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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 TRANSFER OF EQUITY INTEREST IN AN ASSOCIATED COMPANY

THE EQUITY TRANSFER AGREEMENT

On 28 July 2022 (after trading hours), the Transferor (a direct wholly-owned subsidiary of the Company) entered into the Equity Transfer Agreement with the Transferee, pursuant to which the Transferor agreed to transfer 34,330,000 shares in the Target Company (representing approximately 7.90% of its total equity interest as at the date of this announcement) to the Transferee at an aggregate consideration of RMB537,607,800 (equivalent to approximately HK\$645,129,360).

LISTING RULES IMPLICATIONS

The Transferee is a limited partnership whose general partner is a company controlled by a Director and accordingly, the Transferee is a connected person of the Company and the entering into of the Equity Transfer Agreement and the transactions contemplated thereunder constitute 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) in respect of the Transfer exceed(s) 0.1% but is/are less than 5%, the Transfer is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

On 28 July 2022 (after trading hours), the Transferor (a direct wholly-owned subsidiary of the Company) entered into the Equity Transfer Agreement with the Transferee, pursuant to which the Transferor agreed to transfer 34,330,000 shares in the Target Company (representing approximately

7.90% of its total equity interest as at the date of this announcement) to the Transferee at an aggregate consideration of RMB537,607,800 (equivalent to approximately HK\$645,129,360). The Target Company is an associated company of the Company.

THE EQUITY TRANSFER AGREEMENT

- Date** : 28 July 2022 (after trading hours)
- Parties** : (i) Dongyue Fluorosilicon Science and Technology Group Co., Ltd.* (東岳氟硅科技集團有限公司) (as the Transferor); and
- (ii) Zibo Qilu Jishi Start-up Investment Partnership (Limited Partnership)* (淄博齊魯基石創業投資合夥企業(有限合夥)) (as the Transferee).
- Subject Matter** : The Transferor agreed to transfer 34,330,000 shares in the Target Company (representing approximately 7.90% of its total equity interest as at the date of this announcement) to the Transferee
- Consideration** : An aggregate of RMB537,607,800 (equivalent to approximately HK\$645,129,360).

The Consideration was arrived at after arm's length negotiations between the Transferor and the Transferee with reference to the appraised value of the Target Company as at 30 June 2022 of approximately RMB6,804,200,000 by an independent professional valuer. Given the Transferee is a limited partnership and time is required to arrange for capital call from its limited partners, the Consideration will be payable in staged payments. The first payment representing 20% of the Consideration shall be payable within three business days after the conditions of the Equity Transfer Agreement have been satisfied. The second payment representing 20% of the Consideration shall be payable before 30 September 2022 and the final payment of the remaining balance of the Consideration shall be payable before 30 November 2022.

Pursuant to the Equity Transfer Agreement, in the event that the Transferee is unable to fulfil its payment obligations in accordance with the terms of the Equity Transfer Agreement, it shall pay penalty charges to the Transferor. If such breach continues, the Transferor is also entitled to unilaterally terminate the Equity Transfer Agreement and the Transferee shall transfer back to the Transferor all the transferred shares in the Target Company, with the Transferor returning 80% of such amount of the Consideration so received by it at the prevailing time.

Furthermore, (i) Qilu Start-up Investment (as defined below), being the single largest limited partner of the Transferee; and (ii) Beijing Xuri Xinglong Technology Development Centre (Limited Partnership)* (北京旭日興隆科技發展中心(有限合夥)) (“**Beijing Xuri**”), being an investment platform whose general partner is Zibo Yuerun (as defined below) and whose limited partners are employees of the Group, have each given a written undertaking to the Transferor that it will indemnify the payment obligations of the Transferee shall it be unable to fulfil the same.

Completion : Completion of the Transfer is conditional on, among others, (i) the Equity Transfer Agreement being validly entered into by the parties thereto; and (ii) shareholders of the Target Company (other than the Transferor) having waived their rights of first refusal in writing.

Completion of the Transfer is expected to take place upon satisfaction of the conditions of the Equity Transfer Agreement and settlement of the first payment of the Consideration.

As at the date of this announcement, shareholders of the Target Company (other than the Transferor) have waived their rights of first refusal in writing.

REASONS FOR AND BENEFITS OF THE TRANSFER

The Target Company is planning to apply for the listing of its shares on a stock exchange in the PRC. It is undergoing a shareholding restructuring through the introduction of strategic investors to further satisfy applicable requirements, thereby (i) enhancing its shareholder base to facilitate the aforementioned listing; and (ii) laying a solid foundation for its corresponding valuation. Considering the aforementioned and taking into account the appraised value of the Target Company which represents more than seven times of its net asset value, the Board considers that the Transfer offers a good opportunity for the Group to realise part of its shareholding in the Target Company at an attractive transfer price thereby further strengthening the financial position of the Group. Following completion of the Transfer, the Transferor will remain interested in 22.03% of the equity interest in the Target Company. According to the Target Company, for its shareholding restructuring, one of its other shareholders, which is a third party independent of the Company and its connected persons, has entered into an equity transfer agreement with the Transferee for the transfer of 2.1% of the equity interest in the Target Company to the Transferee on similar terms and valuation (the “**Other Transfer**”), and the Company may conduct further transfers.

The Directors (including the independent non-executive Directors but excluding Mr. Zhang Jianhong, Mr. Wang Weidong and Mr. Zhang Zhefeng) consider that the terms of the Equity Transfer Agreement, which were determined after arm’s length negotiations between the parties thereto, are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

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

INFORMATION ON THE TRANSFEROR

The Transferor is a direct wholly-owned subsidiary of the Company and is a company established in the PRC with limited liability. It is principally engaged in the investment in and management of the fluorosilicon new material industry. The Transferor has been interested in the 7.90% equity interest in the Target Company to be transferred to the Transferee for more than 12 months prior to the date of the Equity Transfer Agreement.

INFORMATION ON THE TRANSFEREE

The Transferee is a limited partnership established in the PRC and is principally engaged in equity investments (including that in the Target Company).

The limited partners of the Transferee include Zibo Qilu Start-up Investment Co., Ltd.* (淄博齊魯創業投資有限責任公司) (“**Qilu Start-up Investment**”) as to approximately 71.59%, Zibo Xiaoxin Investment Partnership (Limited Partnership)* (淄博曉欣投資合夥企業(有限合夥)) (“**Zibo Xiaoxin**”) as to approximately 11.25%, Zibo Xiaoqing Investment Partnership (Limited Partnership)* (淄博曉清投資合夥企業(有限合夥)) (“**Zibo Xiaoqing**”) as to approximately 9.29%, Zibo Xiaoxing Investment Partnership (Limited Partnership)* (淄博曉幸投資合夥企業(有限合夥)) (“**Zibo Xiaoxing**”) as to approximately 2.56%, Mr. Zhang Jianhong (an executive Director and the Chairman of the Board) (“**Mr. Zhang**”) as to approximately 1.15%, Mr. Wang Weidong (an executive Director) (“**Mr. Wang**”) as to approximately 0.69% and Mr. Zhang Zhefeng (an executive Director) as to approximately 3.45%, respectively. Qilu Start-up Investment is the single largest limited partner of the Transferee.

Qilu Start-up Investment is a company established in the PRC with limited liability that is principally engaged in equity investments and asset management whose ultimate beneficial owner is the Finance Ministry of the Municipal Government of Zibo (淄博市財政局). To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Qilu Start-up Investment and its ultimate beneficial owner, the Finance Ministry of the Municipal Government of Zibo (淄博市財政局), are third parties independent of the Company and its connected persons, including Mr. Zhang. Each of Zibo Xiaoxin, Zibo Xiaoqing and Zibo Xiaoxing is a limited partnership investment platform whose general partner is Zibo Yuerun (as defined below) and whose limited partners are employees of the Group or the Target Company.

Zibo Yuerun Enterprise Management Services Co., Ltd.* (淄博岳潤企業管理服務有限公司) (“**Zibo Yuerun**”) is the general partner of the Transferee and controls the exercise of all voting rights of the Transferee. It is a company established in the PRC with limited liability that is principally engaged in

enterprise management consultation and enterprise management, and its ultimate beneficial owners are Mr. Zhang as to 90% and Mr. Wang as to 10% of the equity interests of Zibo Yuerun. The Transferee is controlled by Mr. Zhang and is therefore a connected person of the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is an associated company of the Company and is a joint stock company established in the PRC with limited liability. It is principally engaged in the business of research, production and sale of fluorinated proton exchange membrane, its key raw materials and derived products.

Prior to completion of the Transfer, the Company indirectly through its subsidiary and the Transferor was interested in an aggregate of approximately 35.17% equity interest in the Target Company and was its single largest shareholder; while Mr. Zhang through entities controlled by him was interested in an aggregate of approximately 26.19% equity interest in the Target Company. Following completion of the Transfer (and the Other Transfer, which is expected to occur on the same day according to the Transferee), the Company will, indirectly through its subsidiary and the Transferor, be interested in an aggregate of approximately 27.27% equity interest in the Target Company, which will continue to be accounted for as an associated company of the Company; while Mr. Zhang will, through entities controlled by him, be interested in an aggregate of approximately 36.19% equity interest in the Target Company, which will become an associate of Mr. Zhang hence a connected person of the Company. Save for the shareholding interests held by the Company, the Directors and their respective associates, other shareholders of the Target Company are third parties independent of the Company and its connected persons.

Set out below are the audited net profits of the Target Company (before and after taxation and extraordinary items) for the two financial years preceding the Transfer:

	For the year ended 31 December 2021	For the year ended 31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before taxation	64,036	40,162
Net profit after taxation and extraordinary items	43,013	30,783

The unaudited net asset value of the Target Company as at 30 June 2022 was approximately RMB862.8 million.

FINANCIAL IMPACT OF THE TRANSFER AND USE OF PROCEEDS

The Group's equity interest in the Target Company is accounted for as "interest in an associate" in the consolidated financial statement of the Group. Subject to the audit to be performed by the auditor of the Company, the Board estimates that the Group will record a gain on disposal of partial interest in an associate of approximately RMB469.4 million (before tax and expenses) on the Transfer,

calculated based on the difference between the Consideration to be received and the share of net asset value of the Target Company as at 30 June 2022 (being the latest practicable unaudited management accounts available) attributable to the 7.90% equity interest in the Target Company.

The net proceeds from the Transfer (after tax and expenses) are intended to be used by the Group as general working capital.

IMPACTS OF THE TRANSFER

Upon completion of the Transfer, the Target Company will become an associate of Mr. Zhang hence a connected person of the Company. The Transfer will result in the daily operational transactions between the Group and the Target Company becoming continuing connected transactions between the Company and the Target Company. The Company will comply with the disclosure obligations, if any, relating to such continuing connected transactions as and when necessary in accordance with applicable Listing Rules.

LISTING RULES IMPLICATIONS

The Transferee is a limited partnership whose general partner is a company controlled by a Director and accordingly, the Transferee is a connected person of the Company and the entering into of the Equity Transfer Agreement and the transactions contemplated thereunder constitute 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) in respect of the Transfer exceed(s) 0.1% but is/are less than 5%, the Transfer 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. Zhang, Mr. Wang and Mr. Zhang Zhefeng who are materially interested in the Transfer and have abstained from voting on the Board resolutions approving the Equity Transfer Agreement and the transactions contemplated thereunder in view of their interests in the Transferee, none of the Directors was in any way materially interested in the Equity Transfer Agreement and the transactions contemplated thereunder.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Dongyue Group Limited (stock code: 189), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Consideration”	RMB537,607,800 (equivalent to approximately HK\$645,129,360)
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 28 July 2022 entered into between the Transferor and the Transferee in relation to the Transfer
“Group”	the Company and its subsidiaries (from time to time)
“HK\$”	Hong Kong dollars, 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
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the Shares
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd.* (山東東岳未來氫能材料股份有限公司), a joint stock company established in the PRC with limited liability and an associated company of the Company
“Transfer”	the transfer of 34,330,000 shares in the Target Company (representing approximately 7.90% of its total equity interest as at the date of this announcement) by the Transferor to the Transferee
“Transferee”	Zibo Qilu Jishi Start-up Investment Partnership (Limited Partnership)* (淄博齊魯基石創業投資合夥企業(有限合夥)), a limited partnership established in the PRC and a connected person of the Company
“Transferor”	Dongyue Fluorosilicon Science and Technology Group Co., Ltd.* (東岳氟硅科技集團有限公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary 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.

This announcement contains translations between RMB and HK\$ amounts at RMB1 = HK\$1.2, which are for illustrative purpose only. The translations should not be taken as a representation that RMB could actually be converted into HK\$ at that rate or at all.

* *for identification purposes only.*

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 28 July 2022

As at the date of this announcement, the Directors are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Wang Weidong, Mr. Zhang Zhefeng and Mr. Zhang Jian as executive Directors, and Mr. Ting Leung Huel, Stephen, Mr. Yang Xiaoyong and Mr. Ma Zhizhong as independent non-executive Directors.