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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)

CONTINUING CONNECTED TRANSACTION IN RELATION TO SALE AND PURCHASE OF RAW MATERIALS

On 1 March 2018 (after trading hours), the Company and Dongyue Hydrogen, a connected subsidiary of the Company, entered into the Raw Materials S&P Framework Agreement, pursuant to which the Company has agreed to (i) supply the DY Raw Materials to Dongyue Hydrogen for its production and operations and (ii) purchase the Hydrogen Raw Materials and Products from Dongyue Hydrogen for the Group's production and operations for a term of one (1) year.

LISTING RULES IMPLICATIONS

Dongyue Hydrogen is a connected subsidiary of the Company. Therefore, the entering into of the Raw Materials S&P Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions 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 each of the Sale Annual Cap and the Purchase Annual Cap exceed(s) 0.1% but are all less than 5%, the transactions under the Raw Materials S&P Framework 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

The Board hereby announces that on 1 March 2018 (after trading hours), the Company and Dongyue Hydrogen, a connected subsidiary of the Company, entered into the Raw Materials S&P Framework Agreement, pursuant to which the Company has agreed to (i) supply the DY Raw Materials to Dongyue Hydrogen for its production and operations and (ii) purchase the Hydrogen Raw Materials and Products from Dongyue Hydrogen for the

Group's production and operations for a term of one (1) year.

THE RAW MATERIALS S&P FRAMEWORK AGREEMENT

Set out below are the major terms of the Raw Materials S&P Framework Agreement:

Date

1 March 2018 (after trading hours)

Parties

- (i) the Company; and
- (ii) Dongyue Hydrogen.

Term

The Raw Materials S&P Framework Agreement shall be effective from 1 March 2018 and up to and including 28 February 2019 (the "**Term**").

Subject matter

Pursuant to the Raw Materials S&P Framework Agreement, the Company has agreed to (i) supply raw materials (including hexafluoropropylene, tetrafluoroethylene, pentadecafluorooctanoic acid, 32% liquid alkali and steam) to Dongyue Hydrogen for its production and operation purposes (the "**DY Raw Materials**"), and (ii) purchase raw materials and products (including flourine-containing green surfactants, sulfurous acid resin, carboxylic acid resin and hexafluoropropylene oxide) from Dongyue Hydrogen for the Group's production and on-selling to independent customers (the "**Hydrogen Raw Materials and Products**").

The Raw Materials S&P Framework Agreement is a framework agreement which sets out the broad terms and conditions under which the parties will carry out the sale and purchase of raw materials. The Company and Dongyue Hydrogen will also from time to time enter into ancillary business contracts to specify other necessary transaction details including, type, specification, quantity and unit price of the raw materials required, as well as delivery and payment terms. The Raw Materials S&P Framework Agreement shall prevail over the business contracts in case of any inconsistencies.

Pricing principles

Pursuant to the Raw Materials S&P Framework Agreement, the pricing for (i) the DY Raw Materials and (ii) the Hydrogen Raw Materials and Products shall be determined based on the following principles in order of priority:

- (1) (a) the fair market prices of the DY Raw Materials offered by the Company to Independent Third Parties from time to time in its ordinary and usual course of business. The Company would make reference to three to five contemporaneous transactions with

Independent Third Parties for similar raw materials in similar quantities and specifications for the purpose of determining the prices and terms to ensure that such prices and terms are no less favourable to the Company than those offered to Independent Third Parties by the Company and (b) a discount between 3% to 10% to the fair market prices of the Hydrogen Raw Materials and Products (except for flourine-containing green surfactants which shall be priced in accordance with a cost-plus-margin approach, same as the method in (2) below) at which the Company on-sold such products to independent customers, such discounted market price shall be no less than that offered by Dongyue Hydrogen to Independent Third Parties from time to time in its ordinary and usual course of business; and

- (2) where no such fair market prices are available or applicable and in respect of flourine-containing green surfactants, the prices based on the actual or reasonable cost incurred thereof plus a reasonable profit margin of not more than 25%, as mutually determined by the Company and Dongyue Hydrogen (the “**Cost-plus Approach**”).

Payment terms

Payments for (i) the DY Raw Materials and (ii) the Hydrogen Raw Materials and Products will be settled by means of bank remittance, bill of exchange or other agreed payment method(s) with one month credit term unless otherwise agreed in the business contracts.

Annual caps

Pursuant to the Raw Materials S&P Framework Agreement, (i) the aggregate amount to be paid by Dongyue Hydrogen to the Company for the DY Raw Materials for the Term shall not exceed RMB37,000,000 (the “**Sale Annual Cap**”) and (ii) the aggregate amount to be paid by the Company to Dongyue Hydrogen for the purchase of Hydrogen Raw Materials and Products for the Term shall not exceed RMB110,000,000 (the “**Purchase Annual Cap**”).

The Sale Annual Cap was determined based on (i) the estimated purchase of the DY Raw Materials during the Term based on customer orders received or expected by Dongyue Hydrogen; (ii) the current market price of the DY Raw Materials; (iii) the production capacity of Dongyue Hydrogen expected during the Term in connection with hydrogen energy and hydrogen membrane materials; (iv) the production budget of Dongyue Hydrogen estimated during the Term in connection with hydrogen energy and hydrogen membrane materials; and (v) the estimated market trend and demand for the hydrogen energy and hydrogen membrane materials and fuel cell and chloralkali products in the PRC market during the Term.

The Purchase Annual Cap was determined based on (i) the estimated purchase of Hydrogen Raw Materials and Products during the Term based on customer orders received or expected by the Company for Hydrogen Raw Materials and Products; (ii) the current market price of Hydrogen Raw Materials and Products or similar substitutes; (iii) the production capacity of the Group expected during the Term in connection with products to be produced from Hydrogen Raw Materials and Products; (iv) the production budget of the Group estimated during the Term in connection with products to be produced from Hydrogen Raw Materials and Products; and (v) the estimated market trend and demand for the Group’s products to be produced from Hydrogen Raw Materials and Products in the PRC market during the Term.

The Sale Annual Cap and the Purchase Annual Cap are separate annual caps relating to the sale of DY Raw Materials and the procurement or purchase of Hydrogen Raw Materials and Products, respectively. The DY Raw Materials and Hydrogen Raw Materials and Products are different raw materials to be used in different production processes of Dongyue Hydrogen and the Group for different finished products.

INTERNAL CONTROL MEASURES

In order to ensure that the pricing principles, the Sale Annual Cap and the Purchase Annual Cap as contained in the Raw Materials S&P Framework Agreement are complied with, the Company has adopted the following measures:

- (i) for the sale of DY Raw Materials by the Company, the relevant personnel of the Company will keep track of the transaction records on the sale of raw materials by the Company to Independent Third Parties for the purpose of ensuring that the prices and terms for the DY Raw Materials to be offered to Dongyue Hydrogen will be comparable to, or no more favourable than, the fair market prices and terms for DY Raw materials or similar raw materials offered to Independent Third Parties by the Company;
- (ii) for the purchase of Hydrogen Raw Materials and Products (except for flourine-containing green surfactants), the Company would also solicit at least [two] contemporaneous quotations from Independent Third Parties for similar products or substitutes in similar quantities for the purpose of ensuring that the prices and terms for the Hydrogen Raw Materials and Products (except for flourine-containing green surfactants) to be offered by Dongyue Hydrogen to the Company will be no less favourable to the Company than those offered by Independent Third Parties to the Company for similar products or substitutes of comparable nature and quality;
- (iii) whenever the Cost-plus Approach is used or in respect of the purchase of flourine-containing green surfactants, the Company shall request for the relevant records or information in relation to the production cost of the raw materials;
- (iv) the relevant personnel of the Company will keep track of (a) the aggregate amount paid by Dongyue Hydrogen to the Company for the supply of DY Raw Materials and (b) the aggregate amount paid by the Company to Dongyue Hydrogen for the purchase of Hydrogen Raw Materials and Products for the purpose of ensuring that the Sale Annual Cap and the Purchase Annual Cap will not be exceeded, respectively;
- (v) 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 DY Raw Materials and purchase of Hydrogen Raw Materials and Products under the Raw Materials S&P Framework Agreement or from time to time as requested; and
- (vi) the collating of industry and market information by Company personnel to keep track of fair market prices of DY Raw Materials and Hydrogen Raw Materials and Products and relevant profit margin and the monitoring of customer orders from time to time.

REASONS FOR AND BENEFITS OF ENTERING INTO THE RAW MATERIALS S&P FRAMEWORK AGREEMENT

In relation to the procurement of Hydrogen Raw Materials and Products, the Company has, since the sale of its machinery, equipment and related patents for the production of Hydrogen Raw Materials and Products, required a new and reliable source of supply for such raw materials and products for its production process and for on-selling to its customers. Dongyue Hydrogen possesses the machinery, equipment and patents for such in-house production and hence, by entering into the Raw Materials S&P Framework Agreement with Dongyue Hydrogen, the Company will be able to secure a stable source of supply for such products at a discount to the fair market price for the supply of such products for on-sale to customers and for such raw materials at Cost-plus Approach, for production. With respect to DY Raw Materials, the entering into the Raw Materials S&P Framework Agreement will provide Dongyue Hydrogen with the necessary DY Raw Materials it requires for continued development and production of hydrogen energy and hydrogen membrane materials and fuel cell and chloralkali products.

On the other hand, the parties are at liberty to source the DY Raw Materials and Hydrogen Raw Materials and Products from or sell such raw materials to other suppliers or customers as there is no provision in the Raw Materials S&P Framework Agreement requiring (i) the Company to exclusively supply DY Raw Materials to Dongyue Hydrogen or requiring Dongyue Hydrogen to exclusively source DY Raw Materials from the Company or (ii) the Company to exclusively purchase Hydrogen Raw Materials and Products from Dongyue Hydrogen or requiring Dongyue Hydrogen to exclusively sell Hydrogen Raw Materials and Products to the Company.

The Directors (including the independent non-executive Directors but excluding the Abstained Directors (as defined below)) consider that the Raw Materials S&P Framework Agreement was entered into in the ordinary and usual course of business of the Company, and the terms of the Raw Materials S&P Framework Agreement, which were determined after arm's length negotiations among the parties thereto, are normal commercial terms or better, 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 HYDROGEN

Dongyue Hydrogen is a company incorporated in the PRC with limited liability which is principally engaged in the business of production and sale of hydrogen energy materials, hydrogen membrane materials, lithium battery, packaging materials and fluoropolymer fiber.

Dongyue Hydrogen is held as to 40% by Shandong Huaxia, a wholly-owned subsidiary of the Company, 30% by Huoer Guosi and 30% by Macro-link, and is accounted for as a subsidiary of the Company.

Huoer Guosi is a PRC limited partnership principally engaged in equity investment, which general partner is a director of certain subsidiaries of the Company, and which limited partners include two executive Directors who together hold more than 30% interest in Huoer Guosi as limited partners. Therefore, Huoer Guosi is a connected person of the Company. Macro-link is the indirect holding company of Macrolink International Investment Co., Ltd., a substantial Shareholder holding approximately 29.20% of the issued share capital of the Company and accordingly, Macro-link is a connected person of the Company.

Therefore, pursuant to Rule 14A.16 of the Listing Rules, Dongyue Hydrogen is a connected subsidiary of the Company as it is a non-wholly owned subsidiary of the Company in which each of Huoer Guosi and Macro-link can exercise or control the exercise of 10% or more of the voting power at Dongyue Hydrogen's general meeting.

LISTING RULES IMPLICATIONS

As stated above, Dongyue Hydrogen is a connected subsidiary of the Company. Therefore, the entering into of the Raw Materials S&P Framework 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 each of the Sale Annual Cap and the Purchase Annual Cap exceed(s) 0.1% but are all less than 5%, the transactions under the Raw Materials S&P Framework 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, Mr. Zhang Zhefeng and Mr. Zhang Bishu (the "**Abstained Directors**") who have abstained from voting on the Board resolutions approving the Raw Materials S&P Framework Agreement in view of their respective interests in Dongyue Hydrogen, none of the Directors was in any way materially interested in the Raw Materials S&P Framework 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 Hydrogen”	Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd. (山東東岳未來氫能材料有限公司), a company incorporated in the PRC with limited liability and a connected subsidiary of the Company
“Group”	the Company and its subsidiaries
“Huoer Guosi”	Huoer Guosi Xuri Equity Investment Partnership, a PRC limited partnership and a connected person of the Company
“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 of Hong Kong Limited (as amended from time to time)
“Macro-link”	Macro-link Holdings Limited, a company incorporated in the PRC with limited liability and a connected person of the Company
“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 S&P Framework Agreement”	an agreement dated 1 March 2018 entered into between the Company and Dongyue Hydrogen in respect of (i) the provision of raw materials by the Company to Dongyue Hydrogen and (ii) the purchase of raw materials and products by the Company from Dongyue Hydrogen
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Huaxia”	Shandong Huaxia Shenzhou New Materials Co., Ltd., a company incorporated in the PRC with limited liability, a direct wholly-owned subsidiary of the Company
“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, 1 March 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.