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CHINA XLX FERTILISER LTD.

中國心連心化肥有限公司*

(Incorporated in Singapore with limited liability)

(Hong Kong Stock Code: 1866)

Discloseable Transaction

Acquisition of up to 51% equity interest in a company listed on NEEQ

ACQUISITION OF UP TO 51% EQUITY INTEREST IN THE TARGET COMPANY

On 24 February 2020, Qingli Energy, a wholly-owned subsidiary of the Company, entered into the following agreements to acquire up to 51% equity interest in the Target Company at a total consideration of RMB141,525,000 (approximately HKD157,250,000): (i) the Subscription Agreement with the Target Company to subscribe for 10,000,000 shares to be issued by the Target Company for a consideration of RMB4.44 (approximately HKD4.93) per share; (ii) the Share Transfer Agreements with each of 26 shareholders of the Target Company to acquire a total of 21,875,000 shares in the Target Company held by such shareholders at a consideration of RMB4.44 (approximately HKD4.93) per share. If all the aforementioned transactions proceed to completion, the Group will hold 31,875,000 shares in the Target Company, accounting for 51% of its enlarged share capital, and the Target Company will become a subsidiary of the Company.

IMPLICATIONS OF THE LISTING RULES

As the largest applicable percentage ratio (as defined in the Listing Rules) of the Transactions exceeds 5% but is less than 25%, the Transactions, as a whole, constitute a discloseable transaction for the Company under Rule 14 of the Listing Rules and are therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

ACQUISITION OF UP TO 51% EQUITY INTEREST IN THE TARGET COMPANY

The Board hereby announces that on 24 February 2020, Qingli Energy, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement and the Share Transfer Agreements with each of the Target Company and its 26 shareholders respectively, pursuant to which Qingli Energy proposes to subscribe for and acquire a total of 31,875,000 shares in the Target Company (accounting for 51% of the enlarged total share capital of the Target Company) for an aggregate consideration of RMB141,525,000 (approximately HKD157,250,000) (i.e. RMB4.44 (approximately HKD4.93) per share). If all the aforementioned transactions proceed to completion, the Target Company will become a subsidiary of the Company.

The principal terms of the Transactions are as follows:

Agreement date: 24 February 2020

Subject matter: A total of 31,875,000 shares in the Target Company, comprising the following:

- i. 10,000,000 new shares to be issued by the Target Company under the Subscription Agreement, accounting for approximately 19.05% of the total share capital of the Target Company as at the date of this announcement and 16% of the total share capital as enlarged by such issue; and
- ii. 21,875,000 shares to be acquired from 26 shareholders (out of a total of 84 shareholders) of the Target Company under the Share Transfer Agreements, accounting for approximately 41.66% of the total share capital of the Target Company as at the date of this announcement and 35% of the total share capital as enlarged by the above issue. The 26 shareholders of the Target Company that are parties to the Share Transfer Agreements and the number of shares that they intend to sell are as follows:

No.	Transferor	Number of shares in the Target Company to be transferred	Percentage as at the date of this announcement (%)	Percentage as enlarged by the issue (%)
1	Xinxiang Shenleng New Energy Development Co., Ltd.	6,000,000	11.43	9.60
2	Mr. Huang	5,711,000	10.88	9.14
3	Shanghai Anfa Import & Export Co., Ltd.	2,887,000	5.50	4.62

No.	Transferor	Number of shares in the Target Company to be transferred	Percentage as at the date of this announcement (%)	Percentage as enlarged by the issue (%)
4	Huang Deshun	1,113,000	2.12	1.78
5	Miao Hongyuan	866,000	1.65	1.39
6	Hanhua	742,000	1.41	1.19
7	Zhang Qingyin	706,000	1.34	1.13
8	Tian Changjiang	545,000	1.04	0.87
9	Bai Zhichen	453,000	0.86	0.72
10	Huang Demin	412,000	0.78	0.66
11	Du Caiyun	399,000	0.76	0.64
12	Bai Zhigang	383,000	0.73	0.61
13	Wang Canxia	330,000	0.63	0.53
14	Zhang Hua	198,000	0.38	0.32
15	Liu Jianmin	187,000	0.36	0.30
16	Zhang Huiling	165,000	0.31	0.26
17	Ren Jiazhen	165,000	0.31	0.26
18	Yang Yongheng	123,000	0.23	0.20
19	Yang Qingxi	107,000	0.20	0.17
20	Guo Weihong	100,000	0.19	0.16
21	Wang Baowei	74,000	0.14	0.12
22	Ma Limin	66,000	0.13	0.11
23	Chen Shaofeng	60,000	0.11	0.10
24	Jiang Hongbin	35,000	0.07	0.06
25	Zhang Taiyu	24,000	0.05	0.04
26	Zhang Weiyong	24,000	0.05	0.04
	Total	21,875,000	41.66	35.00

Consideration:

Total consideration is RMB141,525,000 (approximately HKD157,250,000) (i.e. RMB4.44 (approximately HKD4.93) per share) payable in cash by Qingli Energy by no later than 30 June 2020. In particular:

- (i) under the Subscription Agreement, such amount is only payable after all conditions precedent are satisfied (or waived) and the NEEQ regulator issues a no-objection letter with respect to the issue, and within the period set out in the announcement to be made by the Target Company at that time;
- (ii) under the Share Transfer Agreements, such amount is only payable after all conditions precedent are satisfied (or waived).

The consideration is determined by the parties to the agreements through arm's length negotiation with reference to the following factors:

- (i) the industry and market prospects of the Target Company;
- (ii) the issue price of the Target Company in its last equity fund raising completed in March 2018, i.e. RMB4.50 (approximately HKD5.0) per share, and the price to earnings ratio in that issue was 10 times;
- (iii) the price to earnings ratio of 13 times implied in the Transactions, which is calculated by reference to the net profit attributable to owners of the Target Company for the first nine months in 2019, after taking into account the effects of dividend (RMB0.8 per share) declared by the Target Company in 2019;
- (iv) the price to earnings ratios ranging between 10 and 15 times for the comparable companies listed on NEEQ which engage in the same industry and with similar scale of that of the Target Company;
- (v) although the Target Company is listed on NEEQ, there is no active trading in its shares and the liquidity in its shares is insufficient. There are only 11 trading days for its shares since June 2019, the average trading price is RMB4.01 (approximately HKD4.46) per share, and the total trading volume is 62,000 shares only.

Conditions precedent:

The conditions precedent under the Subscription Agreement are:

- (i) the parties having signed the relevant legal documents in relation to the agreement;
- (ii) the parties having obtained all necessary consents and approvals related to the transactions hereunder, including but not limited to (as applicable) approval of shareholders and the Board or other internal approval;

- (iii) there being no applicable laws and regulations, or legal documents signed by and binding the party that prohibit or restrict the current issue;
- (iv) the Target Company having fully, truthfully and completely disclosed to Qingli Energy and to Qingli Energy's satisfaction, its assets, liabilities, interest, guarantees and loans to external parties, connected transactions, material litigations and arbitrations, administrative penalties and other information related to this agreement, and there being no major adverse changes in relation to the foregoing;
- (v) there being no events that may have a material adverse effect on the financial condition, prospects, assets or business of the Target Company;
- (vi) the key employees of the Target Company (Mr. Huang, Huang Demin, Huang Deshun, Bai Zhichen) and the Target Company having signed employment contracts (including consultant contracts)/labor contracts with a term of not less than 5 years;
- (vii) Mr. Huang, as a major shareholder of the Target Company, having issued an undertaking letter (set out in more details below); and
- (viii) the Target Company having confirmed to Qingli Energy that all conditions precedent have been fulfilled or waived by Qingli Energy.

Qingli Energy is entitled to waive (iv) to (viii) of the conditions precedent above.

The conditions precedent under the Share Transfer Agreements are:

- (i) the parties having signed all legal documents related to the shares transfer;
- (ii) the parties having obtained all necessary consents and approvals related to the transactions hereunder, including but not limited to (as applicable) approval of shareholders and the Board or other internal approval;

- (iii) there being no applicable laws and regulations, or legal documents signed by and binding the party that prohibit or restrict this transaction;
- (iv) (in the case of the Share Transfer Agreement between Qingli Energy and Mr. Huang) Mr. Huang and the Target Company having fully, truthfully and completely disclosed to Qingli Energy and to Qingli Energy's satisfaction, the Target Company's assets, liabilities, interest, guarantees to external parties, and other information related to this transaction; and
- (v) (in the case of the Share Transfer Agreement between Qingli Energy and Mr. Huang) the representations and warranties made by Mr. Huang and the Target Company are true, accurate and complete as at the date of this agreement and the completion date and there is no major adverse change.

Qingli Energy is entitled to waive (iv) and (v) of the conditions precedent above.

Completion of the Subscription Agreement and the Share Transfer Agreements (and amongst the Share Transfer Agreements) is not inter-conditional.

Lock-up period:

If all of the Transactions proceed to completion, Qingli Energy will become the controlling shareholder of the Target Company. As such, as required by the relevant PRC laws and regulations, the 31,875,000 shares in the Target Company subscribed for and acquired by Qingli Energy under the Subscription Agreement and the Share Transfer Agreements are subject to a lock-up period of 12 months from the date of completion of the relevant shares subscription or transfer and during such period, Qingli Energy is not allowed to sell these shares.

Completion:

Completion of the Transactions will take place on the date of registration of the change in ownership of the relevant shares in the Target Company, and in any event shall be no later than 30 June 2020.

Termination:

The Subscription Agreement may be terminated:

- (1) by either party if it is unable to perform its obligations under this agreement as a result of the relevant authority, government department or force majeure; or
- (2) by Qingli Energy if the proposed issue is not approved by the NEEQ and the NEEQ does not issue the no-objection letter before 30 June 2020.

The Share Transfer Agreements may be terminated:

- (1) by both parties by agreement in writing;
- (2) by Qingli Energy if any of conditions precedent is not fulfilled before the completion date and such condition precedent is not waived by Qingli Energy;
- (3) by Qingli Energy if the purpose of this agreement is defeated as a result of the transferor's breach of the agreement, and in such case Qingli Energy is entitled to require the transferor to compensate all its losses;
- (4) by the innocent party if (i) completion of the agreement does not take place on or before 30 June 2020 due to transferor's default or (ii) Qingli Energy fails to pay the consideration in full on or before 30 June 2020, and the defaulting party is required to compensate the loss of the innocent party; or
- (5) if the transaction did not proceed to completion as a result of any party using inside information to trade shares in the Target Company or any other reasons, the defaulting party is required to compensate the innocent party for the costs incurred to engage service providers for the transaction and the relevant loss in relation to litigation.

Undertakings by
Mr. Huang

Mr. Huang has, as a major shareholder of the Target Company, made the following undertakings to Qingli Energy under the Share Transfer Agreement signed by him:

- (1) the shares in the Target Company held by him will be subject to locked-up within two years after completion;
- (2) he will, so long as he remains as a shareholder of the Target Company, continue to be bound by his undertakings given as the actual controller or controlling shareholder of the Target Company when the Target Company applied for listing on the NEEQ, which undertakings include but not limited to the application of certain license(s) and payment of social insurance and housing provident funds; and
- (3) so long as (i) he holds any direct or indirect shareholding in the Target Company and within two years after he ceases to do so, and/or (ii) he is employed by the Target Company and its subsidiaries and within two years after the termination of such employment, neither Mr. Huang nor his affiliates may, without prior written consent of Qingli Energy, directly or indirectly (a) engage or invest in any business that may compete with the business of the Target Company and / or its subsidiaries (“Competing Business”) or provide services or funding to any third party with respect to the Competing Business; (b) solicit any employee of the Target Company or its subsidiaries; or (c) cause the number of suppliers or customers of the Target Company or its subsidiaries to reduce, or cause such suppliers or customers to suspend or terminate cooperation.

FINANCIAL INFORMATION OF THE TARGET COMPANY AND ITS SUBSIDIARIES

The financial information of the Target Company and its subsidiaries (audited in accordance with Generally Accepted Accounting Principles in the PRC) for each of the financial years ended 31 December 2017 and 2018 is as follows:

	For the financial year ended 31 December	
	2017	2018
Net profit before tax	RMB23,186,989.17 (approximately HKD25,763,321.30)	RMB16,667,750.15 (approximately HKD18,519,722.39)
Net profit after tax	RMB20,840,101.08 (approximately HKD23,155,667.87)	RMB15,960,149.74 (approximately HKD17,733,499.71)

As of 30 September 2019, the unaudited net asset of the Target Company and its subsidiaries is RMB164,033,324.46 (approximately HKD182,259,249.40).

INFORMATION ON THE TARGET COMPANY AND PARTIES TO THE TRANSACTIONS

The Target Company is a joint-stock company incorporated in China in October 2015 with limited liability, and its principal businesses are the research and development, production and sales of pharmaceutical intermediates and nucleoside products. On 12 April 2016, shares of the Target Company were listed on the NEEQ (stock code: 836437). As at the date of this announcement, the registered capital of the Target Company is RMB52,500,000 (approximately HKD58,333,333.33).

Mr. Huang is the chairman, general manager and major shareholder of the Target Company and holds approximately 43.51% shares in the Target Company as at the date of this announcement. Huang Deshun is a director and deputy general manager of the Target Company. Liu Jianmin is a director of the Target Company. Bai Zhichen and Huang Demin are deputy general managers of the Target Company.

Xinxiang Shenleng New Energy Development Co., Ltd. is a company incorporated in China and is principally engaged in new energy, clean energy and the development of new environmental protection products.

Shanghai Anfa Import & Export Co., Ltd. is a company incorporated in China and is principally engaged in import and export of goods and technology.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, each of the Target Company, Mr. Huang, the other signatories of the Share Transfer Agreements and their ultimate beneficial owner(s) (as applicable) is a third party independent of the Company and its connected person (as defined in the Listing Rules).

INFORMATION ON QINGLI ENERGY AND THE GROUP, AND THE REASONS AND BENEFITS OF THE TRANSACTIONS

The Group is principally engaged in developing, manufacturing, and selling of urea, compound fertiliser, methanol, dimethyl ether, melamine, furfuryl alcohol, furfural and other related products. The Group is also one of the largest coal-based urea producers in China. Qingli Energy is a wholly-owned subsidiary of the Company and is principally engaged in the development, production and sales of furfuryl alcohol and related products.

If all of the Transactions proceed to completion, the Target Company will become a subsidiary of the Company, which can expand the business of the Group and enhance its profitability. In addition, the Group can use the NEEQ as an additional financing platform to expand its financing options.

In view of the above, the Directors consider that the terms of the Subscription Agreement and the Share Transfer Agreements are fair and reasonable, and the Transactions are in the interest of the shareholders of the Company as a whole.

IMPLICATIONS OF THE LISTING RULES

As the largest applicable percentage ratio (as defined in the Listing Rules) of the Transactions exceeds 5% but is less than 25%, the Transactions, as a whole, constitute a discloseable transaction for the Company under Rule 14 of the Listing Rules and are therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITION

Capitalised terms used in this announcement have the meanings ascribed to them as follows:

“Board”	the board of Director(s) of the Company
“Company”	China XLX Fertiliser Ltd., a company incorporated in Singapore with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1866)
“Director (s)”	the director (s) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Huang”	Huang Zhongxin, the chairman, general manager and major shareholder of the Target Company, holding approximately 43.51% equity interest in the Target Company as of the date of this announcement
“NEEQ”	the National Equities Exchange and Quotations
“Qingli Energy”	Henan Qingli Energy Co., Ltd., a company incorporated in China and a wholly-owned subsidiary of the Company
“Share Transfer Agreements”	the agreement signed by Qingli Energy with each of 26 shareholders of the Target Company on 24 February 2020 pursuant to which Qingli Energy is to acquire a total of 21,875,000 shares in the Target Company held by such shareholders for a total consideration of RMB91,125,000 (approximately HKD101,250,000)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Agreement”	an agreement signed by Qingli Energy and the Target Company on 24 February 2020 pursuant to which Qingli Energy is to subscribe for a total of 10,000,000 shares to be issued by the Target Company for a total consideration of RMB44,400,000 (approximately HKD49,333,333.33)

“Target Company”

Xinxiang Ruicheng Technology Co., Ltd., a joint-stock limited company incorporated in China

“Transactions”

collectively, the transactions contemplated under the Subscription Agreement and the Share Transfer Agreements

For illustration only, this announcement has converted RMB into HKD using the exchange rate of HKD1 to RMB0.9. It does not mean that any amount can or could have been exchanged at the above exchange rate or any other exchange rate on the relevant date.

By Order of the Board
China XLX Fertiliser Ltd.
Yan Yunhua
Executive Director

Hong Kong, 24 February 2020

As at the date of this announcement, the executive directors of the Company are Mr. Liu Xingxu, Mr. Zhang Qingjin and Ms. Yan Yunhua; the independent non-executive directors of the Company are Mr. Ong Kian Guan, Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Li Hongxing.

**for identification purpose only*