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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 CAPITAL INJECTION INTO SHANDONG DONGYUE FUTURE HYDROGEN ENERGY MATERIALS CO., LTD.**

#### **THE LETTER OF INTENT**

On 28 May 2020 (after trading hours), Dongyue Organosilicone (an indirect non-wholly owned subsidiary of the Company) entered into the Letter of Intent with the Target Company, pursuant to which Dongyue Organosilicone conditionally agreed to make Capital Injection of RMB100 million (for illustration purpose only, equivalent to approximately HK\$108,695,652) into the Target Company by entering into the Capital Injection Agreement.

#### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Paramita Times Technology Holdings Limited holds more than 10% equity interest in and therefore is a substantial shareholder of the Target Company. Paramita Times Technology Holdings Limited is held as to 66% by an associate of an executive Director. Therefore, the Capital Injection constitutes a connected transaction of the Company under Rule 14A.28(2) of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Capital Injection exceed(s) 0.1% but are all less than 5%, the Capital Injection 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 28 May 2020 (after trading hours), Dongyue Organosilicone (an indirect non-wholly owned subsidiary of the Company) entered into the Letter of Intent with the Target Company, pursuant to which Dongyue Organosilicone

conditionally agreed to make Capital Injection of RMB100 million (for illustration purpose only, equivalent to approximately HK\$108,695,652) into the Target Company by entering into the Capital Injection Agreement.

## THE LETTER OF INTENT

The principal terms of the Letter of Intent are set out below:

- Date:** 28 May 2020 (after trading hours)
- Parties:** (i) Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd.\* (山東東岳未來氫能材料有限公司), as the Target Company; and
- (ii) Dongyue Organosilicone, an indirect non-wholly owned subsidiary of the Company, as the investor.
- Subject matter:** Pursuant to the Letter of Intent, Dongyue Organosilicone has conditionally agreed to make Capital Injection of RMB100 million (for illustration purpose only, equivalent to approximately HK\$108,695,652) into the Target Company.

Out of the RMB100 million Capital Injection:

- (i) RMB7 million (for illustration purpose only, equivalent to approximately HK\$7,608,696) will be recorded as registered capital of the Target Company; and
- (ii) RMB93 million (for illustration purpose only, equivalent to approximately HK\$101,086,957) will be recorded as capital reserve of the Target Company.

The RMB100 million Capital Injection represents a co-investment by Dongyue Organosilicone in the Target Company and was determined after arm's length negotiations between Dongyue Organosilicone and the Target Company with reference to the capital injection amount of RMB200 million by other investors into the Target Company as part of the Capital Increase, and the valuation of the entire equity interest in the Target Company before the Capital Increase at RMB1.5 billion as agreed by the other investors.

- Capital Injection Agreement:** Pursuant to the Letter of Intent, conditional upon the Target Company having entered into letters of intent with investors (including Dongyue Organosilicone) in respect of capital injection into the Target Company of an aggregate amount of RMB300 million for the purpose of the Capital Increase (the “**Condition**”), the Target Company and Dongyue Organosilicone shall, on or before 31 August 2020, sign the Capital Injection Agreement, the principal terms of which are set out under the paragraph headed “The Capital Injection Agreement” in this announcement.

As at the date of this announcement, the Condition has been satisfied.

**Deposit:** Pursuant to the Letter of Intent, Dongyue Organosilicone shall pay RMB30,000,000, representing 30% of the Capital Injection, to the Target Company as deposit (the “**Deposit**”) within 7 business days after the date of the Letter of Intent.

**Termination:** In the event that Dongyue Organosilicone (i) fails to enter into the Capital Injection Agreement on or before 31 August 2020 for reasons attributable to Dongyue Organosilicone or (ii) fails to pay the First Capital Injection Instalment (as defined below) to the Target Company in accordance with the Capital Injection Agreement, the Target Company shall have the right to terminate the Letter of Intent and forfeit the Deposit as liquidated damages.

In the event that the Target Company fails to enter into the Capital Injection Agreement on or before 31 August 2020 for reasons attributable to the Target Company, Dongyue Organosilicone shall have the right to terminate the Letter of Intent and request the Target Company to refund to it an amount equivalent to 200% of the Deposit.

## **THE CAPITAL INJECTION AGREEMENT**

According to the Letter of Intent, the Capital Injection Agreement shall contain the following principal terms:

**Payment of the Capital Injection:** The Capital Injection of RMB100 million shall be paid by Dongyue Organosilicone to the Target Company in the following manner:

- (i) RMB30 million (the “**First Capital Injection Instalment**”), representing 30% of the Capital Injection, shall be paid within 7 business days after the date of the Capital Injection Agreement. The Target Company shall refund the Deposit to Dongyue Organosilicone in full within 3 business days after receipt of the First Capital Injection Instalment from Dongyue Organosilicone; and
- (ii) RMB70 million, representing 70% of the Capital Injection, shall be paid within 15 business days after the date of the Capital Injection Agreement.

**Pre-emptive right:** All shareholders of the Target Company after completion of the Capital Increase shall have pre-emptive right in respect of any further increase in the registered capital of the Target Company.

**Put option:** In the event that the shares in the Target Company fail to be listed on a stock exchange in the PRC by way of initial public offering (the “**Listing**”) before 31 December 2023 (the “**Long Stop Date**”), Dongyue

Organosilicone shall have the right (the “**Put Option**”) to, during the period from 1 January 2024 to 31 December 2024, by written notice (the “**Repurchase Notice**”) require the Target Company or a third party designated by the Target Company to repurchase all shareholding of Dongyue Organosilicone in the Target Company within 20 business days from the date of the Repurchase Notice at a price (the “**Repurchase Price**”) to be calculated using the following formula:

*RMB100 million (equivalent to the Capital Injection amount) × (1 + 8%) × (number of days between (i) the day on which the full amount of the Capital Injection is paid by Dongyue Organosilicone to the Target Company and (ii) the earlier of (a) full payment of the Repurchase Price by the Target Company to Dongyue Organosilicone and (b) 30 June 2024 ÷ 365) – cash dividends received by Dongyue Organosilicone by virtue of its shareholding in the Target Company (if any)*

The Put Option shall become immediately exercisable by Dongyue Organosilicone if the Listing becomes impossible to be completed before the Long Stop Date due to serious default of the Target Company.

The Put Option shall lapse if Dongyue Organosilicone transfers or otherwise disposes of all or part of its shareholding in the Target Company before the Long Stop Date.

**Lock-up:** During the period between the date of the Capital Injection Agreement and the Long Stop Date, Dongyue Organosilicone shall not transfer or otherwise dispose of any of its shareholding in the Target Company, unless otherwise approved by a majority of the voting power of the Target Company’s shareholders (excluding the transferring shareholder and its related parties).

**Termination:** In the event that Dongyue Organosilicone fails to pay the Capital Injection in full in accordance with the Capital Injection Agreement for 20 days or more, the Target Company shall have the right to terminate the Capital Injection Agreement and forfeit the First Capital Injection Instalment as liquidated damages.

## **INFORMATION ON THE TARGET COMPANY**

The Target Company is a company established in the PRC with limited liability and is principally engaged in the production and sale of hydrogen energy materials, hydrogen membrane materials, lithium battery, packaging materials and fluoropolymers fiber.

The following table illustrates the shareholding structure of the Target Company (i) as at the date of this announcement; and (ii) immediately after completion of the Capital Increase, assuming that the Capital Injection by Dongyue Organosilicone and the capital injection(s) by other investor(s) into the Target Company will be completed simultaneously:

	As at the date of this announcement		Immediately after completion of the Capital Increase	
	Registered capital (RMB)	% (approx.)	Registered capital (RMB)	% (approx.)
<b>The Group</b>				
Dongyue Fluorosilicone Science and Technology Group Co., Ltd. (Note 1)	40,000,000	38.10	40,000,000	31.75
Dongyue Organosilicone	0	0	7,000,000	5.56
<i>Sub-total</i>	40,000,000	38.10	47,000,000	37.30
<b>Existing shareholders</b>				
Huoer Guosi Xuri Equity Investment Partnership (Limited Partnership) (Note 2)	30,000,000	28.57	30,000,000	23.81
Paramita Times Technology Holdings Limited (Note 3)	24,900,000	23.71	24,900,000	19.76
Independent Third Parties	10,100,000	9.62	10,100,000	8.02
<b>Other investor(s)</b>	0	0	14,000,000	11.11
<b>Total</b>	105,000,000	100.00	126,000,000	100.00

Notes:

1. *Dongyue Fluorosilicone Science and Technology Group Co., Ltd.\* (東岳氟硅科技集團有限公司) (“Fluorosilicone Technology”) is a direct wholly-owned subsidiary of the Company.*
2. *Huoer Guosi Xuri Equity Investment Partnership (Limited Partnership)\* (霍爾果斯旭日股權投資合夥企業 (有限合夥)) is a PRC limited partnership in which (i) Wang Weidong (a director of certain subsidiaries of the Company) is a general partner; and (ii) Zhang Jianhong and Zhang Zhefeng (each an executive Director) together hold more than 30% interest as limited partners.*
3. *Paramita Times Technology Holdings Limited (“Paramita”) is held as to 66% by an associate of an executive Director.*

As shown in the above table, assuming that the Capital Injection by Dongyue Organosilicone and the capital injection(s) by other investor(s) into the Target Company will be completed simultaneously, it is expected that, due to the dilution effect of the

capital injection(s) by the other investor(s) into the Target Company, the aggregate shareholding percentage of the Group in the Target Company will decrease slightly from approximately 38.10% to approximately 37.30% before and after completion of the Capital Injection.

Set out below is the audited financial information of the Target Company for the year ended 31 December 2018 and 2019 prepared in accordance with PRC GAAP:

	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>
	<i>(audited)</i> <i>RMB'000</i>	<i>(audited)</i> <i>RMB'000</i>
Revenue	93,273	112,765
Net profit/(loss) before taxation	29,489	39,432
Net profit/(loss) after taxation	22,100	30,696
	<b>As at 31 December 2018</b>	<b>As at 31 December 2019</b>
	<i>(audited)</i> <i>RMB'000</i>	<i>(audited)</i> <i>RMB'000</i>
Net assets	122,099	152,796

## **INFORMATION ON THE GROUP AND DONGYUR ORGANOSILICONE**

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 Organosilicone is a company established in the PRC with limited liability and is principally engaged in manufacturing and sale of organic silicone products. The A shares of Dongyue Organosilicone is listed on ChiNext of the Shenzhen Stock Exchange (stock code: 300821). As at the date of this announcement, Fluorosilicone Technology (a direct wholly-owned subsidiary of the Company) holds approximately 57.75% equity interest in Dongyue Organosilicone.

## **REASONS FOR AND BENEFITS OF THE CAPITAL INJECTION**

In recent years the PRC government has been strengthening its strategic support for the development of hydrogen energy technologies and therefore the hydrogen energy industry in the PRC has good market prospects. The Target Company, through its own research and development, has developed bulk production technology for key components of fuel cells and owns a complete production chain for fluorine functional membrane materials such as fuel cell membrane and related chemicals products. In particular, the hydrogen fuel cell membrane produced by the Target Company has been awarded the internationally accepted automotive industry quality system standard IATF16949 audit certification. It demonstrates that the Target Company is a leading player in the automotive supply chain system and the hydrogen fuel cell automotive industry in the PRC.

The Directors have confidence in the PRC hydrogen energy economy generally. The

Directors consider that the Capital Injection will enable the Group to maintain certain level of shareholding percentage in the Target Company after the Capital Increase and allow Dongyue Organosilicone to realise financial return through investment in the Target Company. The Directors also believe that the Capital Injection will be conducive to cultivating new profit growth points for the Group, improving the Group's future earnings, and injecting new impetus into the Group's sustainable development.

The Directors (including the independent non-executive Directors but excluding the Abstained Directors (as defined below)) are of the view that the terms of the Letter of Intent and the Capital Injection 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 at the date of this announcement, Paramita holds more than 10% equity interest in and therefore is a substantial shareholder of the Target Company. Paramita is held as to 66% by an associate of an executive Director. Therefore, the Capital Injection constitutes a connected transaction of the Company under Rule 14A.28(2) of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Capital Injection exceed(s) 0.1% but are all less than 5%, the Capital Injection 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 Fu Kwan, Zhang Jianhong and Zhang Zhefeng (the "**Abstained Directors**") who have abstained from voting on the Board resolutions approving the Capital Injection in view of their respective interests in the Target Company, no other Directors were in any way materially interested in and therefore have abstained from voting on the Board resolutions approving the Capital Injection.

## **DEFINITIONS**

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

"Board"	the board of Directors
"Capital Increase"	the proposed increase in the registered capital of the Target Company by RMB21 million by way of capital injection of an aggregate amount of RMB300 million by investors (including Dongyue Organosilicone) into the Target Company, of which RMB21 million will be recorded as registered capital and RMB279 million will be recorded as capital reserve of the Target Company
"Capital Injection"	the capital injection by Dongyue Organosilicone of RMB100 million into the Target Company pursuant to the Capital Injection

## Agreement

“Capital Injection Agreement”	a capital injection agreement to be entered into between Dongyue Organosilicone and the Target Company pursuant to the Letter of Intent in respect of the Capital Injection
“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)
“Director(s)”	the director(s) 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 joint stock limited company established in the PRC and an indirect non-wholly-owned connected 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(ies)”	parties who are independent of, and not connected with the Company or any of its connected persons
“Letter of Intent”	a letter of intent dated 28 May 2020 and entered into between Dongyue Organosilicone and the Target Company in respect of the Capital Injection
“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
“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
“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有限公司), a company established in the PRC with limited liability, an Independent Third Party as at the

date of this announcement

“%”

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 RMB0.92 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 May 2020

*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.*

*\* For identification purposes only*