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China Risun Group Limited

中國旭陽集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1907)

**DISCLOSEABLE TRANSACTION
CAPITAL INCREASE OF RISUN CHINA GAS**

THE CAPITAL INCREASE

The Board announces that on May 26, 2023, Huhhot Zhongran, Risun Group and Tianjin Baisen (as shareholders), and Risun China Gas (as target company) entered into the Capital Increase Agreement, pursuant to which the three shareholders agreed to make additional disproportionate contribution of RMB800 million to Risun China Gas by way of cash injection in order to expedite the launch of the coking project of Risun China Gas with an annual production capacity of 3 million tonnes. In particular, Huhhot Zhongran, Risun Group and Tianjin Baisen will subscribe for RMB133.12 million, RMB600.32 million and RMB66.56 million, respectively, of the increased registered capital. The capital contributions shall be paid up within 10 working days after the execution of the new articles of association of Risun China Gas. In addition, Risun Group is expected to pay compensation not exceeding RMB100 million in aggregate based on the final result of an equity valuation to Huhhot Zhongran and Tianjin Baisen pursuant to the Capital Increase Agreement.

Prior to the completion of the Capital Increase, Risun China Gas is a joint venture of the Group and Risun Group. Immediately after the completion of the Capital Increase, the registered capital of Risun China Gas will increase from RMB536 million to RMB1,336 million, and Risun China Gas will be owned by Huhhot Zhongran, Risun Group and Tianjin Baisen as to 22%, 67% and 11%, respectively, and Risun China Gas will become a non-wholly-owned subsidiary of the Group.

IMPLICATIONS OF THE LISTING RULES

As one or more of the applicable percentage ratio(s) (as defined in the Listing Rules) in respect of the Transaction exceed 5% but are all less than 25%, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

The Company will make further announcement(s) in relation to the development of the Transaction as and when appropriate.

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THE CAPITAL INCREASE AGREEMENT

The principal terms of the Capital Increase Agreement are as follows:

Date: May 26, 2023

Parties: Huhhot Zhongran;
Risun Group;
Tianjin Baisen; and
Risun China Gas

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Huhhot Zhongran, Tianjin Baisen and their ultimate beneficial owners are third parties independent of the Company and its connected persons as at the date of this announcement.

Capital Increase:

Risun China Gas will increase its registered capital by RMB800 million based on the funding needs for its project construction, production and operation. Immediately after the completion of the Capital Increase, the registered capital of Risun China Gas will increase from RMB536 million to RMB1,336 million, and Risun China Gas will be owned by Huhhot Zhongran, Risun Group and Tianjin Baisen as to 22%, 67% and 11%, respectively. After the completion of the Capital Increase, Risun China Gas will become a non-wholly-owned subsidiary of the Group. The shareholding structures of Risun China Gas before and after the Transaction are as follows:

Party	Registered capital before the Capital Increase (RMB million)	% of total registered capital	Contribution amount in the Capital Increase (RMB million)	Form of contribution	Registered capital after the Capital Increase (RMB million)	% of total registered capital
Huhhot Zhongran	160.80	30%	133.12	Cash	293.92	22%
Risun Group	294.80	55%	600.32	Cash	895.12	67%
Tianjin Baisen	80.40	15%	66.56	Cash	146.96	11%
Total	536.00	100%	800.00		1,336.00	100%

Board of directors:

The board of directors of Risun China Gas shall be accountable to the shareholders' meeting. The board of directors will comprise 5 members, of which 1, 3 and 1 will be appointed by Huhhot Zhongran, Risun Group and Tianjin Baisen, respectively.

Certain ordinary matters of the board of directors of China Risun Gas including, among others, annual budgets, final accounts, annual profit distribution plan and plan for recovery of losses, and plans for annual issue of corporate debentures or other financing activities, require approval by more than half of all directors. Certain reserved matters including, among others, changes of the registered capital, merger, demerger, liquidation of the company and amendments to the articles of association, require unanimous approval by all directors. Certain reserved matters including, among others, the appointment of general manager, deputy general manager and financial controller, the formulation of major management systems and guarantee arrangement, require approval by four-fifths or more of directors.

Shareholders' meeting:

After the completion of the Capital Increase, China Risun Gas will establish shareholders' meetings. Ordinary matters including, among others, annual operational directions and investment and financing plans, annual budgets, final accounts, and changes of directors and supervisors, require approval by more than half of the shareholders holding voting shares. Financing activities other than renewal or substitution of existing financing require approval by four-fifths or more of the shareholders holding voting shares. Certain reserved matters including, among others, changes of the registered capital, the merger, demerger, liquidation of the company, amendments to the articles of association and related party transactions, require unanimous approval by shareholders holding voting shares.

Compensation:

Since the disproportionate amount of capital injected by Risun Group will increase its shareholding interest in Risun China Gas by 12%, the three shareholders agreed to engage Beijing Trueth Management Consulting Co., Ltd.* (北京求是聯合管理諮詢有限責任公司), an independent third-party valuation firm, to conduct a valuation of the total equity interest of Risun China Gas in order to protect the interests of all shareholders in a comprehensive manner. The valuation benchmark date is March 31, 2022, which was the day on which the parties commenced their negotiations on the Capital Increase. Based on the result of the equity valuation, Risun Group will compensate Huhhot Zhongran and Tianjin Baisen for, including but not limited to, (1) the appraised amount of the equity valuation in excess of the book value of the net assets of Risun China Gas as at the valuation benchmark date, (2) the increase in the book value of the net profits (including the surplus reserve and the capital reserve) of Risun China Gas between the valuation benchmark date and the date of the remittance of the capital contributions pursuant to the Capital Increase, and (3) adjustments, if any, for the amounts of transactions with the relevant related parties conducted during the joint venture period.

The equity valuation is currently in progress and the final valuation report is expected to be issued by June 30, 2023. Based on currently available information and the financial data of Risun China Gas for the year ended December 31, 2022, the Company estimated that the compensation to be paid by Risun Group will not exceed approximately RMB100 million in aggregate and will be funded by the Group's internal resources. If the final result of the equity valuation exceeds the aforementioned estimation, or if the method adopted for the equity valuation involves profit forecast, the Company will make further announcement(s) in accordance with the requirements under Chapter 14 of the Listing Rules.

Payment of contribution:

The capital contributions shall be paid up by the parties within 10 working days after the execution of the new articles of association of Risun China Gas. The compensation to be paid by Risun Group to Huhhot Zhongran and Tianjin Baisen shall be paid within 10 working days after the issuance of the equity valuation report and the corresponding audit report.

Financing guarantees: After Risun China Gas becomes a subsidiary of the Company, the Group (including Risun Group) will provide financing guarantees for the extension, renewal and substitution of existing working capital facilities for the daily operation of Risun China Gas.

REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The operation of the coking facility of Risun China Gas in Qingshuihe County, Hohhot, Inner Mongolia was suspended prior to August, 2019. Subsequently, the Group invested in Risun China Gas by way of capital injection and resumed the operation of the coking facility of Risun China Gas. Risun Group has taken charge of the daily management and operation spanning from procurement, production, sale to marketing of Risun China Gas since August, 2019. With the Group's continuous effort to optimize the operation of Risun China Gas over the past three plus years, Risun China Gas has seen improvements in its financial position.

The Capital Increase will provide new registered capital to Risun China Gas, which will be solely used for the construction, production and operation of the new coking project. The Company expects that with the commencement of operation of the newly constructed coking project of Risun China Gas by phrases by end of 2023, the Group's share of annual coke production volume is expected to increase gradually, thereby further consolidating the Group's position as the largest independent coke producer and supplier in the world.

Furthermore, Risun China Gas becoming a non-wholly-owned subsidiary of the Group, will expand the Group's asset and revenue bases. Further streamlining the operation of Risun China Gas will increase the investment returns from the operation of Risun China Gas for its shareholders. Such investment returns will translate into profits of the Group and gains for the shareholders of the Company, and will be instrumental in the Company's operational and strategic plans.

The Directors consider that the Capital Increase was determined based on the funding needs for the new coking project of Risun China Gas, and the compensation to be paid by Risun Group to the other two joint venture partners was determined based on the equity valuation and the audit report to be issued by independent third parties, the terms of the Capital Increase Agreement and the Transaction are on normal commercial terms, are fair and reasonable and are in the interests of the Group and its shareholders as a whole.

GENERAL INFORMATION ON THE PARTIES

Huhhot Zhongran

Huhhot Zhongran is a company incorporated in the PRC with limited liability and is principally engaged in the production of coking chemicals, the transportation and distribution of natural gas, and the engineering design, installation and repair of natural gas facilities. The ultimate beneficial owner of Huhhot Zhongran is China Gas Holdings Limited, a company listed on the main board of the Stock Exchange.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Huhhot Zhongran and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

The Group and Risun Group

The Company is a leading integrated coke, coking chemical and refined chemical producer and supplier in the PRC with customers located both in the PRC and abroad. The Group initially operated four production bases in Hebei Province, the PRC and has since then extended its operations to other provinces of the PRC, such as Inner Mongolia Autonomous Region and Shandong Province, and has also expanded its foreign operation to Sulawesi Province, Republic of Indonesia progressively.

As at the date of this announcement, Risun Group is an indirect wholly-owned subsidiary of the Company and is principally engaged in investment holding.

Tianjin Baisen

Tianjin Baisen is a company incorporated in the PRC with limited liability and is principally engaged in developing technologies for clean energy. The ultimate beneficial owner of Tianjin Baisen is Mr. Jia Tielin.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Tianjin Baisen and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Risun China Gas

As at the date of this announcement, Risun China Gas owns coking and refined chemical facilities in the production base in Qingshuihe County, Hohhot, Inner Mongolia Autonomous Region. It is a joint venture of the Company.

Set out below is certain financial information of Risun China Gas as extracted from the audited financial statements of Risun China Gas for the two financial years ended December 31, 2022 and 2021, which were prepared in accordance with the International Financial Reporting Standards.

	For the year ended December 31	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)
Net profit (before taxation and non-recurring items)	80.04	291.76
Net profit (after taxation and non-recurring items)	104.70	297.98
Total assets	5,526.51	3,098.00
Net assets	697.77	588.31

IMPLICATIONS OF THE LISTING RULES

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The Company will make further announcement(s) in relation to the development of the Transaction as and when appropriate.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“Capital Increase”	the injection of RMB800 million in aggregate to the registered capital of Risun China Gas by Risun Group, Huhhot Zhongran, Tianjin Baisen pursuant to the Capital Increase Agreement
“Capital Increase Agreement”	the agreement entered into among Huhhot Zhongran, Risun Group and Tianjin Baisen, and Risun China Gas on May 26, 2023 in respect of the Capital Increase

“Company”	China Risun Group Limited (中國旭陽集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on November 8, 2007 and listed on the Stock Exchange (stock code: 1907)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“Group”	the Company and its subsidiaries
“Huhhot Zhongran”	Huhhot Zhongran Urban Gas Development Co., Ltd.* (呼和浩特市燃氣發展有限公司), a company incorporated in the PRC with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this announcement only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan region
“Risun China Gas”	Hohhot Risun China Gas Energy Limited* (呼和浩特市旭陽中燃能源有限公司), a company incorporated in the PRC with limited liability on June 15, 2018 and a joint venture of the Company prior to the completion of the Capital Increase
“Risun Group”	Risun Group Limited* (旭陽集團有限公司) (formerly known as Risun Chemicals Limited* (旭陽化工有限公司)), a company established in the PRC with limited liability on January 8, 2010 and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Baisen”	Tianjin Baisen Energy Technology Co., Ltd.* (天津百森能源科技有限公司), a company incorporated in the PRC with limited liability

“Transaction” the acquisition of additional equity interest in Risun China Gas by Risun Group by way of capital injection pursuant to the Capital Increase Agreement

“%” per cent

By order of the Board
China Risun Group Limited
Yang Xuegang
Chairman

Hong Kong, May 28, 2023

As at the date of this announcement, the executive Directors are Mr. Yang Xuegang, Mr. Zhang Yingwei, Mr. Han Qinliang, Mr. Wang Fengshan, Mr. Wang Nianping and Mr. Yang Lu; and the independent non-executive Directors are Mr. Kang Woon, Mr. Yu Kwok Kuen Harry and Mr. Wang Yinping.

* *For identification purposes only*