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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 MASTER SUPPLY AGREEMENT

THE MASTER SUPPLY AGREEMENT

On 6 April 2021, the Company entered into the 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 and provide services to Dongyue Organosilicone for its production and operations for the period from 1 April 2021 to 31 December 2021.

LISTING RULES IMPLICATIONS

Dongyue Organosilicone is a connected subsidiary of the Company. Therefore, the entering into of the Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 4 January 2021, the Company entered into the Previous Raw Materials Master Supply Agreement with Dongyue Organosilicone in relation to the supply of raw materials and ancillary waste treatment by the Remaining Group to Dongyue Organosilicone for the period from 1 January 2021 to 31 March 2021. As the Master Supply Agreement and the Previous Raw Materials Master Supply Agreement were entered into between the same parties within a 12-month period, the Master Supply Agreement is required to be aggregated with the Previous Raw Materials Master Supply Agreement pursuant to Rule 14A.81 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Master Supply Agreement (as aggregated with the Previous Raw Materials Master Supply Agreement) exceed(s) 0.1% but are all less than 5%, the transactions under the 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

The Board announces that on 6 April 2021, the Company entered into the 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 provide services to Dongyue Organosilicone for its production and operations for the period from 1 April 2021 to 31 December 2021.

THE MASTER SUPPLY AGREEMENT

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

Date

6 April 2021

Parties

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

Term

The Master Supply Agreement shall be effective for the period from 1 April 2021 to 31 December 2021 (the “**Term**”).

Raw materials and services to be supplied or provided by the Remaining Group to Dongyue Organosilicone

Pursuant to the Master Supply Agreement, the Company (for and on behalf of the Remaining Group) has agreed to (i) supply raw materials including but not limited to monochloromethane, 32% liquid caustic soda, steam, waste gas (hydrogen) and F22; and (ii) provide services including but not limited to sulfuric acid treatment, water treatment, conference, catering and accommodation services, to Dongyue Organosilicone for its production and operation purposes.

The 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 Master Supply Agreement. The supply of raw materials and the provision of services 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 Master Supply Agreement, the pricing for the raw materials and services to be supplied or provided 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 or services 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 of similar quantities or volume or for similar services of similar types or scope, where available, 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 raw materials or services concerned, as agreed between the Remaining Group and 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 Master Supply Agreement, the aggregate amount to be paid by Dongyue Organosilicone to the Remaining Group for the Term shall not exceed RMB370,000,000 (the “**Maximum Cap**”).

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

- (i) the maximum cap for the period from 1 January 2021 to 31 March 2021 under the Previous Raw Materials Master Supply Agreement was RMB105 million, while the historical transaction amount for the said period thereunder was approximately RMB70 million. The actual transaction amount was lower than the maximum cap mainly because the average market price of monochloromethane (a major raw material procured by Dongyue Organosilicone from the Remaining Group) for the first quarter of 2021 was lower than expected (being 30% lower than that for the same period of 2020);
- (ii) the Directors believe that the PRC economy will continue to 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. In addition, the market price of monochloromethane has rebounded and shown an increasing trend since March 2021; and

- (iii) the scope of transactions between the Remaining Group and Dongyue Organosilicone under the Master Supply Agreement is wider than that under the Previous Raw Materials Master Supply Agreement, as the Master Supply Agreement also covers the provision of conference, catering and accommodation services by the Remaining Group to Dongyue Organosilicone.

INTERNAL CONTROL MEASURES

In order to ensure that the pricing principles and the Maximum Cap as contained in the 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 the provision of services by the Remaining Group to Independent Third Parties for the purpose of ensuring that the prices for the raw materials or services to be supplied or provided by the Remaining Group to Dongyue Organosilicone will be comparable to, or no more favourable than, the fair market prices for similar raw materials or services 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 raw materials supplied and the services provided by the Remaining Group under the 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 transactions under the Master Supply Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 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 and the provision of services by the Remaining Group to Dongyue Organosilicone will 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 Master Supply Agreement requiring the Remaining Group to exclusively supply raw materials or provide services to Dongyue Organosilicone or requiring Dongyue Organosilicone to exclusively source raw materials or services from the Remaining Group. The quantities of raw materials and the scope of services to be purchased by Dongyue Organosilicone from the Remaining Group will depend on the actual production and operation needs and capacity of Dongyue Organosilicone subject to the specific agreements to be entered into between the parties. As mentioned above, the pricing basis will be determined by the

Remaining Group with reference to the fair market prices of the respective products or services offered to Independent Third Parties or the cost of the respective products or services, 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) consider that the Master Supply Agreement was entered into in the ordinary and usual course of business of the Company, and the terms of the Master Supply Agreement, which were determined after arm's length negotiations between 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 the manufacturing and sale of organic silicone products. Since March 2020, the A shares of Dongyue Organosilicone have been 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.

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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 who have abstained from voting on the Board resolutions approving the Master Supply Agreement in view of their respective interests therein, none of the Directors was in any way materially interested in the Master Supply Agreement and the transactions contemplated thereunder. Nevertheless, Mr. Wang Weidong has also abstained from voting on the Board resolutions approving the Master Supply Agreement by virtue of his directorship in Dongyue Organosilicone.

DEFINITIONS

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

“Abstained Directors”	Mr. Fu Kwan, Mr. Wang Weidong, Mr. Zhang Jianhong and Mr. Zhang Zhefeng
“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)
“Master Supply Agreement”	an agreement dated 6 April 2021 entered into between the Company and Dongyue Organosilicone in respect of the supply of raw materials and the provision of services by the Remaining Group to Dongyue Organosilicone for the period from 1 April 2021 to 31 December 2021
“Previous 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 for the period from 1 January 2021 to 31 March 2021
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“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, 6 April 2021

As at the date of this announcement, the Directors of the Company are Mr. Zhang Jianhong, Mr. Fu Kwan, Mr. Wang Weidong, Mr. Zhang Zhefeng, Mr. Zhang Bishu and Mr. Zhang Jian as executive Directors, and Mr. Ting Leung Huel, Stephen, Mr. Ma Zhizhong and Mr. Yang Xiaoyong as independent non-executive Directors.

** For identification purposes only*