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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)**

### **DISCLOSEABLE TRANSACTION INTRODUCTION OF STRATEGIC INVESTOR TO A WHOLLY-OWNED SUBSIDIARY**

#### **THE INVESTMENT AGREEMENT**

On 28 June 2017 (after trading hours), Dongyue Chemicals (an indirect wholly-owned subsidiary of the Company), Union Property (a direct wholly-owned subsidiary of Dongyue Chemicals) and Qianrun Construction (an Independent Third Party) entered into the Investment Agreement, pursuant to which Qianrun Construction has agreed to subscribe for 36% of the enlarged registered capital of Union Property upon Completion for the Consideration of RMB171,285,700.

#### **LISTING RULES IMPLICATIONS**

Immediately following the Subscription, the equity interest held by Dongyue Chemicals in Union Property will decrease from 100% to 64%. As such, the entering into of the Investment Agreement and the transactions contemplated thereunder constitute a deemed disposal under Chapter 14 of the Listing Rules. As one or more of the relevant applicable percentage ratios (as defined under the Listing Rules) are more than 5% but less than 25%, the Deemed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and therefore is subject to the reporting and announcement requirements thereunder.

#### **INTRODUCTION**

The Board is pleased to announce that on 28 June 2017 (after trading hours), Dongyue Chemicals (an indirect wholly-owned subsidiary of the Company), Union Property (a direct wholly-owned subsidiary of Dongyue Chemicals) and Qianrun Construction (an Independent Third Party) entered into the Investment Agreement, pursuant to which Qianrun Construction has agreed to subscribe for 36% of the enlarged registered capital of Union Property upon Completion for the Consideration of RMB171,285,700.

## THE INVESTMENT AGREEMENT

Principal terms of the Investment Agreement are set out as follows:

Date: 28 June 2017

Parties:

1. Dongyue Chemicals, an indirect wholly-owned subsidiary of the Company
2. Union Property, a direct wholly-owned subsidiary of the Dongyue Chemicals; and
3. Qianrun Construction.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Qianrun Construction and its ultimate beneficial owner is an Independent Third Party.

Subject matter: Pursuant to the Investment Agreement, (i) Union Property has agreed to increase its registered capital by RMB45,000,000 from RMB80,000,000 to RMB125,000,000; and (ii) Qianrun Construction has agreed to subscribe for 36% of the enlarged registered capital of Union Property upon Completion, being RMB45,000,000.

Consideration: The Consideration under the Investment Agreement shall be RMB171,285,700 (of which RMB45,000,000 shall be injected as registered capital of Union Property as referred to above), which shall be payable by Qianrun Construction to Union Property within 20 business days from the date of the Investment Agreement (the **Payment Period**).

The amount of the Consideration was determined after arm's length negotiations among the parties to the Investment Agreement with reference to, among others, the post-distribution shareholders' equity of Union Property as of 31 December 2016, being RMB304,508,000, computed by the pre-distribution shareholders' equity, being RMB452,096,400 (as determined by an independent audit and valuation firm approved by the parties to the Investment Agreement) and deducting therefrom the distribution of certain profit of Union Property to Dongyue Chemicals; and the injection of cash by Qianrun Construction at Completion in the amount of RMB171,285,700.

Completion: Completion of the Subscription is not subject to any conditions precedent. Pursuant to the Investment Agreement,

Qianrun Construction shall become a 36% shareholder of Union Property upon the receipt by Union Property of the entire Consideration, and Qianrun Construction shall be entitled to the rights and assume the responsibilities as a shareholder of Union Property thereupon on a pro-rata basis.

Termination: Dongyue Chemicals and/or Union Property shall have the right to terminate the Investment Agreement if Qianrun Construction fails to pay the entire Consideration to Union Property within 30 days after the expiry of the Payment Period, without prejudice to any claims they/it may have against Qianrun Construction under the Investment Agreement.

Pursuant to the Investment Agreement, the board of directors of Union Property shall be responsible for effecting the relevant registration of change at the relevant administrative authority of industry and commerce in the PRC (the **Registration**). If the Registration fails to take place within 30 days from the payment of the entire Consideration by Qianrun Construction, Qianrun Construction shall have the right to terminate the Investment Agreement and Dongyue Chemicals and Union Property shall refund the entire Consideration, free of interest, to Qianrun Construction.

## **REASONS FOR AND BENEFITS OF THE SUBSCRIPTION**

Qianrun Construction is a company principally engaged in construction, decoration renovation, installation of electro-mechanical equipment, steel structure works and construction of water, electricity and heating installation works. The Company believes that the Subscription will not only provide additional source of capital but also relevant industry knowledge, know-how and experience owned by Qianrun Construction which is beneficial for the Group to develop its property development business segment. Through cooperation between the Group and Qianrun Construction as a strategic investor, the risk on project investment can be diversified while strategic benefits and synergies are expected to be achieved between the Group and Qianrun Construction and thereby enhancing the competitiveness of the Group.

The Directors consider the terms of the Investment Agreement, which were determined after arm's length negotiations among the parties thereto, are normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **INFORMATION ON THE GROUP**

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 and property development.

## INFORMATION ON QIANRUN CONSTRUCTION

Qianrun Construction is a company incorporated in the PRC with limited liability and is principally engaged in construction, decoration renovation, installation of electro-mechanical equipment, steel structure works and construction of water, electricity and heating installation works. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Qianrun Construction and its ultimate beneficial owner is an Independent Third Party.

## INFORMATION ON UNION PROPERTY

As of the date of this announcement, Union Property holds 100% interest in a residential and commercial property project located at the west of Liuquan North Road, the north of Huantai Avenue and the south of Gongyuan Road, Huantai County, Zibo City, Shandong Province, the PRC. As at the date of this announcement, the construction of the residential portion of the property project has been completed and a majority of such residential portion has been sold, while the commercial portion of the property project is still under construction.

The audited financial information of Union Property for the years ended 31 December 2015 and 31 December 2016 respectively is set out as follows:

|                            | <b>For the year ended<br/>31 December 2016</b> | <b>For the year ended<br/>31 December 2015</b> |
|----------------------------|--|--|
|                            | <i>RMB'000</i>                                 | <i>RMB'000</i>                                 |
| Net profit before taxation | 216,643  | 175,659  |
| Net profit after taxation  | 162,391  | 133,268  |

The audited net asset value of Union Property as at 31 December 2016 was approximately RMB410,019,798.

## FINANCIAL EFFECTS OF THE INVESTMENT AGREEMENT ON THE GROUP AND USE OF PROCEEDS

Immediately following the Subscription, the equity interest of Dongyue Chemicals in Union Property will decrease from 100% to 64%. Nonetheless, Union Property will remain a subsidiary of the Company and its financial results, assets, liabilities and cash flows will continue to be consolidated into the Company's consolidated financial statements. As the Deemed Disposal will not result in the Company's loss of control over Union Property, the Deemed Disposal will be accounted for as an equity transaction and will not result in the recognition of any gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income.

The Group intends to utilise the proceeds from the Subscription as capital expenses and/or general working capital for the property development business of the Group.

## LISTING RULES IMPLICATIONS

Immediately following the Subscription, the equity interest of Dongyue Chemicals held by Union Property will decrease from 100% to 64%. As such, the entering into of the Investment Agreement and the transactions contemplated thereunder constitute a deemed disposal under Chapter 14 of the Listing Rules. As one or more of the relevant applicable percentage ratios (as defined under the Listing Rules) are more than 5% but less than 25%, the Deemed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and therefore is subject to the reporting and announcement requirements thereunder.

## DEFINITIONS

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

|                           |   |
|---------------------------|---|
| “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 Subscription pursuant to the Investment Agreement   |
| “Consideration”           | RMB171,285,700, being the total consideration payable by Qianrun Construction to Union Property for the Subscription pursuant to the Investment Agreement                                       |
| “Deemed Disposal”         | the Subscription as viewed under Rule 14.29 of the Listing Rules as a deemed disposal of the Company’s interest in Union Property   |
| “Director(s)”             | the director(s) of the Company  |
| “Dongyue Chemicals”       | Shandong Dongyue Chemicals Co., Ltd., a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company   |
| “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  |
| “Independent Third Party” | an independent third party not connected with the Company or its connected persons (as defined in the Listing Rules)  |

|                        |   |
|------------------------|---|
| “Investment Agreement” | the investment agreement dated 28 June 2017 entered into among Dongyue Chemicals, Union Property and Qianrun Construction in connection with the Subscription |
| “Listing Rules”        | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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               |
| “Qianrun Construction” | Shandong Qianrun Construction Engineering Co., Ltd., a company incorporated in the PRC with limited liability and an Independent Third Party                  |
| “Shares”               | ordinary shares of HK\$0.10 each of the Company   |
| “Stock Exchange”       | The Stock Exchange of Hong Kong Limited   |
| “Subscription”         | the subscription for 36% of the enlarged registered capital of Union Property by Qianrun Construction pursuant to the Investment Agreement                    |
| “Union Property”       | Shandong Dongyue Union Property Co., Ltd., a company incorporated in the PRC with limited liability and a direct wholly-owned subsidiary of Dongyue Chemicals |
| “%”                    | per cent.   |

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

The PRC, 28 June 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.*