off
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent board committee of the Board, comprising all the independent non-executive Directors, established to advise the Shareholders on the Proposed Spin-off
“Independent Financial Adviser” or “Yunfeng Financial”	Yunfeng Financial Markets Limited (雲鋒金融市場有限公司), a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, the independent financial adviser appointed by the Independent Board Committee for the purpose of advising the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off
“Listing Rules”	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“PN15”	Practice Note 15 of the Listing Rules
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Proposed Spin-off”	the proposed spin-off and separate listing of Dongyue Organosilicone on ChiNext of the Shenzhen Stock Exchange by way of issuance of new A shares of Dongyue Organosilicone
“RMB”	Renminbi, the law currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) 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)”, “connected subsidiary(ies)”, “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 Hong Kong Stock Exchange from time to time.*

*In this announcement, the English names of the PRC entities are transliteration of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

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

The PRC, 12 October 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.*