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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)

CONNECTED TRANSACTION FORMATION OF PARTNERSHIP FUND

The Company is pleased to announce that on 12 January 2021 (after trading hours) Dongyue Fluorosilicone Technology and Dongyue Organosilicone, both subsidiaries of the Company, entered into the Partnership Agreement with Huantai Jinhai, Zibo Juqiang and China Capital in relation to the establishment of the Fund, which is expected to primarily invest in fluoro-chemical, organic silicone, membrane materials and hydrogen-related industries.

Pursuant to the Partnership Agreement, the initial capital contribution to the Fund is in total RMB500,000,000, comprising RMB125,000,000, RMB75,000,000, RMB125,000,000 and RMB 75,000,000 to be contributed to the Fund by Dongyue Fluorosilicone Technology, Dongyue Organosilicone, Huantai Jinhai and Zibo Juqiang, respectively, as Limited Partners, and RMB100,000,000 by China Capital as the General Partner. The capital contribution to the Fund will be made in stages in accordance with the Partnership Agreement.

The percentage of capital contribution of Dongyue Fluorosilicone Technology and Dongyue Organosilicone based on the total initial capital contribution amount is 25% and 15%, respectively. The Fund will not be accounted for as a subsidiary of the Company and its financial results will not be consolidated into the accounts of the Company.

Dongyue Organosilicone is a connected subsidiary of the Company and therefore the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratio(s) are more than 0.1% but less than 5%, the Partnership Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and is therefore subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company is pleased to announce that on 12 January 2021 (after trading hours), Dongyue Fluorosilicone Technology and Dongyue Organosilicone, both subsidiaries of the Company, entered into the Partnership Agreement with Huantai Jinhai, Zibo Juqiang and China Capital in relation to the establishment of the Fund, which is expected to primarily invest in fluoro-chemical, organic silicone, membrane materials and hydrogen-related industries.

Pursuant to the Partnership Agreement, the initial capital contribution to the Fund is RMB500,000,000 in total, comprising RMB125,000,000, RMB75,000,000, RMB125,000,000 and RMB75,000,000 to be contributed to the Fund by Dongyue Fluorosilicone Technology, Dongyue Organosilicone, Huantai Jinhai and Zibo Juqiang, respectively, as Limited Partners, and RMB100,000,000 by China Capital as the General Partner. The capital contribution to the Fund will be made in stages in accordance with the Partnership Agreement.

THE PARTNERSHIP AGREEMENT

The principal terms of the Partnership Agreement are set out below:

- Date : 12 January 2021
- Name of Fund : Zibo Runxin Dongyue New Materials Equity Investment Fund Partnership Enterprise (Limited Partnership)* (淄博潤信東岳新材料股權投資基金合夥企業(有限合夥))
- Parties : (i) Dongyue Fluorosilicone Technology as a Limited Partner;
- (ii) Dongyue Organosilicone as a Limited Partner;
- (iii) Huantai Jinhai as a Limited Partner;
- (iv) Zibo Juqiang as a Limited Partner; and
- (v) China Capital as the General Partner.
- Capital Contribution : Pursuant to the Partnership Agreement, the initial capital commitment in total of RMB500,000,000 shall be contributed by the Partners in the following manners:

- (i) RMB125,000,000 (representing approximately 25% of the initial capital commitment to the Fund) by Dongyue Fluorosilicone Technology;
- (ii) RMB75,000,000 (representing approximately 15% of the initial capital commitment to the Fund) by Dongyue Organosilicone;
- (iii) RMB125,000,000 (representing approximately 25% of the initial capital commitment to the Fund) by Huantai Jinhai;
- (iv) RMB75,000,000 (representing approximately 15% of the initial capital commitment to the Fund) by Zibo Juqiang; and
- (v) RMB100,000,000 (representing approximately 20% of the initial capital commitment to the Fund) by China Capital.

The initial capital contribution to the Fund shall be made by each Partner upon the following events and by such date to be specified in the payment instructions to be given by the General Partner:

- First instalment: upon the completion of registration with the Huantai County Market Supervision Administration (桓台縣市場監督管理局) and the obtaining of business license of the Fund, each Partner shall contribute 2% of its total capital contribution;
- Second instalment: 60 calendar days after the completion of filing with the Asset Management Association of China (中國證券投資基金業協會), each Partner shall contribute 30% of its total capital contribution (on cumulative basis);
- Third instalment: 365 calendar days after the second instalment, each Partner shall contribute 70% of its total capital contribution (on cumulative basis); and
- Fourth instalment: 365 calendar days after the third instalment, each Partner shall contribute 100% of its total capital contribution (on cumulative basis).

The respective contribution to the Fund is determined after arm's length negotiations between the Partners with reference to the proposed capital requirements of the Fund and the Partners' proportionate interests therein. The capital contribution by Dongyue Fluorosilicone Technology and Dongyue Organosilicone will be funded by each of Dongyue Fluorosilicone Technology and Dongyue Organosilicone's own internal resources, respectively.

After the first year of operation of the Fund, the General Partner may, subject to unanimous consent of the Partners, introduce potential investor(s) as new Limited Partners and the Limited Partners may also subscribe for further capital of the Fund. The maximum capital contribution to the Fund shall not exceed RMB1,000,000,000.

Investment Scope : The Fund may invest in equity or debt securities or convertible instruments of issuers in the fluoro-chemical, organic silicone, membrane materials and hydrogen-related industries in accordance with the Partnership Agreement. Subject to compliance with applicable laws and regulations, the Fund may invest in direct placement of listed securities.

Where the investment amount in any single target or project exceeds 20% of the total capital contribution of the Fund or if the Fund will acquire control of such target, such investment shall be subject to the unanimous approval of the Investment Committee. The investment amount in any single target or project shall not exceed 25% of the total capital contribution of the Fund.

Term : Seven years from the establishment of the Fund, of which the first four years shall be the investment period (the "**Investment Period**"), while the fifth to seventh year shall be the divestment period (the "**Divestment Period**"), provided that such term may be extended for another one year if approved by all Partners (the "**Extended Period**").

Investment Committee : An investment committee will be formed pursuant to the Partnership Agreement as the final decision-making body as to the investment and divestment decisions of the Partnership Fund. It will comprise five members, of which two members will be appointed by China Capital, two members will be appointed by Dongyue Fluorosilicone Technology and one member will be an external appointee.

Resolutions of the investment committee concerning investments and/or divestments of the Fund, reservation of investment proceeds, engagements of auditors of the Fund are subject to the approval by four-fifths of the committee members.

Management of the Fund : China Capital, the General Partner, will also act as the executive partner and the fund manager to manage the investments and daily operations of the Fund for annual management fees calculated in accordance with the terms of the Partnership Agreement with reference to: (a) the subscribed capital contribution amount by each Partner during the Investment Period; (b) the investment costs of each Partner in all investment targets or projects of the Fund subsisting in the Divestment Period; and (c) the investment costs of each Partner in all investment targets or projects of the Fund subsisting in the Extended Period.

Distribution : Pursuant to the Partnership Agreement, unless otherwise agreed, the distributable income of the Fund will be distributed within 60 calendar days of receipt of such income in the following manner and sequence:

- (i) First – to all Partners in proportion to their paid-in capital contribution ratio in the Fund, until each Partner recovers the funds corresponding to its paid-in capital contribution;
- (ii) Second – if there is any remaining balance, to all Partners in proportion to their paid-in capital contribution ratio in the Fund such that each of the Partners shall receive an initial investment return calculated at 8% per annum (simple interest) based on their paid-in capital contribution; and
- (iii) Third – if there is any further remaining balance, 80% of such balance shall be distributed to each Partner in proportion to its paid-in capital contribution ratio in the Fund, and 20% of such balance shall be distributed to China Capital as a performance commission.

Given that the aggregate capital contribution of Dongyue Fluorosilicone Technology and Dongyue Organosilicone only represents 40% of the total capital contribution of the Fund, the Fund will not be accounted for as a subsidiary of the Company and its financial results will not be consolidated into the accounts of the Company.

REASONS FOR AND BENEFITS OF THE FORMATION OF THE FUND

By entering into the Partnership Agreement, the Group can leverage on the resources from the parties and the experience of China Capital to invest through the Fund in the chemical industries of fluoropolymers, organic silicone and other related materials and by doing so, discover and develop high-quality enterprises in the industry, and expand the Company's business within the trade without significant initial investments while at the same time and the Group may benefit from the potential synergies with these investee companies and their potential growth and financial return through income distribution of the Fund.

The Directors (including the independent non-executive Directors but excluding the Abstained Directors (as defined below)) are of the view that the terms of the Partnership Agreement, which were determined after arm's length negotiations between the parties thereto, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Dongyue Organosilicone is a connected subsidiary of the Company and therefore the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratio(s) are more than 0.1% but less than 5%, the Partnership Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and is therefore subject to the reporting and announcement requirements but are 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 Fu Kwan, Zhang Jianhong and Zhang Zhefeng (the "**Abstained Directors**") who have abstained from voting on the Board resolutions approving the Partnership Agreement and the transactions contemplated thereunder in view of their respective interests in the Dongyue Organosilicone, no other Directors were in any way materially interested in and therefore no other Directors have abstained from voting on such Board resolutions.

GENERAL INFORMATION ON THE PARTIES

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.

Dongyue Fluorosilicone Technology

Dongyue Fluorosilicone Technology is a joint stock limited company established in the PRC and a direct wholly-owned subsidiary of the Company. Dongyue Fluorosilicone Technology and its subsidiaries are principally engaged in the manufacturing of fluoropolymers.

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 approximately 57.75% by Dongyue Fluorosilicone Technology (a direct wholly-owned subsidiary of the Company), approximately 9.75% by Zibo Xiaoxi Enterprise Management Partnership (淄博曉希企業管理合夥企業) (“**Zibo Xiaoxi**”) and approximately 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 Company level. Accordingly, Dongyue Organosilicone is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules.

Huantai Jinhai

Huantai Jinhai is a company established under the laws of the PRC which is wholly-owned by Huantai Province Government State Owned Assets Supervision Bureau (桓台縣人民政府國有資產監督管理局). It is principally engaged in the provision of management services for public utilities, investment activities with their internal funds, park management services and the management of municipal facilities. Huantai Jinhai and its shareholder(s) are Independent Third Parties.

Zibo Juqiang

Zibo Juqiang is a company established under the laws of the PRC which is ultimately and beneficially owned by three individuals. To the best of knowledge, information and belief of the Directors, Zibo Juqiang and its ultimate beneficial owners are Independent Third Parties.

China Capital

China Capital is a wholly-owned subsidiary of CSC Financial Co., Ltd., a joint stock limited liability company established in the PRC whose shares are listed on the Main Board of the Stock Exchange with stock code 6066. China Capital is a private equity and venture capital fund manager registered under the Asset Management Association of China. China Capital and CSC Financial Co., Ltd. are Independent Third Parties.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meaning ascribed to them below:

“Board”	the board of directors of the Company
“China Capital”	China Capital Management Co., Ltd.* (中信建投資本管理有限公司), a company established in the PRC with limited liability
“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)”	director(s) of the Company
“Dongyue Fluorosilicone Technology”	Dongyue Fluorosilicone Science and Technology Group Co., Ltd.* (東岳氟硅科技集團有限公司), a joint stock limited company established in the PRC and a direct wholly-owned subsidiary 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
“Fund”	Zibo Runxin Dongyue New Materials Equity Investment Fund Partnership Enterprise (Limited Partnership)* (淄博潤信東岳新材料股權投資基金合夥企業(有限合夥)), a limited partnership investment fund to be established and registered under the laws of the PRC in accordance with the terms and conditions of the Partnership Agreement
“General Partner”	the general partner of the Fund, being China Capital pursuant to the Partnership Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huantai Jinhai”	Huantai Province Jinhai Kongyou Capital Operation Co., Ltd.* (桓台縣金海公有資產經營有限公司), a company established in the PRC with limited liability

“Independent Third Parties”	parties who are independent of, and not connected with the Company or any of its connected persons
“Limited Partner(s)”	the limited partner(s) of the Fund, currently being Dongyue Fluorosilicone Technology, Dongyue Organosilicone, Huantai Jinhai and Zibo Juqiang pursuant to the Partnership Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Partners”	the General Partner and the Limited Partners
“Partnership Agreement”	the partnership agreement entered into on 12 January 2021 among Dongyue Fluorosilicone Technology, Dongyue Organosilicone, Huantai Jinhai, Zibo Juqiang and China Capital in respect of, among other things, the establishment of the Fund
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zibo Juqiang”	Zibo Juqiang Trading Co., Ltd.* (淄博聚強貿易有限公司), a company established in the PRC with limited liability
“%”	per cent

* For identification purposes only and should not be regarded as the official English translations of the Chinese names. In the event of any inconsistency, the Chinese names prevail.

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. For the purpose of this announcement, unless the context otherwise requires, conversion of RMB into HK\$ is based on the

approximate exchange rate of RMB0.8338 to HK\$1.00. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such or any other rate or at all.

By Order of the Board
Dongyue Group Limited
Zhang Jianhong
Chairman

The PRC, 12 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.