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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO RAW MATERIALS MASTER SUPPLY AGREEMENT

THE RAW MATERIALS MASTER SUPPLY AGREEMENT

Reference is made to the announcement of the Company dated 31 December 2019 in relation to, among other things, the continuing connected transaction entered into between the Company and Dongyue Organosilicone, a connected subsidiary of the Company.

As the existing agreement in relation to the aforesaid continuing connected transaction will expire on 31 December 2020, the Company had, on 4 January 2021 (after trading hours), entered into the Raw Materials Master Supply Agreement with Dongyue Organosilicone, pursuant to which the Company (for and on behalf of the Remaining Group) has agreed to supply raw materials and ancillary waste treatment to Dongyue Organosilicone for its production and operations up to 31 March 2021. Under the Raw Materials Master Supply Agreement, both parties have the right to renew the agreement for periods commencing after 31 March 2021 on terms to be agreed, provided that Dongyue Organosilicone having obtained its shareholders' approval in accordance with the applicable rules of ChiNext market of the Shenzhen Stock Exchange.

LISTING RULES IMPLICATIONS

Dongyue Organosilicone is a connected subsidiary of the Company. Therefore, the entering into of the Raw Materials Master Supply Agreement and the transactions contemplated thereunder constitute continuing 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) calculated with reference to the Maximum Cap exceed(s) 0.1% but are all less than 5%, the transactions under the Raw Materials Master Supply Agreement 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 announcement of the Company dated 31 December 2019, in relation to, among other things, the continuing connected transaction entered into between the Company and Dongyue Organosilicone, a connected subsidiary of the Company.

As the existing agreement in relation to the aforesaid continuing connected transaction will expire on 31 December 2020, the Company had, on 4 January 2021 (after trading hours), entered into the Raw Materials Master Supply Agreement with Dongyue Organosilicone, pursuant to which the Company (for and on behalf of the Remaining Group) has agreed to supply raw materials and ancillary waste treatment to Dongyue Organosilicone for its production and operations up to 31 March 2021. Under the Raw Materials Master Supply Agreement, both parties have the right to renew the agreement for periods commencing after 31 March 2021 on terms to be agreed, provided that Dongyue Organosilicone having obtained its shareholders' approval in accordance with the applicable rules of ChiNext market of the Shenzhen Stock Exchange.

THE RAW MATERIALS MASTER SUPPLY AGREEMENT

Set out below are the major terms of the Raw Materials Master Supply Agreement:

Date

4 January 2021 (after trading hours)

Parties

- (i) the Company (for and on behalf of the Remaining Group) (as the supplier); and
- (ii) Dongyue Organosilicone (as the purchaser).

Term

The Raw Materials Master Supply Agreement shall be effective from 1 January 2021 and up to and including 31 March 2021 (the “**Term**”).

Raw materials to be supplied by the Remaining Group to Dongyue Organosilicone

Pursuant to the Raw Materials Master Supply Agreement, the Company (for and on behalf of the Remaining Group) has agreed to supply raw materials including but not limited to monochloromethane, 32% liquid caustic soda, steam, waste gas (hydrogen) and F22 and ancillary waste treatment to Dongyue Organosilicone for its production and operation purposes.

The Raw Materials Master Supply Agreement is a framework agreement which contains the principles, mechanisms and terms and conditions upon which the parties thereto are to carry out the transactions contemplated thereunder. The Remaining Group and Dongyue Organosilicone may from time to time enter into specific agreements, provided that the

terms and conditions of such specific agreements shall not be inconsistent with the terms of the Raw Materials Master Supply Agreement. The supply of raw materials and waste treatment by the Remaining Group to Dongyue Organosilicone will be carried out in accordance with such specific agreements to be entered into between the Remaining Group and Dongyue Organosilicone from time to time during the Term.

Pricing principles

Pursuant to the Raw Materials Master Supply Agreement, the pricing for the raw materials and waste treatment to be supplied by the Remaining Group to Dongyue Organosilicone shall be determined based on the following principles in order of priority:

- (i) the fair market prices of similar raw materials and waste treatment offered by the Remaining Group to Independent Third Parties at the relevant times in its ordinary and usual course of business. The Remaining Group would make reference to three to five contemporaneous transactions with Independent Third Parties for similar raw materials or for waste treatment where available in similar quantities or volume for the purpose of determining the prices and terms to be offered by the Remaining Group to Dongyue Organosilicone; and
- (ii) where no such fair market prices are available or applicable, the prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin of not more than 25%, depending on the types of raw materials or waste treatment to be supplied, as determined by the Remaining Group and agreed by Dongyue Organosilicone.

Payment terms

Payments by Dongyue Organosilicone shall be settled by means of bank remittance, bill of exchange or other mutually agreed payment method(s) with one month credit term unless otherwise agreed in the specific agreements.

Maximum cap

Pursuant to the Raw Materials Master Supply Agreement, the aggregate amount to be paid by Dongyue Organosilicone to the Remaining Group for the Term shall not exceed RMB105,000,000 (the “**Maximum Cap**”).

The Maximum Cap has been determined with reference to, among others, the following:

- (i) the maximum cap for the year ending 31 December 2020 under the existing agreement is RMB340 million, while the historical transaction amount supplied by the Remaining Group to Dongyue Organosilicone for the 11 months ended 30 November 2020 was approximately RMB290 million. The actual transaction amount was lower than expected due to among others, the COVID-19 pandemic since early 2020 and its negative impact on the downstream fluorosilicone industry, including average market prices of the relevant raw materials;
- (ii) the Directors believe that the PRC economy will gradually recover from the negative impact of the COVID-19 pandemic and that the organic silicone industry

has already seen a recovery trend, and it is expected that the demand for raw materials from Dongyue Organosilicone will increase in the future.

INTERNAL CONTROL MEASURES

In order to ensure that the pricing principles and the Maximum Cap as contained in the Raw Materials Master Supply Agreement are complied with, the Company has adopted the following measures:

- (i) the relevant personnel of the Company will keep track of the sales records on the supply of raw materials and waste treatment by the Remaining Group to Independent Third Parties for the purpose of ensuring that the prices for the raw materials to be supplied by the Remaining Group to Dongyue Organosilicone will be comparable to, or no more favourable than, the fair market prices for similar raw materials and waste treatment offered to Independent Third Parties by the Remaining Group at similar times;
- (ii) the relevant personnel of the Company will keep track of the aggregate amount paid by Dongyue Organosilicone to the Remaining Group for the supply of raw materials and waste treatment under the Raw Materials Master Supply Agreement for the purpose of ensuring that the Maximum Cap will not be exceeded; and
- (iii) the Company has adopted relevant reporting and record-keeping procedures to allow independent non-executive Directors and auditors of the Company to perform annual review of the supply of raw materials and waste treatment under the Raw Materials Master Supply Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE RAW MATERIALS MASTER SUPPLY AGREEMENT

The Group is principally engaged in six business segments, one of which is the manufacturing and sale of organic silicone products which is operated exclusively by Dongyue Organosilicone. For the production of its organic silicone products, Dongyue Organosilicone sources raw materials from both the Remaining Group and Independent Third Parties. In particular, Dongyue Organosilicone has been sourcing monochloromethane from Shandong Dongyue Fluorosilicone Materials Co., Ltd.* (山東東岳氟硅材料有限公司), a subsidiary of the Company, for its production of silicone monomers. The supply of raw materials by the Remaining Group to Dongyue Organosilicone has historically been and is expected to continue to be driven by commercial benefits derived from the synergy between Dongyue Organosilicone and the other business segments of the Group.

There is no provision in the Raw Materials Master Supply Agreement requiring the Remaining Group to exclusively supply raw materials to Dongyue Organosilicone or requiring Dongyue Organosilicone to exclusively source raw materials from the Remaining Group. The quantities of raw materials to be purchased by Dongyue Organosilicone from the Remaining Group will depend on the actual production needs and capacity of Dongyue Organosilicone subject to the specific agreements to be entered into between the parties and the same applies to waste treatment. As mentioned above, the pricing basis will be determined by the Remaining Group with reference to the fair market prices of the respective products and waste treatment offered to

Independent Third Parties or the production cost of the respective products or treatment, so as to ensure that the transactions will be beneficial to both the Remaining Group and Dongyue Organosilicone.

Since March 2020, the A shares of Dongyue Organosilicone have been listed on ChiNext of the Shenzhen Stock Exchange (stock code: 300821). In compliance with the applicable regulatory requirements of ChiNext of the Shenzhen Stock Exchange, Dongyue Organosilicone will seek its shareholders' approval in general meeting on or before 31 March 2021 for the renewal of the Raw Materials Master Supply Agreement on terms to be agreed by the parties. The parties currently expect to renew the Raw Materials Master Supply Agreement on terms to be agreed provided that Dongyue Organosilicone having obtained the said shareholders' approval. The Company will make the necessary announcement(s) upon the entering into any agreement for such renewal where required under the Listing Rules.

The Directors (including the independent non-executive Directors but excluding the Abstained Directors (as defined below)) consider that the Raw Materials Master Supply Agreement was entered into in the ordinary and usual course of business of the Company, and the terms of the Raw Materials Master Supply 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 the Shareholders as a whole.

INFORMATION ON THE GROUP

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.

INFORMATION ON DONGYUE ORGANOSILICONE

Dongyue Organosilicone is a joint stock limited company established in the PRC and is principally engaged in manufacturing and sale of organic silicone products. The A shares of Dongyue Organosilicone are listed on ChiNext of the Shenzhen Stock Exchange (stock code: 300821). As at the date of this announcement, Dongyue Organosilicone is held as to 57.75% by Dongyue Fluorosilicone Science and Technology Group Co., Ltd.* (東岳氟硅科技集團有限公司) (a direct wholly-owned subsidiary of the Company), 9.75% by Zibo Xiaoxi Enterprise Management Partnership (淄博曉希企業管理合夥企業) (“**Zibo Xiaoxi**”) and 7.5% by Cheung Shek Investment Limited (長石投資有限公司) (“**Cheung Shek Investment**”). Zibo Xiaoxi is a PRC limited partnership in which Mr. Zhang Jianhong and Mr. Zhang Zhefeng (each an executive Director) together own more than 30% interest. Cheung Shek Investment is directly controlled by Mr. Fu Kwan (an executive Director). Therefore, each of Zibo Xiaoxi and Cheung Shek Investment is a connected person of the Company at the issuer level. Accordingly, Dongyue Organosilicone is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules.

LISTING RULES IMPLICATIONS

As stated above, Dongyue Organosilicone is a connected subsidiary of the Company. Therefore, the entering into of the Raw Materials Master Supply Agreement and the transactions contemplated thereunder constitute continuing 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) calculated with reference to the Maximum Cap exceed(s) 0.1% but are all less than 5%, the transactions under the Raw Materials Master Supply Agreement 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 and Mr. Zhang Zhefeng (the "**Abstained Directors**") who have abstained from voting on the Board resolutions approving the Raw Materials Master Supply Agreement in view of their respective interests therein, none of the Directors was in any way materially interested in the Raw Materials Master Supply Agreement and the transactions contemplated 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)
"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
"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

“Raw Materials Master Supply Agreement”	an agreement dated 4 January 2021 entered into between the Company and Dongyue Organosilicone in respect of the supply of raw materials and waste treatment by the Remaining Group to Dongyue Organosilicone
“Remaining Group”	the Group excluding Dongyue Organosilicone
“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
“%”	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 Stock Exchange from time to time.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 4 January 2021

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*