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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  
IN RELATION TO THE INVESTMENT  
IN INNER MONGOLIA ZHONGRAN**

The Board is pleased to announce that on 20 August 2019 (after trading hours), Risun Chemicals, Huhehaote Zhongran, Tianjin Baisen and Inner Mongolia Zhongran entered into the Capital Increase Agreement, pursuant to which Risun Chemicals, Tianjin Baisen and Huhehaote Zhongran will subscribe for RMB68.75 million, RMB12.5 million and RMB18.75 million, respectively, to the increased registered capital of Inner Mongolia Zhongran.

In addition, Risun Chemicals and Tianjin Baisen shall provide guarantee for the payment of the Debts and the Preferential Dividend by Inner Mongolia Zhongran based on their corresponding shareholdings in Inner Mongolia Zhongran, i.e. Risun Chemicals and Tianjin Baisen shall provide guarantee for 78.57% and 21.43% of the total amount of the Debts and the Preferential Dividend respectively.

Upon completion of the Transaction, the registered capital of Inner Mongolia Zhongran will increase from RMB25 million to RMB125 million, and Risun Chemicals, Tianjin Baisen and Huhehaote Zhongran will hold 55%, 15% and 30% equity interest of Inner Mongolia Zhongran respectively. Immediately after the Completion, Inner Mongolia Zhongran will not be a subsidiary of the Company. It will become a subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the Group upon fulfillment of the Consolidation Conditions.

As one or more of the applicable percentage ratio(s) exceed 5% but are 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.

The Board is pleased to announce that on 20 August 2019 (after trading hours), Risun Chemicals, Huhehaote Zhongran, Tianjin Baisen and Inner Mongolia Zhongran entered into the Capital Increase Agreement, pursuant to which Risun Chemicals, Tianjin Baisen and Huhehaote Zhongran will contribute RMB68.75 million, RMB12.5 million and RMB18.75 million, respectively, to the registered capital of Inner Mongolia Zhongran. Upon completion of the Transaction, the registered capital of Inner Mongolia Zhongran will increase from RMB25 million to RMB125 million, and Risun Chemicals, Tianjin Baisen and Huhehaote Zhongran will hold 55%, 15% and 30% equity interest of Inner Mongolia Zhongran respectively.

## **BACKGROUND**

Huhehaote Zhongran is currently the sole shareholder of Inner Mongolia Zhongran. Inner Mongolia Zhongran owns the Qingshuihe Project, a coal-to-methanol production project consists of production facilities located in Qingshuihe County, Huhehaote, Inner Mongolia, PRC, with approved annual production quota of 900,000 tonnes dry coke, 100,000 tonnes methanol and 150,000 tonnes coal tar, which was transferred from Huhehaote Zhongran to Inner Mongolia Zhongran in 2018. The Qingshuihe Project commenced its constructions in 2006 and commenced operations in 2009. Since April 2015, the Qingshuihe Project has suspended operations due to previous changes in the macro-economic governmental policies in the PRC and the then operational risks arising in connection with the changes in the relevant policies. The Directors believe that coking industry in the PRC has recovered as the price of hard coking coal has begun to recover since May 2016 and the Group can benefit from new governmental policy implementation such as supply-side reform.

As part of its the operation and management services business, the Group plans to invest in Inner Mongolia Zhongran and re-commence operations of the Qingshuihe Project. As the PRC government has ceased to grant new coking production quota, the Directors are of the view that the Transaction is a valuable opportunity to acquire existing approved coking production quota to expand its production scale.

## DETAILS OF THE CAPITAL INCREASE AGREEMENT

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

|         |                                      |
|---------|--------------------------------------|
| Date    | 20 August 2019 (after trading hours) |
| Parties | (i) Risun Chemicals;                 |
|         | (ii) Huhehaote Zhongran;             |
|         | (iii) Tianjin Baisen; and            |
|         | (iv) Inner Mongolia Zhongran.        |

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

|                |  |
|----------------|--|
| Subject matter | Inner Mongolia Zhongran will increase its registered capital from RMB25 million to RMB125 million, and Risun Chemicals, Tianjin Baisen and Huhehaote Zhongran will subscribe for RMB68.75 million, RMB12.5 million and RMB18.75 million, respectively, to the increased registered capital of Inner Mongolia Zhongran. The shareholding structure of Inner Mongolia Zhongran before and after the Transaction is as follows: |
|----------------|--|

| Party              | Registered capital contributed before the Transaction<br>(RMB million) | Contribution amount in the Transaction<br>(RMB million) | Form of contribution | Registered capital contributed after the Transaction<br>(RMB million) | % of total registered capital |
|--------------------|--|---|----------------------|---|-------------------------------|
| Risun Chemicals    | –  | 68.75   | Cash                 | 68.75   | 55%                           |
| Huhehaote Zhongran | 25.00  | 12.50   | In-kind contribution | 37.00   | 30%                           |
| Tianjin Baisen     | –  | 18.75   | Cash                 | 18.75   | 15%                           |
| <b>Total</b>       | <b>25.00</b>   | <b>100.00</b>   |                      | <b>125.00</b>   | <b>100.00</b>                 |

|                         |  |
|-------------------------|--|
| Payment of contribution | <p>Within 30 days of the Capital Increase Agreement:</p> <ul style="list-style-type: none"> <li>(i) Huhehaote Zhongran shall complete its registered capital contribution by way of transferring the corresponding amount of capital reserve of Inner Mongolia Zhongran to paid-in capital; and</li> <li>(ii) Risun Chemicals and Tianjin Baisen shall complete their contributions by way of transfer the corresponding amount of cash into the designated bank account of Inner Mongolia Zhongran.</li> </ul>  |
| Basis of consideration  | <p>The Parties recognized, the total assets, total liabilities and net assets of Inner Mongolia Zhongran as approximately RMB801.37 million, RMB486 million and RMB314.37 million, respectively, as at 31 October 2017, as appraised by an independent third party, which were used as the basis to determine the value of the equity interests of Inner Mongolia Zhongran, and to further determine the shareholding of each party after the Transaction.</p> <p>The Directors also made references to the audited financial statements of Inner Mongolia Zhongran for the year ended 31 December 2018 and believe that the consideration for the Transaction is fair and reasonable.</p> |
| Source of fund          | <p>The Group's registered capital contribution to Inner Mongolia Zhongran will be funded with internal resources.</p>  |
| Treatment of Debts      | <p>As agreed by the Parties and with reference to the valuation report as at 31 October 2017 prepared by an independent third party, Inner Mongolia Zhongran owes RMB486 million to Huhehaote Zhongran. Inner Mongolia Zhongran shall repay the Debts according to the schedule below:</p> <ul style="list-style-type: none"> <li>(i) during the 1st year after the Completion: RMB50 million;</li> <li>(ii) during the 2nd year after the Completion: RMB100 million;</li> <li>(iii) during the 3rd year after the Completion: RMB100 million;</li> </ul>   |

(iv) during the 4th year after the Completion: RMB156 million; and

(v) within six months after the full payment of the Preferential Dividend: RMB80 million.

If the Qingshuihe Project becomes suspended by the government due to change of applicable laws or policies during the first four years after the Completion, the aggregate Debts owed by Inner Mongolia Zhongran to Huhehaote Zhongran shall be reduced to RMB361 million.

(collectively, the “**Debts**”)

#### Preferential Dividend

Starting from the fifth year after the Completion, Inner Mongolia Zhongran shall pay an aggregate amount of approximately RMB277.87 million by way of Preferential Dividend to Huhehaote Zhongran in four years, amounting to approximately RMB69.47 million per year.

If the Qingshuihe Project becomes suspended by the government due to change of applicable laws or policies during the first four years after the Completion, the aggregate amount of Preferential Dividend to be paid to Huhehaote Zhongran will be reduced to RMB50 million, amounting to RMB12.5 million per year.

If the Qingshuihe Project becomes suspended by the government due to change of applicable laws or policies during the period starting from the beginning of the fifth year after the Completion and ending the end of the eighth year after the Completion, the amount of Preferential Dividend to be paid to Huhehaote Zhongran for that year shall be reduced on a pro-rata basis based on the actual operational days of the Qingshuihe Project during that year, provided that the accumulated amount of Preferential Dividend paid to Huhehaote Zhongran shall not be less than RMB50 million.

(collectively, the “**Preferential Dividend**”)

If the distributable profit of Inner Mongolia Zhongran is not sufficient for the payment of Preferential Dividend to Huhehaote Zhongran, the amount of shortfall shall be borne by Risun Chemicals and Tianjin Baisen based on their corresponding shareholdings in Inner Mongolia Zhongran, i.e. Risun Chemicals and Tianjin Baisen shall be liable for 78.57% and 21.43% of the amount of shortfall respectively.

Before the Preferential Dividend to Huhehaote Zhongran is fully paid off in accordance with the Capital Increase Agreement, Inner Mongolia Zhongran shall not distribute any dividend to Risun Chemicals and Tianjin Baisen.

#### Board representation

The board of Inner Mongolia Zhongran shall comprise of five directors.

After the Completion and before RMB406 million of the Debts and the Preferential Dividend are fully paid off in accordance with the Capital Increase Agreement, Risun Chemicals, Huhehaote Zhongran and Tianjin Baisen will be entitled to appoint two, two and one member(s) to the board of Inner Mongolia Zhongran respectively. During such period, as the Group will not have control of the board of Inner Mongolia Zhongran, Inner Mongolia Zhongran will not be a subsidiary of the Company and its financial results, assets and liabilities will not be consolidated into the Group.

After RMB406 million of the Debts and the Preferential Dividend are fully paid off in accordance with the Capital Increase Agreement, Risun Chemicals, Huhehaote Zhongran and Tianjin Baisen will be entitled to appoint three, one and one member(s) to the board of Inner Mongolia Zhongran respectively. Under such circumstances, as the Group will obtain control of the board of Inner Mongolia Zhongran and hold 55% equity interest in Inner Mongolia Zhongran, it is expected that Inner Mongolia Zhongran will become a subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the Group.

Guarantee Risun Chemicals and Tianjin Baisen shall provide guarantee for the payment of the Debts and the Preferential Dividend by Inner Mongolia Zhongran based on their corresponding shareholdings in Inner Mongolia Zhongran, i.e. Risun Chemicals and Tianjin Baisen shall provide guarantee for 78.57% and 21.43% of the total amount of the Debts and the Preferential Dividend respectively.

Risun Chemicals, Huhehaote Zhongran and Tianjin Baisen will enter into a separate guarantee agreement setting out the terms and conditions of the guarantee.

Completion Upon completion of the change in the industrial and commercial registration, the Transaction will be completed.

## **INFORMATION ON INNER MONGOLIA ZHONGRAN**

Mongolia Zhongran is a limited liability company incorporated in the PRC on 15 June 2018. Its principal business scope includes production, supply and sales of coke.

As at the date of this announcement and immediately prior to the Completion, Inner Mongolia Zhongran is wholly-owned by Huhehaote Zhongran. The audited net loss of Inner Mongolia Zhongran (both before and after taxation) for the financial year ended 31 December 2018 was RMB24.76 million. The audited total assets, total liabilities and net assets of Inner Mongolia Zhongran as of 31 December 2018 were RMB776.61 million, RMB486.00 million and RMB290.61 million respectively.

## **INFORMATION OF OTHER PARTIES**

### **Risun Chemicals**

Risun Chemicals is an indirect wholly-owned subsidiary of the Company. The Company is a leading integrated coke, coking chemical and refined chemical producer and supplier in China, with customers located in both China and overseas. The Group currently operates four production bases in Hebei Province, China.

### **Huhehaote Zhongran**

Huhehaote Zhongran is a limited liability company incorporated in the PRC which principally engaged in the production of coal chemicals, transportation and distribution of natural gas, design, installation, repair and maintenance of gas projects.

## **Tianjin Baisen**

Tianjin Baisen is a limited liability company incorporated in the PRC which principally engaged in technology development of clean energy.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The reasons and benefits of the Transaction are set out below:

1. The Transaction will reinforce the Group's leading position in the coke and coking chemicals and refined chemicals industry in the PRC by increasing its production capacity and market share.
2. The PRC government has ceased to grant new coking production quota. The Transaction will enable the Group to acquire existing approved coking production quota to expand its production scale.
3. The Transaction can diversify the Group's operations geographically and expand its presence into Inner Mongolia, and thus, enhance the Group's brand awareness. In particular, there is a private railway connecting the production base of the Qingshuihe Project to the national railway networks. This could facilitate the transportation of the products to customers located in Northeast China such as Tangshan, and therefore, could expand the Group's distribution network.

After taking the above reasons into account, the Board is of the view that the terms of the Capital Increase Agreement and the Transaction are on normal commercial terms, and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **IMPLICATIONS OF THE LISTING RULES**

As one or more of the applicable percentage ratio(s) exceed 5% but are 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.

## **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 Agreement” | the capital increase agreement entered into by and among Risun Chemicals, Huhehaote Zhongran, Tianjin Baisen and Inner Mongolia Zhongran on 20 August 2019 with respect to the Transaction |



|                            |  |
|----------------------------|--|
| “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 8 November 2007   |
| “Completion”               | the completion of the Transaction  |
| “Consolidation Conditions” | the conditions precedents to be fulfilled before Inner Mongolia Zhongran can become a subsidiary of the Company, namely, completion of the Transaction and full payment of RMB406 million of the Debts and the Preferential Dividend |
| “Debts”                    | the debts of RMB486 million in total owed by Inner Mongolia Zhongran to Huhehaote Zhongran, subject to adjustment as stipulated in the Capital Increase Agreement  |
| “Directors”                | the director(s) of the Company   |
| “Group”                    | the Company and its subsidiaries   |
| “Huhehaote Zhongran”       | Huhehaote Zhongran Urban Gas Development Co., Ltd. (呼和浩特中燃城市燃氣發展有限公司), a company with limited liability incorporated in the PRC  |
| “Inner Mongolia Zhongran”  | Inner Mongolia Zhongran Energy Development Co., Ltd. (內蒙古中燃能源發展有限公司), a company with limited liability incorporated in the PRC   |
| “Listing Rules”            | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and otherwise modified from time to time   |
| “Parties”                  | Risun Chemicals, Huhehaote Zhongran, Tianjin Baisen and Inner Mongolia Zhongran  |
| “PRC” or “China”           | the People’s Republic of China, excluding, for the purpose of this announcement, Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan region   |
| “Preferential Dividend”    | the preferential dividend of up to RMB277.87 million in total to be paid by Inner Mongolia Zhongran to Huhehaote Zhongran, subject to adjustment as stipulated in the Capital Increase Agreement                                     |

|                      |   |
|----------------------|---|
| “Qingshuihe Project” | a coal-to-methanol production project consists of production facilities located in Qingshuihe County, Huhehaote, Inner Mongolia, PRC, which is owned by Inner Mongolia Zhongran |
| “Risun Chemicals”    | Risun Chemicals Limited (旭陽化工有限公司), a limited liability company established in the PRC on 8 January 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 with limited liability incorporated in the PRC   |
| “Transaction”        | the capital increase of Inner Mongolia Zhongran in accordance with the terms and conditions of the Capital Increase Agreement   |

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

Hong Kong, 20 August 2019

*As at the date of this announcement, the executive Directors of the Company 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 of the Company are Mr. Kang Woon, Mr. Yu Kwok Kuen Harry and Mr. Wang Yinping.*