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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 THE SALE AND PURCHASE OF RAW MATERIALS AND PRODUCTS AND PROVISION OF ANCILLARY SERVICES**

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 28 July 2022 in relation to the transfer of equity interest in an associated company, being Dongyue Hydrogen (the “**Equity Transfer Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Equity Transfer Announcement.

The Board is pleased to announce that the completion of the Transfer has taken place in accordance with the terms and conditions of the Equity Transfer Agreement. As at the date of this announcement, Mr. Zhang Jianhong (an executive Director and the Chairman of the Board) (“**Mr. Zhang**”), through entities controlled by him, is interested in an aggregate of approximately 36.19% equity interest in Dongyue Hydrogen. Therefore, Dongyue Hydrogen is a connected person of the Company upon completion of the Transfer.

The Board hereby announces that on 2 August 2022 (after trading hours), Dongyue Fluorosilicon Technology (a direct wholly-owned subsidiary of the Company, for itself and on behalf of its subsidiaries) and Dongyue Hydrogen entered into the Raw Materials and Services S&P Framework Agreement, pursuant to which Dongyue Fluorosilicon Technology and its subsidiaries have agreed to (i) supply the DY Raw Materials and Ancillary Services (as defined below) to Dongyue Hydrogen for its production and operations and (ii) purchase the Hydrogen Raw Materials and Products and Ancillary Services (as defined below) from Dongyue Hydrogen for the Group’s production and operations for a term up to 31 December 2022.

## **LISTING RULES IMPLICATIONS**

Dongyue Hydrogen is a connected person of the Company. Therefore, the entering into of the Raw Materials and Services 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 is/are less than 5%, the transactions under the Raw Materials and Services 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 is pleased to announce that the completion of the Transfer has taken place in accordance with the terms and conditions of the Equity Transfer Agreement. As at the date of this announcement, Mr. Zhang, through entities controlled by him, is interested in an aggregate of approximately 36.19% equity interest in Dongyue Hydrogen. Therefore, Dongyue Hydrogen is an associate of Mr. Zhang and a connected person of the Company following completion of the Transfer. The Transfer results in the daily operational transactions between the Group and Dongyue Hydrogen becoming continuing connected transactions between the Company and Dongyue Hydrogen.

The Board hereby announces that on 2 August 2022 (after trading hours), Dongyue Fluorosilicon Technology (for itself and on behalf of its subsidiaries) and Dongyue Hydrogen entered into the Raw Materials and Services S&P Framework Agreement, pursuant to which Dongyue Fluorosilicon Technology and its subsidiaries have agreed to (i) supply the DY Raw Materials and Ancillary Services (as defined below) to Dongyue Hydrogen for its production and operations and (ii) purchase the Hydrogen Raw Materials and Products and Ancillary Services (as defined below) from Dongyue Hydrogen for the Group's production and operations for a term up to 31 December 2022.

## **THE RAW MATERIALS AND SERVICES S&P FRAMEWORK AGREEMENT**

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

### **Date**

2 August 2022 (after trading hours)

### **Parties**

(i) Dongyue Fluorosilicon Technology (for itself and on behalf of its subsidiaries); and

(ii) Dongyue Hydrogen.

## **Term**

The Raw Materials and Services S&P Framework Agreement shall be effective from 2 August 2022 and up to and including 31 December 2022 (the “**Term**”).

## **Subject matter**

Pursuant to the Raw Materials and Services S&P Framework Agreement, Dongyue Fluorosilicon Technology (for itself and on behalf of its subsidiaries) agreed to (i) supply raw materials (including hexafluoropropylene, tetrafluoroethylene, 32% liquid alkali and steam) and provide other ancillary services to Dongyue Hydrogen for its production and operations (the “**DY Raw Materials and Ancillary Services**”), and (ii) purchase raw materials and products (including fluorine-containing surfactants, perfluorinated ion-exchange resin and hexafluoropropylene oxide) and other ancillary services from Dongyue Hydrogen for the Group’s production and operations (the “**Hydrogen Raw Materials and Products and Ancillary Services**”).

The Raw Materials and Services S&P Framework Agreement is a framework agreement which sets out the broad terms and conditions under which the parties will carry out the transactions contemplated thereunder. Dongyue Fluorosilicon Technology and its subsidiaries and Dongyue Hydrogen may from time to time enter into ancillary business contracts and/or purchase orders to specify other necessary transaction details, including type, specification, quantity and unit price of the raw materials or products or services concerned, as well as delivery and payment terms. The Raw Materials and Services S&P Framework Agreement shall prevail over such business contracts in case of any inconsistencies.

## **Pricing principles**

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

- (1) the fair market prices of the DY Raw Materials and Ancillary Services offered by Dongyue Fluorosilicon Technology and its subsidiaries to Independent Third Parties from time to time in their ordinary and usual course of business and the fair market prices of the Hydrogen Raw Materials and Products and Ancillary Services offered by Dongyue Hydrogen to Independent Third Parties from time to time in its ordinary and usual course of business. Reference will be made to recent transactions with Independent Third Parties for similar raw materials and products of similar specifications for the purpose of determining the prices and terms to ensure such prices and terms are no less favourable than or comparable to those offered to Independent Third Parties; and

- (2) where no such fair market prices are available or applicable, the prices based on the actual or reasonable cost incurred thereof plus a reasonable gross profit margin determined with reference to that of similar products or their key raw materials offered to Independent Third Parties (the “**Alternative Approach**”).

### **Payment terms**

Payments for (i) the DY Raw Materials and Ancillary Services and (ii) the Hydrogen Raw Materials and Products and Ancillary Services 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 and Services S&P Framework Agreement,

- (i) the aggregate amount to be paid by Dongyue Hydrogen to Dongyue Fluorosilicon Technology and its subsidiaries for the DY Raw Materials and Ancillary Services shall not exceed approximately RMB93,189,000 (equivalent to approximately HK\$111,826,800) (the “**Sale Annual Cap**”) for the five months ending 31 December 2022; and
- (ii) the aggregate amount to be paid by Dongyue Fluorosilicon Technology and its subsidiaries to Dongyue Hydrogen for the Hydrogen Raw Materials and Products and Ancillary Services shall not exceed approximately RMB39,304,000 (equivalent to approximately HK\$47,164,800) (the “**Purchase Annual Cap**”) for the five months ending 31 December 2022.

The Sale Annual Cap was determined with reference to (i) the five-month historical aggregate transaction amount that is pro-rated from the annual historical aggregate transaction amount of approximately RMB86.4 million (equivalent to approximately HK\$103.7 million) in respect of the supply of the DY Raw Materials and Ancillary Services by Dongyue Fluorosilicon Technology and its subsidiaries to Dongyue Hydrogen for the year ended 31 December 2021; (ii) the expected substantial increase in Dongyue Hydrogen’s demand for the DY Raw Materials and Ancillary Services due to the expected increase in Dongyue Hydrogen’s production capacity of special fluoride-molecule chemical products and special fluoride-functional polymer chemical products by 50% and 200%, respectively; and (iii) the estimated market trend and demand for the fluorinated proton exchange membrane, its key raw materials and derived products in the PRC market during the Term.

The Purchase Annual Cap was determined with reference to (i) the five-month historical aggregate transaction amount that is pro-rated from the annual historical aggregate transaction amount of approximately RMB42.5 million (equivalent to approximately HK\$51.0 million) in respect of the purchase of the Hydrogen Raw Materials and Products and Ancillary Services by Dongyue Fluorosilicon Technology and its subsidiaries from Dongyue Hydrogen for the year ended 31 December 2021; (ii) the estimated production capacity and budget of the Group for the Term in connection with products to be produced from the Hydrogen Raw Materials and Products and

Ancillary Services; and (iii) the estimated market trend and increase in demand for the Group's products to be produced from the Hydrogen Raw Materials and Products and Ancillary Services 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 the DY Raw Materials and Ancillary Services and the procurement or purchase of the Hydrogen Raw Materials and Products and Ancillary Services, respectively. The DY Raw Materials and Ancillary Services and the Hydrogen Raw Materials and Products and Ancillary Services are different raw materials and ancillary services to be used in different production processes for different finished products and the operations of Dongyue Hydrogen and the Group.

## **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 and Services S&P Framework Agreement are complied with, the Company has adopted the following measures:

- (i) for the sale of the DY Raw Materials and Ancillary Services by Dongyue Fluorosilicon Technology and its subsidiaries, the relevant personnel of the Company will keep track of the transaction records on the sale of raw materials and services by Dongyue Fluorosilicon Technology and its subsidiaries to Independent Third Parties for the purpose of ensuring that the prices and terms for the DY Raw Materials and Ancillary Services to be offered to Dongyue Hydrogen will be comparable to, or no more favourable than, the fair market prices and terms for the DY Raw Materials and Ancillary Services or similar raw materials offered to Independent Third Parties by Dongyue Fluorosilicon Technology and its subsidiaries;
- (ii) for the purchase of the Hydrogen Raw Materials and Products and Ancillary Services, the Company would also solicit at least two contemporaneous quotations from Independent Third Parties for similar products and services or substitutes in similar quantities for the purpose of ensuring that the prices and terms for the Hydrogen Raw Materials and Products and Ancillary Services to be offered by Dongyue Hydrogen to Dongyue Fluorosilicon Technology and its subsidiaries will be no less favourable to the Group than those offered by Independent Third Parties to Dongyue Fluorosilicon Technology and its subsidiaries for similar products and services or substitutes of comparable nature and quality;
- (iii) whenever the Alternative Approach is used, the Company shall request for the relevant records or information in relation to the cost of the relevant raw materials and ancillary services, and shall solicit the profit margin of similar products or raw materials in the market;
- (iv) the relevant personnel of the Company will keep track of (a) the aggregate amount paid by Dongyue Hydrogen to Dongyue Fluorosilicon Technology and its subsidiaries for the DY Raw Materials and Ancillary Services and (b) the aggregate amount paid by Dongyue Fluorosilicon

Technology and its subsidiaries to Dongyue Hydrogen for the Hydrogen Raw Materials and Products and Ancillary Services for the purpose of ensuring that the Sale Annual Cap and the Purchase Annual Cap, respectively, will not be exceeded;

- (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 the DY Raw Materials and Ancillary Services and the purchase of the Hydrogen Raw Materials and Products and Ancillary Services under the Raw Materials and Services S&P Framework Agreement or from time to time as requested; and
- (vi) the relevant personnel of the Company will collate industry and market information to keep track of fair market prices of the DY Raw Materials and Ancillary Services and the Hydrogen Raw Materials and Products and Ancillary Services and relevant profit margin and monitor customer orders from time to time.

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

With respect to the Hydrogen Raw Materials and Products and Ancillary Services, Dongyue Hydrogen possesses the machinery, equipment and patents for the production and/or provision of the Hydrogen Raw Materials and Products and Ancillary Services and the Group has been and will, by entering into the Raw Materials and Services S&P Framework Agreement with Dongyue Hydrogen, continue to be able to secure a stable and reliable source of supply for such raw materials and products and services for its production process and operations. With respect to the DY Raw Materials and Ancillary Services, by entering into the Raw Materials and Services S&P Framework Agreement, Dongyue Hydrogen will continue to be supplied and provided with the necessary DY Raw Materials and Ancillary Services it requires for continued development and production of fluorinated proton exchange membrane, its key raw materials and derived products.

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

The Directors (including the independent non-executive Directors but excluding the Abstained Directors (as defined below)) consider that the Raw Materials and Services S&P Framework Agreement was entered into in the ordinary and usual course of business of Dongyue Fluorosilicon

Technology and its subsidiaries, and the terms of the Raw Materials and Services 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 fluoropolymers, organic silicone, refrigerants and other products such as dichloromethane, polyvinyl chloride and liquid alkali; and (ii) property development.

## **INFORMATION ON DONGYUE FLUOROSILICON TECHNOLOGY**

Dongyue Fluorosilicon Technology is a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company. It is principally engaged in the investment in and management of the fluorosilicon new material industry.

## **INFORMATION ON DONGYUE HYDROGEN**

Dongyue Hydrogen is an associated company of the Company and is a joint stock company established in the PRC with limited liability. It is principally engaged in the business of research, production and sale of fluorinated proton exchange membrane, its key raw materials and derived products.

As at the date of this announcement, the Company, indirectly through its subsidiaries, is interested in an aggregate of approximately 27.27% equity interest in Dongyue Hydrogen, which continues to be accounted for as an associated company of the Company. As at the date of this announcement, Mr. Zhang, through entities controlled by him, is interested in an aggregate of approximately 36.19% equity interest in Dongyue Hydrogen. As such, Dongyue Hydrogen is an associate of Mr. Zhang hence a connected person of the Company. Mr. Fu Kwan (an executive Director), through an entity controlled by his associate, is interested in approximately 11.51% equity interest in Dongyue Hydrogen. Save for the shareholding interests held by the Company, the Directors and their respective associates, other shareholders of Dongyue Hydrogen are Independent Third Parties.

## **LISTING RULES IMPLICATIONS**

Dongyue Hydrogen is a connected person of the Company. Therefore, the entering into of the Raw Materials and Services 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 is/are less than 5%, the transactions under the Raw Materials and Services 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. Zhang, Mr. Fu Kwan, Mr. Wang Weidong and Mr. Zhang Zhefeng (the "**Abstained Directors**") who have abstained from voting on the Board resolutions approving the Raw Materials and Services S&P Framework Agreement and the transactions contemplated thereunder in view of their respective interests in Dongyue Hydrogen, none of the Directors was in any way materially interested in the Raw Materials and Services S&P Framework Agreement and the transactions contemplated thereunder.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

"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 Fluorosilicon Technology"	Dongyue Fluorosilicon Science and Technology Group Co., Ltd.* (東岳氟硅科技集團有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company
"Dongyue Hydrogen"	Shandong Dongyue Future Hydrogen Energy Materials Co., Ltd.* (山東東岳未來氫能材料股份有限公司), a joint stock company established in the PRC with limited liability and an associated company 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 and Services S&P Framework Agreement”	an agreement dated 2 August 2022 entered into between Dongyue Fluorosilicon Technology (for itself and on behalf of its subsidiaries) and Dongyue Hydrogen in respect of (i) the supply and provision of DY Raw Materials and Ancillary Services by Dongyue Fluorosilicon Technology and its subsidiaries to Dongyue Hydrogen and (ii) the purchase of Hydrogen Raw Materials and Products and Ancillary Services by Dongyue Fluorosilicon Technology and its subsidiaries from Dongyue Hydrogen
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the Shares from time to time
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital 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)”, “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.*

*This announcement contains translations between RMB and HK\$ amounts at RMB1 = HK\$1.2, which are for illustrative purpose only. The translations should not be taken as a representation that RMB could actually be converted into HK\$ at that rate or at all.*

*\* for identification purposes only.*

By Order of the Board  
**Dongyue Group Limited**  
**Zhang Jianhong**  
Chairman

The PRC, 2 August 2022

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