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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 announcements of the Company dated 14 February 2018 and 27 February 2018, in relation to, among other things, the continuing connected transaction entered into between the Company and Dongyue Organosilicone.

As the existing agreement in relation to the aforesaid continuing connected transaction will expire on 31 December 2018, the Company had, on 20 December 2018 (after trading hours), entered into the Raw Materials Master Supply Agreement with Dongyue Organosilicone, a connected subsidiary of the Company, pursuant to which the Company (for and on behalf of the Remaining Group) has agreed to supply raw materials to Dongyue Organosilicone for its production and operations up to 31 December 2019.

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 Annual 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 announcements of the Company dated 14 February 2018 and 27

February 2018, in relation to, among other things, the continuing connected transaction entered into between the Company and Dongyue Organosilicone.

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THE RAW MATERIALS MASTER SUPPLY AGREEMENT

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

Date

20 December 2018 (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 2019 and up to and including 31 December 2019 (the “**Term**”).

Raw materials to be provided 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 chloromethane, steam, waste gas (hydrogen), liquid alkali and refrigerant) 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 in respect of the supply of raw materials by the Remaining Group to Dongyue Organosilicone, 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 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 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 the respective raw materials offered by the Remaining Group to Independent Third Parties at the relevant times for similar raw materials 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 in similar quantities 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 to be supplied, as determined by the Remaining Group and agreed by Dongyue Organosilicone.

Payment terms

Payments for the raw materials to be supplied by the Remaining Group to Dongyue Organosilicone 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 specific agreements.

Annual cap

Pursuant to the Raw Materials Master Supply Agreement, the aggregate amount to be paid by Dongyue Organosilicone to the Remaining Group for the supply of raw materials under the Raw Materials Master Supply Agreement for the Term shall not exceed RMB385,000,000 (the “**Annual Cap**”).

The Annual Cap has been determined with reference to, among others, (i) the historical transaction amount of approximately RMB362 million in respect of the supply of raw materials by the Remaining Group to Dongyue Organosilicone for the 11 months ended 30 November 2018; and (ii) the current estimated volume and unit prices of the relevant raw materials to be supplied by the Remaining Group to Dongyue Organosilicone during the Term.

INTERNAL CONTROL MEASURES

In order to ensure that the pricing principles and the Annual 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 by the Remaining Group to Independent Third Parties for the purpose of ensuring that the prices for 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 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 under the Raw Materials Master Supply Agreement for the purpose of ensuring that the Annual Caps 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 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 chloromethane 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. As mentioned above, the pricing for the raw materials to be supplied by the Remaining Group to Dongyue Organosilicone will be determined by the Remaining Group with reference to the fair market prices of the respective products offered to Independent Third Parties or the production cost of the respective products, so as to ensure that the transactions will be beneficial to both the Remaining Group and Dongyue Organosilicone.

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 company incorporated in the PRC with limited liability. It is a non-wholly owned subsidiary of the Company and is principally engaged in manufacturing and sale of organic silicone products. As of the date of this announcement, Dongyue Organosilicone is held as to 77% by Shandong Dongyue Future Corporate Management Consultancy Services Co., Ltd. (山東東岳未來企業管理諮詢服務有限公司) (a wholly-owned subsidiary of the Company), 13% by Zibo Xiaoxi Enterprise Management Partnership (淄博曉希企業管理合夥企業) (“**Zibo Xiaoxi**”) and 10% 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 (both are executive Directors) 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 Annual 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 Organosilicon Materials Co., Ltd. (山東東岳有機硅材料有限公司), a company incorporated in the PRC with limited liability and a connected subsidiary of the Company
“Group”	the Company and its subsidiaries
“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)
“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 20 December 2018 entered into between the Company and Dongyue Organosilicone in respect of the provision of raw materials 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, 20 December 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.