

Letter to Shareholders

— Why Can Risun Grow Consecutively

Dear our respectful shareholders,

Risun respectfully informs our respectful shareholders and investors that there are numerous channels through which company information are disclosed through the Company's official website, the HKEXnews website of the Hong Kong Stock Exchange, the Company's annual reports, ESG reports, the Company's announcements, results press releases, general meetings, roadshows, etc. These reports may satisfy those normal investors, but for those who are long-term investors investing in Risun, growing together with Risun, helping Risun achieve higher and dream bigger, then what they need is a deeper and wider understanding of Risun, a full, clear and systematic corporate image of whom Risun is, our history, the motivation behind Risun's founder, the choices we face as entrepreneurs, whether Risun can succeed, and whether Risun will keep up with our success. To report to our respectful shareholders and investors our work in the past year, reflect on our highs and lows for the year, and look forward to a better performance in an open manner is both necessary and effective. We will lay out in detail for our respectful shareholders and investors, Risun's dream, mission, vision, the logic of our growth, our values, methodology, worldview, and corporate philosophy. We hope to receive your great concern, humble guidance, criticism and feedback.

I. Risun's Results in 2021

As of 31 December 2021, the business of the Risun Group comprises coke and coking chemicals, refined chemicals, operation management services, trading and hydrogen products. These business segments are inter-related, provide mutual support and form synergies to create the expansive industry presence of the Risun Group. Net profits set out in the tables below refers to net profits attributable to the owners of the listed company.

1. Composition of Risun's Business

(1) Coke and coking chemicals business is Risun's core business segment, providing support for Risun's rapid development for 27 years since our founding

Table 1: Past 3 years' operation data of the coke & coking chemicals business of Risun Group

Unit: '0,000 tonnes, RMB'00 million

Year \ Item	Production volume (operation)	Production volume (interests)	Revenue	Gross profit	Gross profit margin	Net profit to owners	Net profit margin	Market share
2019	789.54	603.40	86.21	14.02	16.26%	10.30	11.95%	2.0%
2020	808.57	630.62	87.16	24.60	28.23%	14.87	17.06%	2.4%
2021	895.23	713.17	162.74	42.95	26.39%	20.76	12.75%	2.4%
2020 YOY Growth	2.41%	4.51%	1.09%	75.49%	11.97%	44.36%	5.11%	0.6%
2021 YOY Growth	10.72%	13.09%	86.72%	74.56%	-1.84%	39.59%	-4.31%	0.5%

Note: Production volume (operation) represents the production volume of subsidiaries, joint ventures and associates of the Group;

The increase in gross profit and the decrease in gross profit margin were mainly due to the increase in coke prices in 2021;

The total annual coke output in China is 465 million tonnes and the calculation of market share includes operation management production volume and business volume.

(2) Refined chemicals business is the second major segment of Risun

Table 2: Past 3 years' operation data of the refined chemicals business of the Risun Group

Unit: '0,000 tonnes, RMB'00 million

Year \ Item	Production volume (operation)	Production volume (interests)	Revenue	Gross profit	Gross profit margin	Net profit to owners	Net profit margin
2019	198.63	187.70	71.56	8.38	11.71%	1.92	2.68%
2020	203.63	190.78	58.45	3.87	6.62%	0.04	0.07%
2021	225.97	211.15	125.79	12.10	0.61%	3.00	2.41%
2020 YOY Growth	2.52%	1.64%	-18.32%	-53.82%	-5.09%	-97.91%	-2.61%
2021 YOY Growth	10.97%	10.68%	115.21%	212.66%	2.99%	7400.00%	2.34%

Note: The significant decline in net profit of the refined chemicals segment in 2020 was mainly due to the effect of the pandemic.

(3) Operation management services business is a newly developed segment formed in 2014, focused on industry empowerment and assisting companies with business expansion

Table 3: Past 3 years' operation data of the operation management services business of the Risun Group

Unit: '0,000 tonnes, RMB'00 million

Year \ Item	Business volume	Revenue	Gross profit	Gross profit margin	Net profit to owners	Net profit margin
2019	138.54	10.33	1.80	17.42%	1.02	9.91%
2020	361.11	6.01	1.56	25.96%	1.50	24.96%
2021	238.62	1.96	0.37	14.18%	0.35	13.40%

2020 YOY Growth	160.65%	-41.86%	-13.33%	8.53%	46.53%	15.06%
2021 YOY Growth	-33.92%	-56.57%	-76.28%	-11.78%	-47.01%	15.54%

Note: The decline in business volume, revenue and net profit of the operation management services business in 2021 was due to the completion of the acquisition of the Shandong business in January 2021, which was subsequently consolidated and its results have been included in the coke and refined chemicals business segments.

(4) Progressive expansion of the trading business

Table 4: Past 3 years' operation data of the trading business of the Risun Group

Unit: '0,000 tonnes, RMB'00 million

Year \ Item	Business volume	Revenue	Gross profit	Gross profit margin	Net profit to owners	Net profit margin
2019 年	430.36	20.32	1.63	8.02%	0.40	1.97%
2020 年	470.12	46.23	2.19	4.74%	0.60	1.30%
2021 年	691.48	96.89	5.81	6.00%	1.87	1.93%
2020 YOY Growth	9.24%	127.51%	34.36%	-3.27%	50.00%	-0.67%
2021 YOY Growth	47.09%	109.58%	165.30%	0.83%	138.03%	-0.39%

(5) Hydrogen products business commenced in 2019 and demonstrates significant progress

Table 5: 2021 operation data of the hydrogen products business of the Risun Group

Unit: '0,000 tonnes, RMB'00 million

Year \ Item	Business volume	Revenue	Gross profit	Gross profit margin	Net profit to owners	Net profit margin
2021	See note	0.21	0.03	14.29%	0.02	9.52%

Note: The hydrogen company's external sales of hydrogen amounted to 1,960,000 cubic metres in 2021.

2. Results illustration

The Risun Group offers over 50 types of products under five major categories. Our diverse product portfolio helps to support the sustained growth of the performance of the Risun Group.

Table 6: Past 3 years' operation data of the Risun Group

Unit: '0,000 tonnes, RMB'000 million

Item Year	Production volume (operation)	Production volume (interests)	Revenue	Gross profit	Net profit to owners	Returns on total assets	Returns on net assets
2019	1557.07	1360.01	188.42	25.83	13.63	6.80%	20.37%
2020	1843.43	1652.63	197.85	32.23	16.53	6.76%	20.06%
2021	2051.30	1854.43	384.30	55.30	26.13	7.05%	23.79%
2020 YOY Growth	18.39%	21.52%	5.00%	24.78%	21.28%	-0.04%	-0.31%
2021 YOY Growth	11.28%	12.21%	125.55%	94.24%	58.08%	0.29%	3.73%

Note: The significant increase in revenue in 2021 was due to:

- (i) completion of the acquisition of the Shandong business in January 2021 which was subsequently consolidated.
- (ii) more centralised management of purchases and sales in 2021, which enhanced overall efficiency and revenue.
- (iii) market prices for coke products and refined chemical products were higher in 2021 than 2020.

China's overall coke production capacity is approximately 540 million tonnes with an industry scale of approximately RMB1,600 trillion. In 2021, coke production was approximately 465 million tonnes with the industry

operating at 86% capacity; of which, independent coking chemicals occupied a 73% share and a total industry scale of approximately RMB940 trillion (data relating to coke production capacity and industry scale were retrieved from the China Coking Industry Association, production volume data was obtained from Frost & Sullivan, while others including operating capacity, independent coke and coking chemicals share in industry scale were calculated based on statistics from the Group's market management department). Within China's coke and coking chemicals industry, there remains 24% production capacity requiring renewal, conversion and upgrade to greener, more environmentally friendly, more advanced technology and a larger integrated industrial park with a complete industrial chain, which represents a significant opportunity for industry consolidation. Meanwhile, China's strict implementation of environmental and safety standards and strong efforts at the provincial level in implementing national standards is also driving industry consolidation. As the top-ranked in the industry in terms of coking coal business operations scale, Currently, Risun Group has a market share of 4.0%, (note: market share calculated based on coke supply volume of Risun in 2021 / coke production volume of China's independent coke and coking chemical enterprises in 2021) meaning that there is huge room for growth through industry consolidation by merger and acquisition.

The refined chemicals business of the Risun Group comprises two major categories, coke and coking chemicals and petroleum chemicals, both of which has achieved significant growth. As of 31 December 2021, Risun Group's annual processing volume of coal tar was 1 million tonnes (including 300,000 tonnes under operation management services), ranked second in China; coke oven gas methanol was 650,000 tonnes, ranked first in China; industrial naphthalene phthalic anhydride was 160,000 tonnes, ranked first in China; hydrogenation of coking raw benzene was 600,000 tonnes, ranked first in China; caprolactam was 450,000 tonnes, ranked third in China.

Despite experiencing growth in production volume, revenue and profits in the refined chemicals business in 2021 over 2020, the refined

chemicals industry is China's largest manufacturing industry comprising over 1,200 types of products under four primary categories, 17 secondary categories and 75 sub categories with a scale of RMB14,450 trillion (scale data retrieved from the China Petroleum and Chemical Industry Federation and category data retrieved from the 2017 edition of the National Economical Industry Classification), involving almost every aspect of the national economy. It is an industry that gives rise to major technologies and large enterprises, for which Risun should strive for in the long term. Whether in terms of scale, product type, ancillary service capacity, or profitability, Risun still has huge room for improvement.

II. Development of asset-light businesses

1. Risun's trading business

Risun's trading business commenced in 2006. After over a decade of development, it has become a significant business of Risun.

Table 7: Growth in scale of the trading business of the Risun Group between 2006 to 2021

Unit: '0,000 tonnes, RMB'00 million

Year Item	2006	2007	2008	2009	2010	2011	2012	2013
Business volume	39.00	78.00	100.65	154.69	133.99	198.08	151.25	356.37
Revenue	2.81	7.03	8.04	21.07	22.96	28.67	24.24	48.48
Net profit to owners	0.08	0.20	0.19	0.13	0.28	0.18	0.02	0.03
Yr	2014	2015	2016	2017	2018	2019	2020	2021
Business volume	495.48	237.93	241.31	210.64	199.30	430.36	470.12	691.48
Revenue	56.83	20.35	20.65	24.07	25.72	20.32	46.23	96.89
Net profit to owners	0.24	0.06	0.09	0.14	0.27	0.40	0.60	1.87

Note: Data for the year 2014 and prior years are unaudited.

Risun’s trading business has three major functions: Firstly to expand the Group’s current business scale, increase the market share of the current business, expand market reach, and ensure that the Company’s manufacturing business achieves a leading volume of operation in the industry over the years. Since its commencement, the trading business has been characterised by its presence in the national and global markets, allowing the Group to expand its vision; Secondly to better discover prices and trends. Together with the Group’s ownership of coking coal delivery warehouses and methanol delivery warehouses, we are able to make use of the futures market to manage price fluctuations, which not only helps to increase our profitability, but also synergistically enhance the profits of all products produced by the Group; Thirdly, the trading business has expanded our presence across China and the world, allowing us to discover better development opportunities, developing our operation management services business and conducting industry merger and acquisitions. Currently, the trading business is developing its coverage across China and gradually expanding worldwide to establish a global market network, which will contribute to the expansion of Risun’s business.

After 16 years of development, Risun’s trading business has formed a stable commercial model, business model and profit model, all of which are closed-loop and strictly regulated. Business volume is growing gradually, and profits continue to increase annually.

2. Risun’s operation management services business

Risun’s operation management services business commenced in 2014. Two tables below set out part of basic information and business growth of the Risun’s operation management services in recent years.

Table 8: Growth in scale and profits of the operation management services business of the Risun Group between 2014 to 2021

No.	Region	Main facilities & scale	Model	Status	Commence	Expire
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1	Linfen, Shanxi	200,000 tonnes of hydrogenated benzene	Operation management services	Ceased operation	April 2020	April 2020
2	Ruyang, Henan	500,000 tonnes of coke and coking chemicals	Operation management services	Ceased operation	June 2018	May 2019
3	Pingdingshan, Henan	300,000 tonnes of processed coking tar	Operation management services	Currently under operation	July 2018	--
4	Zhangshu, Jiangxi	1.3 million tonnes of coke and coking chemicals	Operation management services	Currently under operation	January 2020	--
5	Alxa League, Inner Mongolia	1 million tonnes of coke and coking chemicals	Operation management services	Currently under operation	June 2019	--
6	Dongming, Shandong	200,000 tonnes of caprolactam, 80,000 tonnes of cyclohexanone, 80,000 tonnes of Nylon 6, 260,000 tonnes of hydrogen peroxide, 300,000 tonnes of acid	Operation management and subsequent acquisition	Acquisition completed	July 2019	December 2020
7	Yuncheng, Shandong	1.2 million tonnes of coking coal, 150,000 tonnes of synthetic ammonia, 300,000 tonnes of nitric acid, 100,000 tonnes of cyclohexanone, 140,000 tonnes of adipic acid	Operation management and subsequent acquisition	Acquisition completed	July 2019	December 2020

Note: Data before 2014 have not been audited by the auditor

Table 9: Growth in scale and profits of the operation management services business of the Risun Group between 2014 to 2021

Unit: '0,000 tonnes, RMB'00 million

Year \ Item	2014	2015	2016	2017	2018	2019	2020	2021
Business volume	3.20	12.50	26.80	27.00	45.00	137.00	361.11	238.62
Revenue	1.14	5.13	10.49	13.30	0.23	10.33	6.01	2.61
Net profit to owners	0.01	0.01	0.01	0.15	0.70	1.02	1.50	0.35

Note: Data before 2014 have not been audited by the auditor

Risun's operation management services business comprises three models: operation management service for production technology (responsible only for management of production technology); operation management service for integrated sales and marketing (responsible only for sales); and full operation management service for sales, transportation, production and supplies.

Risun's operation management services model closely resembles that of major hotel management brands in their operation management of other hotels. For instance, a certain international hotel management company operates and manages close to 3,000 hotels across the world, of which only 300 or 10% are self-built, and the other 2,700 or 90% are owned by others who engage this international hotel company for professional management.

Generally, Risun only assigns 20 to 60 personnel to an operation management services project, and the company under our operation management is supported by our strong vertical integrated business model in the same way as subsidiaries under the Group, allowing it to gradually achieve the same level of profitability and general competitiveness as our subsidiaries.

After eight years of exploration, Risun's operation management services business has gradually grown. From discovering opportunities, to negotiations, our takeover of operations, raising various standards to that of Risun Group, eventually forming a complete set of system, methods, and processes. In future, we will continue our steady expansion of the operation management services business and increase the overall scale of profits generated.

3. Why our industry peers are willing to entrust Risun for operation management

Our peers engage Risun to operate and manage their coke and coking chemicals and refined chemicals businesses based on the following considerations:

(1) Pressure on environmental protection and safety

Environmental protection and safety are the first lifelines for the coking and chemical industries. With the strict implementation of national regulations on environmental protection and safety in various provinces and cities, all enterprises encounter unprecedented pressure on continuous operation. However, safety and environmental protection are not achievable overnight, they require significant capital resources, strict procedure control, corresponding technical investment and means, as well as extremely high professional requirements on management and talent quality. Given the clear timeline set out by the government to meet such safety and environmental protection requirements, not all enterprises could meet these requirements in a timely manner.

Over the past decade, Risun's industrial park has hosted over 800 tours on safety and environmental protection for various government officers and the peers. The coking industry covers 132 cities across the country, among which, party leaders from 59 cities have more than once visited Risun. There are 351 coking enterprises in China, of which 50 enterprises have participated in the Risun learning tour, many of which have repeatedly visited Risun for benchmarking (the above data is based

on the statistics from the General Management Department of Risun Group). Some enterprises accepted Risun's operation management service under the recommendation by the government, for Risun's leading standards on safety and environmental protection are ranking the first in China, which are stricter and more comprehensive than the national standards.

Various levels of leadership from the Ministry of Ecology and Environment of China have also visited Risun's park over many occasions to provide inspection and guidance. The environmental protection requirements established by Risun have set a high standard for the industry, and have made great contributions to the improvement of environment in Beijing and its surrounding areas, to defend the blue sky, and to the Beijing Summer and Winter Olympics, which are highly appreciated by the government at various levels, the general public and our industry peers.

(2) Pressure on production technology

The coke and coking chemicals and refined chemicals industries require huge capital investment, high technical requirements, strict control over production, and high standards on employee quality and systematic procedures. "Safety, stability, long-run, full capacity and improvement" production and operations directly affect the cost and return on assets. The level of technology and R&D investment directly affect the quality of the products, which, together with the technological capabilities of green and clean production, all require each enterprise to continuously invest in, optimise, modify, improve and upgrade their technologies, employees and production equipment. As such, the continuous challenge to conduct upgrades pose considerable difficulties for most enterprises to adapt and keep up. If they choose not to invest, they will not be able to keep up, and if they do invest, it will directly lead to an increase in costs and a decrease in revenue.

Since our establishment, Risun has been providing systematic and comprehensive training to its employees every year, and has been

introducing numerous doctorate, master, undergraduate and vocational college graduates each year to continuously improve the quality of the workforce. 17 professional technical committees have been established within the Group to carry out a series of technological enhancement, technological upgrades and R&D innovation. As of 31 December 2021, Risun had a total of 7,678 employees in the coking and chemical industries, including 1,676 vocational graduates, accounting for 34.85%; 1,846 undergraduates, accounting for 24.04%; 246 postgraduates, accounting for 3.21%; 78 senior employees, 497 mid-level employees, and 1,659 junior employees, totaling to 2,234 employees and accounting for 29%. Risun has developed 345 proprietary technologies and 183 patented technologies. These well-trained professionals not only promote the continuous upgrades and improvement of Risun's production technologies, but also bring technological enhancement to the industry. Over the years, Risun has systematically trained and cultivated professional and technical personnel for the industry, provided project construction services, project commissioning services and maintenance services for our peers, and carried out a number of activities involving technical breakthroughs, cost reduction and efficiency improvement, revenue increment and expenditure reduction, which in turn helped enhance the competitiveness of the peers.

(3) Pressure on operation

The coke and coking chemicals and refined chemicals industries are part of the bulk commodity industries, and are inevitably exposed to cyclical fluctuations. Every enterprise and business unit will have to face market fluctuations within the sector, all the way from sales, transportation, production to supply. The coking industry, for instance, will also have to tackle the pressure on sales receivables. Although the industry is profitable, the profitability of each enterprise varies, and the differences within the chemical industry is even more evident. Fluctuations and frequent changes in the market, together with impactful and uncertainties in policies have caused many enterprises to fail to adapt and face great pressure on operation.

From day one, Risun has adapted a strategy of zero inventory for our products. Later, we pioneered the strategy of pre-paid sales, establishing an industry norm for the coking industry. Risun continuously implements the key customers strategy, and puts sales, transportation, production and supply under a strictly controlled supply chain management. We also formalises procedures through informatisation and digitalisation, and provides high-quality value-added services while serving our customers with high-quality products, forming long-term strategic alliances with our customers, creating a mutually dependent relationship and achieving a win-win situation.

Risun's strategies of zero inventory and pre-paid sales have changed industry rules, setting an example for our peers, creating value for our customers, increasing our market share, and gaining the ability of achieving upstream and downstream premium. The gains from such premium have not increased the cost of the customers; rather, they have reduced the cost and revenue of the customers, who have benefited from the consistently high product quality, thoughtful service and timely and reliable supply chain of Risun.

4. Benefits brought upon by the operation management services to Risun

The successful development of our operation management services business has brought great changes to Risun, enriched our industry portfolio, expanded our market presence, optimised asset allocation, improved the return on capital, and enabled us to develop the ability to last through industry cycles.

(1) Expanding the scope of mergers and acquisitions.

From our founding up to 2005, Risun had made it to the top of the industry in terms of scale. Yet, it has only truly become a real industry leader in the past decade. In order to speed up its development, Risun had to devote equal efforts into the independent planning and construction of our own industrial park on the one hand, and increase

mergers and acquisitions on the other hand. In 2019, Risun acquired the coking company of China Gas Group in Inner Mongolia shortly after going public, and changed the name of the company to Hohhot Risun China Gas Energy Limited. In 2021, Risun acquired six companies under the former Shandong Hongye Group. Risun has developed a guideline for conducting mergers and acquisitions in the national market, as well as strategies for mergers and acquisitions in different provinces.

Conducting mergers and acquisitions as a public company is different from being a private company. We have to comply with the relevant laws and regulations, and are subject to a series of strict rules for legal compliance, financial auditing and asset evaluation. These compliance practices are not only time consuming, but also requires strict control on risks management. The major risks in merger and acquisition transactions include incomplete due diligence, failure to identify issues, inability to consolidate after the merger and acquisition, resulting in the non-compliance of operation and management requirements of public companies. On the other hand, preliminary intervention through provision of operation management services greatly facilitates the completion of mergers and acquisitions. Besides eliminating various risks, we can also resolve in advance issues arising from the merger and acquisition.

Risun takes two steps in this regard: first, Risun negotiates with the peers regarding the terms of cooperation through provision of operation management services; second, Risun further discusses the merger and acquisition during the service period. For projects that do not meet the merger and acquisition requirements, or enterprises which do not wish to be merged or acquired, Risun would only provide operation management services. Not all operation management service projects result in merger and acquisition.

The existence of operation management service business has also expanded the horizon of our merger and acquisition opportunities. Generally, conducting industry consolidation without involving acquisition of a large percentage of shares and a controlling interest would mean that there is no guarantee that the acquisition targets could reach the

operation and management standards of a public company. Without absolute control over the acquisition target, it will be impossible to achieve the profitability and return on assets of the existing businesses of a public company. However, if the acquirer intends to obtain the absolute control, it has to significantly increase the proportion of acquired shares, resulting in an increase in the acquisition cost and requiring a large amount of capital. In short, there is a possibility of the acquisition target weakening the management and control of the parent company, and such phenomenon does manifest in many merger and acquisition transactions. However, preliminary intervention through operation management services could easily resolve such issues. With early management and control of operation management services over the businesses of the merger and acquisition target, public companies will have greater flexibility in the acquisition of the merger and acquisition targets; they may choose to control 100% of the shares, or control 51% to 100%, or simply purchase 1% to 49% of the shares. The number of shares acquired would not affect the management and control of the target company. Such a model has greatly contributed to the development of our merger and acquisition operations.

(2) Optimising asset deployment and improving return on assets

Risun has established various advantages in the industry and has become a strong brand for operation management services and industry mergers and acquisitions. With the in-depth exploration of the operation management service business, Risun has, through systematical summary and optimization, analysed the successes and failures of various cases, and has systematically improved and developed a comprehensive set of operation management operation system, enabling the companies under entrustment to fully achieve management and control level and profitability of Risun's companies in terms of project screening, project research, project evaluation, contract negotiation, entry and takeover, smooth takeover, smooth transition, precise integration and system enhancement.

Since Risun strictly implements the strategies of pre-paid sales and

zero inventory, operation management service projects do not require much capital, and in turn could achieve higher profits and higher per capita profit, thereby improves its return on assets while expanding the business scale, and at the same time improves Risun's overall return on assets. With the expansion of business scale, Risun gains a stronger premium ability on the market, which in turn supports the expansion of the operation management service business, thus developing a virtuous growth cycle.

By virtue of the successful implementation of the operation management service business, Risun could take advantage of a small share ratio entry for industry consolidations and mergers and acquisitions, yielding the effect of increased market share and expanded business scale, while reducing capital consumption. Risun has discovered an effective way to expand the industry scale without relying on increasing capital expenditure. Such practice greatly improves the Group's return on assets, return on capital and return on equity, optimises asset deployment, and reduces the risks of merger and acquisition of assets.

(3) Developing the ability to last through industry cycles

Every company wants to be great, and long-term, sustainable growth of a company becomes particularly crucial to a company after a public listing. Further growth requires companies to constantly make capital investments and conduct mergers and acquisitions. However, simple investments and mergers and acquisitions would only lead to simple scale expansion, which will not enhance the return on assets and return on equity, nor efficiency, profit margin and per capita labor efficiency. Such blind expansion of scale is thus devoid of significance.

Fact is, all industries and sectors are cyclical in nature, although the capital market is more ready to characterise the raw materials industry, manufacturing and other heavy chemical industries as cyclical industries. The implication is a general presumption that companies in such industries would report volatile earnings, unsustainable growth on returns, and the need for capital support corresponding to any business

expansion. As such, the capital market is unwilling to provide a fair value for stocks of such companies, and the current Hong Kong capital market is no exception.

It should be noted that the coke and coking chemicals and refined chemicals industries that Risun engages in are infrastructural raw material industries; they are thus infrastructural industries in the national economy. It is also a fact that the products of the industries which the Company invests in and operates are cyclical in nature. Risun, however, has been aware of this since our first day (one might venture to say that there is no industry that does not experience cyclical fluctuations at all!) What we pursue is to develop the ability for the Company to last through these cycles. Through consolidation and combination of investments, industries and products, the Company is determined to minimise the impact of the cyclical factor caused by having a single product line, in turn overcoming the cycles and achieve sustained profit growth for the whole Company. In this respect, Risun's goal has remain unchanged.

Our development of the operation management services business has effectively enhanced such capability. Generally, companies that want to achieve cross-cycle returns will have to develop investment portfolios in different industries, but such diversified investment will also bring operation and management risks. In practice, investment in and merger and acquisition of diversified businesses hardly achieves a satisfying return on assets, simply because replicating and implementing to another industry, the advantages and competitiveness developed by each company within its core business, is more difficult than in theory. Simple investments with the simple scale expansion in the same industry and the consumption of the same assets to achieve the same investment return would not improve a company's return on assets, nor can it develop the ability to overcome the cycles, thus making it impossible to achieve the goal of continuous growth, creating a dilemma from either perspective. With years of hard work and research, refinement, diligent efforts to develop the operation management service business and comprehensive capabilities, Risun is able to, in the course of professional expansion which bares minimal risks (or even no risk), gradually increase

the return on assets, constantly expand its market share, continue to improve returns, develop the ability to override cycles, and achieve continuous performance growth of the Company.

5. Vigorously increasing the proportion of light asset businesses

In the past 27 years, Risun has only invested in two highly related industries, namely the coke and coking chemicals and refined chemicals industries. Coke and coking chemicals falls under the same major category as petroleum refining under China's national economic classification, and thus also highly related to chemical refining and petroleum refining. Risun characterises our trading business and operation management services business as asset-light businesses, both of which focus on the coke and coking chemicals and refined chemicals industries, as well as their respective upstream and downstream industries, to develop domestic and overseas businesses; we do not engage in other businesses unrelated to our core business. The main reasons are that it allows effective risks control, and it allows expansion of market size of our core business, increasing market share and effectively enhancing the overall competitiveness of our principal business.

Table 10: Changes in the business volume and share of net profit of Risun Group's asset-light businesses since 2017

Unit: '0,000 tonnes, RMB'00 million

Year	Business volume	Revenue	Net profit to owners	Share of net profit (attributable to owners)
2017	237.64	37.37	0.29	3.83%
2018	244.30	36.11	0.97	4.62%
2019	567.36	30.64	1.42	10.43%
2020	831.23	52.24	2.10	12.35%
2021	930.10	159.02	2.22	8.55%

Note: Business volume represents the sum of trade and operation management services, and the share of net profit represents the percentage of the sum of net profit of trade and operation management services to the net profit attributable to the parent company of the listed company.

We have prepared a statistical summary on the trade and operation management service businesses for the past few years, and noted that the share of net profit has fluctuated, indicating that the Group's investments in this area were not continuous. The Group still places high emphasis on the planning of and investment in the existing park projects, as well as the investment in external mergers and acquisitions. Therefore, in the future, the Group will increase its overall investment in trading and operation management services, expand its presence in the national and global markets, increase the share of the trading business and operation management services business within the Group's total revenue and business volume, and thus increase the share of net profits within the net profit of the listed company attributable to the parent company. Risun aims to achieve the goal of continuous growth in overall performance by improving our business structure and expanding the scale of our asset-light businesses.

III. Company performance in the third year of its listing

1. Share price, market capitalisation and shareholder return

China Risun Group was successfully listed on the Hong Kong Stock Exchange on March 15, 2019, with an issue price of HK\$2.80 and a market value of HK\$11.2 billion on the day of listing. After the first complete financial year upon its listing in 2020, the Company has further consolidated its position as leader in the coke and coking chemicals industry, with clearer competitiveness in the industrial chain, increasingly strong strategic position in the new energy industry, and gradual recognition of its investment value by the capital market. In early 2021, after over a year of decline in the pandemic, Risun's market value began to rise significantly and has maintained at a level of over HK\$20 billion for a long period of time. At the early stage of its listing, the Company's price-to-earnings ratio (P/E) was only 4.86 times, which doubled after the market's continuous recognition of the Company's fundamentals. Since its listing, the Company has successfully outperformed the Hang Seng Composite Index and other related indexes and has achieved a growth

rate of 68.93% amid the market environment of a decreasing Hang Seng Composite Index (calculated according to the closing price of HK\$4.73 per share on 31 December 2021 compared to the issue price of HK\$2.80 per share on the day of listing).

In September 2019, the Company's stock was included in Hang Seng Composite Index, Hang Seng Hong Kong Stock Connect Index, Hang Seng SmallCap (Investable) Index and other related indexes by Hang Seng Indexes Company Limited, and was included in Shenzhen-Hong Kong Stock Connect. After three years of development upon its listing, indicators such as the Company's market value, shares outstanding, business performance and financial status have received further market recognition. On 18 February this year, Hang Seng Indexes Company Limited announced that China Risun Group would be re-designated from a SmallCap to a MidCap and will be included in the Hang Seng LargeCap and MidCap (Investable) Index, effective from 7 March. According to the relevant provisions of the Measures of the Shanghai Stock Exchange for the Implementation of Shanghai-Hong Kong Stock Connect, the Company has been included in the Shanghai-Hong Kong Stock Connect as well. The number of holding companies through Hong Kong Stock Connect has increased more than 41 times year-on-year from 3.965 million shares on 31 December 2019 to the current 165 million shares, accounting for 12.5% of the shares outstanding. The market value of Hong Kong Stock Connect has now reached HK\$798 million after a 75-fold increase. After being included in the Shanghai-Hong Kong Stock Connect, there will be a continuous expansion in the Company's scope of investors and a further growth in its influence on the capital market.

Since its listing, Risun has committed to an annual dividend level of no less than 30%. The total cash dividends have been steadily increasing with the Company's performance every year. In the 2021 interim results, the total cumulative cash dividends amounted to HK\$2.449 billion, with a total dividend of HK\$0.5863 per share. The dividend rate has been maintained at a desirable level of 4% to 6% as well. For investors who acquired the Company's shares on the listing date, 15 March 2019, assuming no change in their shareholding, the return on investment as

at 31 December 2021 is as high as 89.87%, with reference to the increase in the Company's share prices and past dividends (calculated based on the closing price of HK\$4.73 per share on 31 December 2021 and cumulative dividends of HK\$0.5863, compared to the issue price of HK\$2.80 per share on the listing date).

2. Optimisation of shareholder structure

Since its listing, Risun has ceaselessly fostered the relationship between shareholders and investors. The Company has organised roadshows for institutions and reverse roadshows at industrial parks, established a sound communication mechanism with different parties such as investors, analysts and the media, maintained long-term communication with multiple research centres through participating in large-scale industrial strategic conferences and other means. Over the past three years, the Company has organised roadshows to more than 800 people of over 580 institutions to exchange ideas on the macro trends, development of the industry, corporate strategies, ESG, R&D, human resources, industrial enhancement, business expansion and planning on hydrogen energy. Several reports released by analysts from domestic and foreign securities companies have given China Risun a "buy" or "overweight" rating, showing confidence and expectations in the Company's future performance. Through effective interaction with the capital market, the Company has gained not only extensive attention and recognition from the capital market but also contributive insights and ideas from professional institutions which have brought vitality to the development and growth of the Company. In 2021, the Company successfully raised HK\$2.065 billion through its first additional issuance and continued to introduce institutional investors as strategic investors and financial investors. With a continuous optimisation of the shareholder structure, the proportion of shares outstanding increased from 23.61% at the beginning of listing to 29.74%.

3. Increasing shareholding and share buyback

With a firm footing on the present and an eye on the future, the

Company develops and implements five-year development plans and ten-year development agendas to determine a clear and right direction of development, in order to maintain progress towards our goals. Our growth and development prospects are recognised not just in the capital market. Our major shareholders, directors and management have spontaneously acquired shares of the Company, demonstrating our unshakeable confidence in our prospects and full recognition of long-term investment value. Subsequent to our initial allotment, the window for our major shareholders to increase shareholding and for the Company to conduct share buyback is open. Since the second half of 2021, our major shareholders have increased their shareholding by 6,340,000 shares cumulatively, our directors have increased their shareholding by over 5,500,000 shares cumulatively, fully demonstrating the confidence of our major shareholders and directors in the Company's strategic direction and business expansion, and we believe they will continue to support the Company's development. We strive to raise the value of the Company and create value for our investors. Where the value of the Company is not reflected by the market, our major shareholders, directors and management will continue to increase their holdings of the shares of the Company based on market changes and company needs, and subject to compliance requirements, the Company will also conduct share buybacks and make timely disclosures.

4. Three attempts at listing

(1) The experience of our three attempts at listing

After two years of preparation, the Company applied for its first IPO on the Singapore Exchange in October 2004. In May 2005, the Company was approved for listing by the Singapore Exchange and the Singapore Exchange Regulation. During the offering roadshow, we found that the capital market in Singapore was small in scale and poor in liquidity, not to mention the low market valuation of investors. The group therefore decided not to proceed with the offering.

In 2008, the Company brought in Goldman Sachs Asia and DeTong

Capital as strategic investors and relaunched our IPO. This time, the Group chose to list on the Hong Kong Stock Exchange. After about three years of hard work, the Company satisfied the strict compliance criteria of the Hong Kong Stock Exchange and the corporate governance requirements of a listed company. In November 2011, Risun successfully passed the hearing of the Hong Kong Stock Exchange and received the approval of the Securities and Futures Commission of Hong Kong. At the time, the subprime mortgage crisis in the United States had not been fully resolved and the European debt crisis was in full swing. Although the Company's coke and coking chemicals and refined chemicals businesses enjoyed robust growth and was already an industry leader, the general macro environment had not demonstrated significant improvement. Given the market uncertainties, foreign capital was not enthusiastic about China's manufacturing industry. Neither subscription interest nor valuation was very high. Although it was likely that our listing would have been successful, after comprehensive comparisons and systematic evaluation, once again we decided not to proceed with the offering.

In 2012, the Group compiled a profound summary of the experience and lessons of the two unsuccessful listing attempts. We carefully analysed the wide range of questions raised by investors about the Company. Subsequently, we put forward a general strategy of "adjusting, developing, transforming and upgrading". This series of reforms focused on achieving sustained performance growth and breaking the vicious circle of market volatility, industry life cycle and other factors that were affecting the Company. Through continuous fundamental reforms on project selection, investment management, operation management, cost control and the distribution system, as well as the development of automation, informatisation construction and establishment of targets in safety, environmental friendliness and quality, etc., the Group has completely transformed its business model, operation model and management model. We have achieved complete pre-paid sales and zero product inventory, established a digital supply chain system for sales, transportation, production and supply, and reached the highest international and domestic standards in safety and environmental friendliness as well as a substantial increase and an expected growth in

profitability. In 2017, the Group relaunched our listing application on the Hong Kong Stock Exchange and was successfully listed on 15 March 2019. Regarding the issue price, we contemplated several proposals at HK\$3.2, HK\$3.0 or HK\$2.80 per share, eventually settling on a lower offer price of HK\$2.80 per share, fully demonstrating our willingness to share with investors our achievements and allow them share in our profits. It also expressed our hopes of forming a long-term strategic alliance with our investors for mutual growth.

(2) The value experience of the three listing attempts

Companies planning to list can do so after meeting the listing conditions, including the compliance requirements, financial normative requirements, as well as the series of requirements of the Hong Kong Securities Regulatory Commission and Hong Kong Stock Exchange. However, a public company's most fundamental issue is to achieve continuous and sustained growth in performance and profitability. That is not to say that this is not an issue for private companies as well, but private companies are less exposed to the tremendous external pressure and are free to compromise. Private or public, to be able to last through various types of cycles to achieve continuous growth in performance and profitability is a great and difficult challenge. The company must always identify the best strategic direction and constantly adjust its business strategies to cope with unpredictable changes. Out of the multitudes of companies, only a handful could accomplish this. Since the founding of Risun, we have always been determined to become one of such elite companies. Gradually, we are making this a reality.

Having gained a more comprehensive understanding of the capital market, the improvement of comprehensive professional services offered by various intermediaries and the experiences of our three listing attempts where we faced thousands of profound, systematic and concrete problems from just as many investors, Risun has carried out continuous, thorough, systematic, comprehensive and profound reforms at internal, external, high and low levels. Fielding such extensive, deep and professional questions from investors is itself a joy comparable to

being showered with gifts, which Risun humbly accepts and address them one by one. These questions from investors are the drivers behind Risun's comprehensive enhancement of our systematic competitiveness. In gratitude, we have been repaying the sincerity of our investors with good performance over the past three years of listing and a high return on equity.

IV. Motivation behind the creation of Risun

There are billions of companies in China and the world, including millions of public companies. What I mean is, public companies are the cream of the crop in their respective countries and markets; most of them are industry leaders. A founder's unique ideas, vision and purpose often determines where the start-up company will be headed, whether it will survive, and how far it can go. Obviously every start-up aims to be the next big name in the industry and achieve lasting success, but a lot rides on the founder's experiences, motivation and vision, whether the founder can continue to learn, breakthrough and manage the growth of the Company, as well as changes in the landscape and different levels of market competition.

1. My life before Risun

I graduated at the age of 20 from the Hebei University of Water Resources and Electric Engineering of China in 1985, majoring in Water Conservancy and Hydropower Engineering Construction. Subsequently I was assigned to the administration of Dongwushi Reservoir in Handan, Hebei Province, where I started as a technician and worked my way up to deputy director in a 10-year span, and continued to serve for another 8 years. Reservoir administration is a large organisation involved in administrative work, specialist operations, and even investment in various businesses. We were responsible for a drainage basin of 340 square kilometres, and the reservoir administration directly managed an area of 17.5 square kilometres, supplying water and generating hydropower for cities and farms, and at the same time was charged with flood control and drought relief. The reservoir's total volume is 160 million

cubic metres, supplying 200 million cubic metres of water annually. Our fundamental mission was, one, to strictly manage the reservoir infrastructure with flood control and drought relief our top priority; two, to manage water catchment, water supply, and hydropower generation. We benefitted from China's reform and opening-up policies and utilised available profits to develop various businesses. In the span of a decade, we invested tens of millions RMB in staff accommodation, offices, various engineering facilities, chemical refineries, textile plants, aquaculture farms, feedstock businesses, steel refining and processing plants.

Reservoir administration offered diverse, complex and challenging work that resembles a miniature society. Such a valuable experience greatly expanded my general knowledge of society, economics, policies and enterprises, and helped me improve my life plans. During the decades spent in university and the workplace, I was in constant reflection over what direction my life should take: to be a passionate executive, or an insightful academic? As a student, I spent long hours with books, studying politics, philosophy, history, military, economics, biographies, macro history and micro changes from east to west; as an executive, I became an active part of society, applying what I had learnt to myself as an individual and to society as a whole, from the micro aspects to the macro, and dedicated my entire self to hard work. Through both periods of training, I became knowledgeable in history, society and our era, and I also learned much more about myself. But after long and deep reflection, I first decided not to further pursue the academic track. Subsequently, I also realized that a career as an executive is akin to climbing a pyramid-shaped challenge and would be full of uncertainties for the coming decades. On the other hand, to establish a new organisation and toil together with employees presents a V-shaped path; sure, I would have to start from scratch; but given the very clear development trend and policy direction, I was confident that, armed with the knowledge I gained from years of study, and strong skills acquired over decades of work in society, I have the capacity to create something great for society, and eventually, I, too, can attain my own goals as a top executive.

In reality, neither giving up a chance to pursue deeper knowledge at university, nor abandoning the prospects of titles, status, interest and fame from years of hard work was easy. Deeply entrenched in our belief is the ideal that academic excellence will lead to a respectable position in government. For four or five years I wrestled over and over, spent many sleepless nights, and looked for inspiration from the great peoples of history. Eventually, I concluded that where career advancement is difficult, I could take a step back and become an entrepreneur. So, with a dream to do something great, and confident after years of soul-searching that this was the right path to take, I decided, at the prime age of 30 and no longer enjoying the luxury of time, to take advantage of a historic time of opportunity that might not come again, and handed in my resignation in late 1994 to establish Risun in early 1995, taking my first steps on my journey as an entrepreneur.

2. The goal of entrepreneurship

There are around 6,000 public companies in the capital markets of Hong Kong, Shanghai and Shenzhen. Start-up companies take many different forms, and the goals, targets, and reasons behind each start-up is different. Prior to its founding, Risun already had a preliminary overview of society and history of China and the world (particularly advanced countries such as the U.S., Japan and Germany) and developed an approach based on discourse, history, its insights into social complexity and human nature. As such, it was well-equipped to seize opportunities to create new business within the macro social progress.

From the beginning, Risun was very clear with the path it would take. To establish an organisation and strive together; to advance with the times; to be market-oriented; to satisfy demand as its goal; to focus on serving customers; to continue to grow through creation of value; to remain driven by the spirit of entrepreneurship, creation and innovation; to make continuous breakthrough, progress, and never rest. Even if our lives are finite, by gathering together in numbers to form a group guided by shared values, we can create a stronger and more creative force to

achieve far greater things and contribute to the progress of society. That is the vision of Risun. In pursuit of our dreams, we can also satisfy the desire for our own gains.

Our motivation to create greatness in a monumental era and realise our own ideals has given Risun a clear direction of development, an unshakeable belief, an indefatigable spirit and strength to endure through the cycles, and helped to inculcate an ability to assess risks and identify potential crises, allowing Risun to resist the numerous temptations encountered in our pursuit of grand vision, avoiding traps and overcoming challenges along the way.

From the beginning, Risun had established three criteria to measure our success. One, that we could create everything from scratch, to be able to build from zero and survive the harsh business environment; two, that we could grow from a small business to a large enterprise, going from strength to strength and endure through different cycles; three, to build an enduring enterprise, which will continue to evolve, breakthrough, and nurture a group of industrialists, so that Risun will be passed down future generations. We have stayed true to our founding spirit, remaining careful, honest, and self-disciplined, uncorrupted by passing riches, unmoved by disorder and undaunted by challenges.

V. Our goals for sustained growth in future

1. Increasing production

Our main projects include: Huhhot Risun China Gas's coke and coking chemicals plant with designed annual production volume of 3 million tonnes, to commence in July 2022 and raise production by 1 million tonnes for the year; Cangzhou Risun Chemicals's phase two caprolactam expansion with designed annual production volume of 300,000 tonnes, to commence in August 2022 and raise production by 140,000 tonnes for the year; Dongming Risun's caprolactam expansion commenced in 2021 and ancillary expansions will commence in July 2022 and raise production by 120,000 tonnes for the year.

2. Increasing operation management service volume and trading volume in 2022

These include: increasing operation management service volume in the Shanxi region by 1.5 million tonnes, increasing operation management service volume in other areas by 900,000 tonnes, increasing trading volume by 2.6 million tonnes, in total increasing operation management service volume and trading volume by not less than 5 million tonnes.

Table 11: Projected increase in production volume of the Risun Group in 2022 and contribution to the Group's results

Unit: '0,000 tonnes

Project	Commencement	Business growth
Cangzhou Risun phase two caprolactam expansion	August 2022	14
Dongming Risun caprolactam expansion and ancillary facilities	Progressively from August 2022	12
Risun China Gas coke and coking chemicals plant	Progressively from July 2022	100
Operation management service business and trading business		500
Total		626

3. Hydrogen products business

To accelerate the development of our hydrogen products business, develop a comprehensive strategy for manufacturing hydrogen products, establishing hydrogen refueling stations and exploring external partnerships, in order to achieve rapid expansion. It is expected that in 2022, the hydrogen products business will increase by 1.7 million cubic metres, with revenue exceeding RMB70 million.

Table 12: Projected increase in hydrogen products business of the Risun Group in 2022 and contribution to the Group's results

Unit: '0,000 cubic metres

Project	Commencement	Business growth
Hydrogen products	June 2022	1,700

4. Increasing our revenue, lowering expenditure, cutting costs and raising efficiency

To ensure a balanced cash flow and stable business growth, we will fully implement a policy of “controlling investment, reducing costs, raising efficiency”. In particular:

(1) On production and manufacturing costs

To achieve stable and high production volume through a systematic maintenance scheme; integrate the use of waste energy recovery to increase self-generated power and reduce costs of electricity consumption; increase application of technological improvement and innovation to reduce energy consumption; accelerate deployment of the MES system and optimise combined generation facilities for the general economic efficiency simulation system, to ensure maximization of production efficiency and micro management of costs.

(2) On cost of sales

To reduce transportation costs through further increasing railroad transportation to over 80%; to raise turnover efficiency in our plants through information and automation systems, smart testing and measurement, automatic and precise loading; to achieve full control over logistics information and save transportation costs through systematic control with a logistics information system.

(3) On optimisation of internal management and reduction of costs

To focus on completing the targets set out in Group's sixth five-year development plan, fully tidying the functions and management systems of the Group and its subsidiaries, optimise the deployment of various functions, introduce new management mechanisms, and upgrade management to be standardised, systematic, procedural, and informatised, creating synergies through the system, strengthening functions through the structure, and strictly implement the above upgrades, in order to raise overall efficiency and effectiveness throughout the Group while lowering management costs.

(4) On control of financial costs

To strictly implement micro management of the Group's five dedicated funds; strengthen mid to long term investment and financing balance and rolling operations forecast management system; accelerate the conversion of banking loans on project financing; strictly manage factoring to minimise discounts; control general financing costs and fees.

(5) On innovation to raise efficiency

To systematically implement management reforms throughout the Group, centralising management of sales and purchases through marketing reforms and innovation, adjusting product structure and customer structure for efficient settlement, centralising risk management, in order to increase overall revenue of the Group; actively securing various government preferential policies and incentive support funding; actively satisfying the conditions for preferential tax rates to save tax expenses; optimise and adjust talent structure to raise efficiency per capita and income per capita.

With the implementation of various control measures, it is expected that a total of 5% to 10% savings year-on-year could be achieved across the Group.

5. Striving for sustained growth

In 2022, our existing businesses will continue to contribute positively. Expansion of production capacity is on schedule to meet targets, while our trading volume continues to increase. The Group will continue to expand our operations management services business, and through R&D and innovation, improvements in technology, enhancement of digital and smart technologies, systematically lower costs and raise efficiencies, in order to improve revenue and decrease expenditure. Based on our performance in 2019, 2020 and 2021, we are confident of achieving sustained growth in 2022.

15 March 2022 marked the third anniversary of Risun's listing. Net profit attributable to our parent has continued to achieve successive growth: in 2020 (RMB170.1 million), 24.68% over 2019 (RMB136.4 million); in 2021 (RMB260 million), 52.86% over 2020. As of 31 December 2021, the Company had a capitalisation of HK\$21.0 billion, representing an increase of 87.51% over our listing capitalization of HK\$11.2 billion on 15 March 2019. Including accumulated dividends, shareholder returns amount to 89.87%, which is quite a positive performance. Given the significant changes in both the international and domestic environment, 2022 will be a challenging year for economic development. Still, Risun has formulated detailed goals and specific measures, in order to strive for sustained growth.

After 27 years of operations, Risun has become an enterprise with comprehensive capabilities and able to achieve sustained growth, something desired by both shareholders and ourselves. Over the years, we continue to acquire more abilities to see us through the challenges of social cycles, policy cycles, economic cycles, market cycles, industry cycles and company cycles.

True to our character, we remain deferential to policy, mindful of the market, respectful to our customers and our workers; faithful to our practices, we remain vigilant against risks, careful with our work, alert in tackling challenges, and cautiously optimistic with our outlook.

I end with an invitation to everyone to provide your views and suggestions, which will be invaluable to Risun as we seek new ways and strategies for improvement. We also seek your kind understanding and support to motivate our continued progress. We welcome all to visit Risun at our Beijing headquarters, as well as our locations in industrial parks across the various provinces, not only to discover our work, but also the wonderful landscape of beautiful China.

I extend my gratitude to all.



Yang Xuegang
Chairman of China Risun Group
March 25, 2022