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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)

CONNECTED TRANSACTION LEASE OF ASSETS

The Board hereby announces that on June 24, 2022, Tangshan Risun, a wholly-owned subsidiary of the Group, entered into the Lease Agreement with Laoting Huayang, pursuant to which Tangshan Risun will lease the Leased Assets from Laoting Huayang for steam supply to the Tangshan production base of the Group for a term of two years from June 24, 2022 to June 23, 2024, with a rental of RMB35 million per annum (inclusive of VAT).

IMPLICATIONS UNDER THE LISTING RULES

As Laoting Huayang is a company beneficially owned by Mr. Yang Xuegang, the chairman and chief executive officer of the Company, and his spouse as at the date of this announcement, Laoting Huayang is an associate of Mr. Yang Xuegang and a connected person of the Company. Therefore, the Lease constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

According to IFRS 16, the Group will recognize the Leased Assets under the Lease Agreement as a right-of-use asset with a carrying value of approximately RMB62 million as at June 24, 2022. Pursuant to the Listing Rules, the Lease will be considered as an acquisition of a right-of-use asset by the Group.

As the highest applicable percentage ratio(s) in respect of the Lease exceed 0.1% but are all less than 5.0%, the Lease is subject to the announcement and annual reporting requirements but is exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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THE LEASE AGREEMENT

The salient terms of the Lease Agreement are as follows:

Date:	June 24, 2022
Lessor:	Laoting Huayang
Lessee:	Tangshan Risun
Leased Assets:	A set of production machineries, equipment and facilities for steam supply located at Laoting Economic Development Zone, Tangshan, Hebei Province with a net book value of approximately RMB442 million as at December 31, 2021 under the PRC GAAP.
Lease Term:	Two years from June 24, 2022 to June 23, 2024. Upon expiry of the Lease, Tangshan Risun shall have the right of first refusal to renew the Lease on the same terms as those available in the market.
Purpose of the Lease:	The Leased Assets shall only be used by the Group for production and supply of steam as fuel to the Tangshan production base of the Group.

Rental and payment:

The rental will be RMB35 million per annum and RMB70 million in total. Advanced payment for the rental shall be made in a lump sum by Tangshan Risun to Laoting Huayuan after signing the Lease Agreement.

The rental was determined after arm's length negotiations between the parties with reference to the prevailing market rate for the lease of similar assets. When determined the rental, the Company has also taken into account (i) the historical volumes and amounts of steam procurement from Laoting Huayuan after the first styrene production facility commenced production in October 2020, being approximately 105,000 tonnes for RMB21.2 million for November to December 2020, and approximately 884,000 tonnes for RMB209.9 million for 2021; (ii) the future needs of steam supply for Tangshan production base for 2022 to 2024; (iii) proximity of the Laoting Huayuan to our Tangshan production base; (iv) the source of steam supply available in the surrounding area of Tangshan; and (v) the procurement cost of steam from independent third party of the Group. Based on the considerations above, the Board is of the view that the rental charged by Laoting Huayuan is fair and reasonable.

Tangshan Risun will finance the rental payment under the Lease Agreement with its internal resources.

IMPLICATIONS UNDER THE LISTING RULES

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According to IFRS 16, the Group will recognize the Leased Assets under the Lease Agreement as a right-of-use asset with a carrying value of approximately RMB62 million as at June 24, 2022. Pursuant to the Listing Rules, the Lease is an acquisition of a right-of-use asset by the Group.

As the highest applicable percentage ratio(s) in respect of the Lease exceed 0.1% but are all less than 5.0%, the Lease is subject to the announcement and annual reporting requirements but is exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Shareholders should note that the above figures are unaudited and subject to subsequent adjustment. Right-of-use assets represent the right to use relevant leased assets during the lease term, while lease liabilities represent the obligation to make lease payment. The asset and liability arising from the lease will initially be measured at the present value and will be calculated by discounting the lease payment under the Lease Agreement by applying the incremental borrowing rate as the discount rate.

REASONS FOR AND BENEFITS OF THE LEASE AGREEMENT

After the styrene production facility commenced production in October 2020, steam is one of the most important kinds of fuel to the production of our Tangshan production base. Stable supply is critical to the Group. The Leased Assets is located in Laoting County, and is the only facility available in Laoting Economic Development Zone which has steam supply pipelines connected to our Tangshan production base.

Laoting Huayang has been a steam supplier of the Group since October 2020. In February 2022, Xuyang Holding acquired from an independent third party the entire equity interest in Laoting Huayang, which became a subsidiary of Xuyang Holding since then. By entering into the Lease Agreement, we are able to secure a stable supply of steam with a more favorable price.

The Directors (including the independent non-executive Directors) are of the view that the Lease Agreement and the Lease are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the terms of the Lease Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Pursuant to the requirements under the articles of association of the Company, Mr. Yang Xuegang, being the ultimate beneficial owner of Laoting Huayang, has abstained from voting on the Board resolution considering and approving the Lease Agreement and the Lease.

GENERAL

The Group and Tangshan Risun

The Group 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 businesses to other provinces of the PRC, such as Inner Mongolia Autonomous Region and Shandong Province, and expanded its foreign operation to Sulawesi Province, Republic of Indonesia progressively.

Tangshan Risun is principally engaged in the production of refined chemicals in Tangshan, Hebei Province, the PRC.

Laoting Huayang

Laoting Huayang is principally engaged in production and supply of steam as fuel in Laoting Economic Development Zone, Tangshan, Hebei Province, the PRC. Laoting Huayang is beneficially owned by Mr. Yang Xuegang and his spouse.

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
“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)”	as defined in the Listing Rules
“controlling shareholder(s)”	as defined in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“IFRS”	the International Financial Reporting Standards issued by the International Accounting Standards Board and as amended from time to time
“Laoting Huayang	Laoting Huayang Thermal Power Co., Ltd.* (樂亭華陽熱電有限公司), a company incorporated in the PRC on July 21, 2016 with limited liability and a connected person of the Company
“Lease”	the lease arrangement contemplated under the Lease Agreement
“Lease Agreement”	the lease agreement entered into between Tangshan Risun and Laoting Huayang on June 24, 2022 in respect of the Leased Assets
“Leased Assets”	a set of production machineries, equipment and facilities for steam supply located at Laoting Economic Development Zone, Tangshan, Hebei Province specified in the Lease Agreement as the lease subjects

“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, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan region
“PRC GAAP”	accounting principles generally accepted in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tangshan Risun	Tangshan Risun Aromatics Hydrocarbon Limited* (唐山旭陽芳烴產品有限公司), a company incorporated in the PRC on December 8, 2017 with limited liability and a wholly-owned subsidiary of the Company
“VAT”	value-added tax in the PRC
“Xuyang Holding”	Xuyang Holding Limited* (旭陽控股有限公司), a company established in the PRC with limited liability on August 4, 2004 and owned as to 99.0% by Mr. Yang Xuegang and 1.0% by his spouse and a connected person of the Company

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

Hong Kong, June 24, 2022

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 purpose only