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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

**ESTABLISHMENT OF
JOINT VENTURE WITH LINGYUAN IRON & STEEL**

The Board of the Company is pleased to announce that on December 9, 2019 (after trading hours), Risun Chemicals and Lingyuan Iron & Steel entered into the Joint Venture Contract, pursuant to which both parties have agreed to jointly establish the Joint Venture, being Lingyuan Risun Iron & Steel Energy Co., Ltd., by way of capital contribution to invest in the construction of the Ancillary Coking Project so as to supply necessary coke for Lingyuan Iron & Steel's production. Each of Risun Chemicals and Lingyuan Iron & Steel will subscribe for RMB1,166.9 million and RMB500.1 million in the registered capital of the Joint Venture, accounting for 70% and 30% of the equity interest of the Joint Venture, respectively.

As one or more of the applicable percentage ratios exceed 5% but 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 exempt from Shareholders' approval requirements under the Listing Rules.

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DETAILS OF THE JOINT VENTURE CONTRACT

Date December 9, 2019 (after trading hours)

Parties (i) Risun Chemicals; and
(ii) Lingyuan Iron & Steel.

To the best of the knowledge, information and belief of the Directors of the Company, having made all reasonable enquiries, Lingyuan Iron & Steel and its ultimate beneficial owners are independent third parties of the Company and its connected persons as at the date of this announcement.

Capital contribution

The registered capital of the Joint Venture is RMB1,667 million, of which Risun Chemicals shall contribute an amount of RMB1,166.9 million in monetary funds, accounting for 70% of the registered capital of the Joint Venture; and Lingyuan Iron & Steel shall contribute an amount of RMB500.1 million in monetary funds, accounting for 30% of the registered capital of the Joint Venture. Both parties shall make capital contributions at such time and in such proportion as set forth in the following schedule:

	Risun Chemicals	Lingyuan Iron & Steel	Total capital contribution for the phase
1st phase capital contribution: within 12 months from the date on which the Joint Venture has obtained its business license	RMB420 million	RMB180 million	RMB600 million
2nd phase capital contribution: within 24 months from the date on which the Joint Venture has obtained its business license	RMB350 million	RMB150 million	RMB500 million
3rd phase capital contribution: within 36 months from the date on which the Joint Venture has obtained its business license	RMB396.9 million	RMB170.1 million	RMB567 million
Total	<u>RMB1,166.9 million</u>	<u>RMB500.1 million</u>	<u>RMB1,667 million</u>
Corresponding proportion of capital contribution	70%	30%	100%

The capital contributions of both parties shall be made upon fulfillment of the conditions precedent as agreed in the Joint Venture Contract, including, amongst others, the establishment or change of the Joint Venture and the relevant documents of the Transaction shall have obtained approvals from or have been filed with the competent authorities (including but not limited to the industrial and commercial registration administration department and the bureau of commerce).

The Company expects to obtain the business license of the Joint Venture by January 31, 2020. Upon its establishment, the Joint Venture will become a subsidiary of the Company, and its financial results, assets and liabilities will be consolidated into the Group.

Sources of funding

The registered capital of the Joint Venture contributed by Risun Chemicals will be satisfied by internal resources of the Group, but it is not expected to utilize the Company's proceeds from the global offering made in March 2019.

Construction and operation of the Ancillary Coking Project

Upon establishment, the Joint Venture will invest in the construction of the Ancillary Coking Project, which is a residual heating supply and supporting infrastructural facility designed with a capacity of 3 million tonnes of coking products (7 metres or 7.5 metres in top-loading, and 6.25 metres in tamping), 600 million cubic metres of hydrogen per annum, 200 million cubic metres of nitrogen per annum, 300,000 tonnes of liquid ammonia and 5 million square metres. The project will have a total investment of RMB5 billion, cover a site area of 1,400 mu and sustain a construction period of 4 years. The construction content of the project is subject to adjustments according to government approval, industrial policies and market conditions. The project is yet to complete the relevant legal approval procedures including those for construction land, environmental protection and project establishment. The remaining funds for the project will be financed by the Joint Venture in the form of loans.

Board of directors

The Joint Venture shall have a board of directors which comprises five directors, of whom three shall be appointed by Risun Chemicals and two shall be appointed by Lingyuan Iron & Steel. The chairman shall be appointed by Risun Chemicals, and the vice chairman shall be appointed by Lingyuan Iron & Steel. The chairman shall be the legal representative of the Joint Venture. Each director shall have a term of office of 4 years and be subject to re-appointment if such director is re-appointed by his/her original appointor. If there is a vacancy in the position of director of the board of directors, such vacancy shall be filled by way of appointment by the party who has appointed the departing director.

Where a board meeting is attended by four directors of the Joint Venture in person or by proxy, the quorum of such board meeting shall be constituted. Save for the following reserved matters, a board resolution shall be passed by the affirmative votes cast by more than half of the directors attending the formal board meeting. The board resolutions of the Joint Venture regarding the following reserved matters shall be unanimously approved by all directors attending the formal board meeting: (i) amendments to the articles of association; (ii) termination or dissolution of the Joint Venture or change of company form; (iii) increase or decrease in registered capital; (iv) merger or division of the Joint Venture; (v) restructuring, reorganization or reform; (vi) related transactions of the Joint Venture; and (vii) change in the number of directors.

Supervisory committee

The Joint Venture shall have a supervisory committee which comprises three supervisors, of whom one shall be appointed by Risun Chemicals, one shall be appointed by Lingyuan Iron & Steel and one shall be the staff representative supervisor. The chairman of the supervisory committee shall be the supervisor appointed by Lingyuan Iron & Steel, and the staff representative supervisor shall be elected by all staff or a staff congress. Each supervisor shall have a term of office of 4 years and may be re-elected upon expiration of his/her term of office.

Management

The management organization of the Joint Venture shall consist of senior management members, including but not limited to one general manager, three deputy general managers and one chief financial officer. The general manager and chief financial officer shall be nominated by Risun Chemicals, and one of the deputy general managers shall be nominated by Lingyuan Iron & Steel. One party shall consult with the other party before its nomination of a senior management member, and such nominee shall be appointed by the board of directors upon agreement by both parties. Other senior management members shall be selected in accordance with the principle of marketization and appointed by the board of directors after nomination by the general manager. Each senior manager member shall have a term of office of 4 years and may be re-appointed after re-election pursuant to the Joint Venture Contract. In addition, the head of the finance department in the mid-level management of the Joint Venture shall be nominated by Lingyuan Iron & Steel and appointed by the general manager.

Profit distribution

The Joint Venture shall distribute its profits once a year to shareholders according to their proportion of capital contribution, and its dividend payout ratio shall be no less than 30% of its distributable profits.

Business and operation of the Joint Venture

1. Platform support

Risun Chemicals shall provide sales platform support, informatization-oriented services, patented technology, trademark use and other operational support to the Joint Venture, and will enter into separate agreements and charge relevant fees according to specific services.

2. Sales of products of the Ancillary Coking Project

The coke produced by the Joint Venture shall be sold to Lingyuan Iron & Steel based on the take-or-pay principle, which means the coke produced by the Joint Venture shall be preferentially supplied to Lingyuan Iron & Steel. Lingyuan Iron & Steel undertakes that, on the condition that the quality of the coke produced by the Joint Venture meets the needs of Lingyuan Iron & Steel, all the external procurement of coke by Lingyuan Iron & Steel will be purchased from the Joint Venture at the price to be set according to the prevailing market conditions, so that the quality of coke and quantity to be purchased will be fixed and subject to conditional adjustments on a yearly basis. The portion of output which exceeds the demand of Lingyuan Iron & Steel shall be sold to external parties by the Joint Venture. The specific terms shall be stipulated in the coke purchase and sales contract(s) to be separately entered into by the Joint Venture and Lingyuan Iron & Steel.

3. Power energy

Subject to the satisfaction of the needs of both parties' processes, the power energy required by the Joint Venture, Lingyuan Iron & Steel and its related parties shall be planned for use in a unified manner under the principles of comprehensive utilization and maximized efficiency, with the price to be determined according to market principles. The gas from the Ancillary Coking Project shall first be used by the Joint Venture and Lingyuan Iron & Steel according to their actual needs, and the excess portion may be sold to external parties. The blast furnace gas produced by Lingyuan Iron & Steel shall be given priority to meeting the production needs of Lingyuan Iron & Steel Co., Ltd. and its related parties, and the excess portion shall be negotiated separately according to the market needs. The Joint Venture will build an energy center to supply residual heat to other parties in need. After the demand of the Joint Venture is met, the remaining power generated from the residual heat may be utilized by Lingyuan Iron & Steel and its related parties after the Joint Venture and Lingyuan Iron & Steel jointly negotiate with relevant departments. The Joint Venture will further enter into supplementary agreement(s) with Lingyuan Iron & Steel in respect of the comprehensive utilization of the aforesaid power energy and other raw and auxiliary materials

Upon the establishment of the Joint Venture, Lingyuan Iron & Steel will become a substantial shareholder of the Joint Venture. Therefore, the arrangements above for the sales of coking products and the utilization of power energy are expected to constitute continuing connected transactions at subsidiary level of the Company. The Company will ensure that relevant transactions are conducted in accordance with the relevant provisions of Chapter 14A of the Listing Rules, and will make relevant disclosures in due course (if required).

Effective date of the Joint Venture Contract and duration of the Joint Venture The Joint Venture Contract shall be effective after being signed by both parties, reviewed and approved by the authorities of both parties, and reviewed and approved by the competent approval authorities.

The Joint Venture is for a term of 25 years from the date of the business license. The duration of the Joint Venture may be changed after both parties have agreed and obtained approval from the relevant review and approval authorities.

REASONS FOR AND BENEFITS OF ESTABLISHMENT OF THE JOINT VENTURE

The Group has been committed to enhancing the profitability of the Company through external investment while expanding the geographical coverage of the Company's operations management service.

The Joint Venture will be incorporated in Lingyuan Economic Development Zone, Chaoyang, Liaoning Province, the PRC. Lingyuan Economic Development Zone is a provincial economic development zone which mainly serves as a rally point for automobile, steel and glass industries. After its establishment, the Joint Venture will mainly invest in the construction of the Ancillary Coking Project, which, upon completion, is expected to have a capacity of 3 million tonnes of coking and other refined chemical products, of which most coking products will be supplied to Lingyuan Iron & Steel. This will provide a stable and predictable sales demand for the project.

In addition, the Group's operations management service will cover Liaoning Province for the first time and extend its business presence into Liaoning Province, thereby continuously increasing the Group's brand awareness.

Furthermore, the project will increase the Group's production capacity and market share, which will help the Group to consolidate its leading position in the industries of coke, coking products and refined chemical products in the PRC.

Based on the above reasons, the Directors consider that the terms of the Joint Venture Contract 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.

GENERAL

The Group and Risun Chemicals

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 currently operates four production bases in Hebei Province, the PRC. Risun Chemicals is an indirect wholly-owned subsidiary of the Company.

Lingyuan Iron & Steel

Lingyuan Iron & Steel is a joint stock company incorporated in the PRC and a listed company of the Shanghai Stock Exchange. Its principal business scope includes steel production. It has a production capacity of 6 million tonnes of steel per annum, and is an ISO9001-2000 certified company in the metallurgical industry in the PRC. The controlling shareholder is Lingyuan Iron & Steel Group Co., Ltd. which holds 34.57% shares of Lingyuan Iron & Steel.

IMPLICATIONS OF THE LISTING RULES

As one or more of the applicable percentage ratios exceed 5% but 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 exempt from Shareholders' approval requirements under the Listing Rules.

DEFINITIONS

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

“Ancillary Coking Project”	the proposed 3 million-tonne coke project to be developed by the Joint Venture in Lingyuan Economic Development Zone, Chaoyang, Liaoning Province, the PRC
“Board”	the board of Directors of the Company
“Risun Chemicals”	Risun Chemicals Limited* (旭陽化工有限公司), a limited liability company established in the PRC on January 8, 2010 and an indirect wholly-owned subsidiary of the Company
“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)

“Director(s)”	the directors of the Company
“Joint Venture Contract”	the Joint Venture Contract of Lingyuan Risun Iron & Steel Energy Co., Ltd. dated December 9, 2019 entered into between Risun Chemicals and Lingyuan Iron & Steel
“Joint Venture”	Lingyuan Risun Iron & Steel Energy Co., Ltd.* (凌源旭陽凌鋼能源有限公司) (formal name will be subject to registration with the industrial and commercial registration administration department), a company proposed to be established in the PRC by Risun Chemicals and Lingyuan Iron & Steel by way of joint capital contribution pursuant to the Joint Venture Contract
“Lingyuan Iron & Steel”	Lingyuan Iron & Steel Co., Ltd.* (凌源鋼鐵股份有限公司), a joint stock company established in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 600231)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and otherwise modified from time to time
“PRC”	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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the transaction in relation to the establishment of the Joint Venture in accordance with the terms and conditions of the Joint Venture Contract

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

Beijing, the PRC, December 9, 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.

* For identification purposes only