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**心連心**

**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  
DEEMED DISPOSAL OF EQUITY INTEREST IN HENAN XLX**

**THE INVESTMENT AGREEMENT**

On 19 June 2020, the Company and its subsidiary, Henan XLX, entered into the Investment Agreement with the Investor pursuant to which the Investor proposed to subscribe for and Henan XLX proposed to issue 50,000,000 shares, representing approximately 2.71% of the total issued shares in Henan XLX as at the date of this announcement and approximately 2.638% upon completion of the Investment Agreement, for an aggregate subscription price of RMB200,000,000 (approximately HK\$222,000,000).

**LISTING RULES IMPLICATIONS**

As at the date of this announcement, Henan XLX is held as to approximately 78.37% by the Company. It is expected that following completion of the Investment Agreement, the Company's shareholding interest in Henan XLX will be diluted to approximately 76.31%. The dilution of the Company's shareholding interest in Henan XLX will constitute a deemed disposal by the Company pursuant to Rule 14.29 of the Listing Rules.

As the highest percentage ratio applicable for the Investment, on a standalone basis, is above 5% but below 25%, the transaction contemplated under the Investment Agreement constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements, but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The highest percentage ratio applicable for the Investment, when aggregated with the Previous Investments pursuant to Rule 14.22 of the Listing Rules, is above 25% but below 75%. As such, the Investment as aggregated with the Previous Investments will be regarded as a major transaction for the Company under Chapter 14 of the Listing Rules. As the Company has already complied with the major transaction requirements in respect of the Previous Investments, the Company is not required to reclassify the Investment as a major transaction by aggregating it with the Previous Investments.

## **INTRODUCTION**

The Board is pleased to announce that on 19 June 2020, the Company and its subsidiary, Henan XLX, entered into the Investment Agreement with the Investor pursuant to which the Investor proposed to subscribe for and Henan XLX proposed to issue 50,000,000 shares, representing approximately 2.71% of the total issued shares in Henan XLX as at the date of this announcement and approximately 2.638% upon completion of the Investment Agreement, for an aggregate subscription price of RMB200,000,000 (approximately HK\$222,000,000).

Principal terms of the Investment Agreement are as follows:

## **THE INVESTMENT AGREEMENT**

**Date:** 19 June 2020

**Parties:**

- (i) The Company;
- (ii) Henan XLX; and
- (iii) The Investor

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Investor and each of its shareholders are Independent Third Parties.

**Subject matter and consideration:** The Investor agreed to subscribe for and Henan XLX agreed to issue 50,000,000 shares for an aggregate subscription price of RMB200,000,000 (approximately HK\$222,000,000), i.e. RMB4.0 (approximately HK\$4.44) per share.

As at the date of this announcement, the share capital of and the number of shares in Henan XLX is RMB1,845,480,000 (approximately HK\$2,048,482,800) and 1,845,480,000 shares, respectively, and Henan XLX is held as to 78.37% by the Company. The 50,000,000 shares to be issued by Henan XLX under the Investment Agreement represents approximately 2.71% of the total issued shares in Henan XLX as at the date of this announcement and approximately 2.638% upon completion of the Investment Agreement.

The consideration under the Investment Agreement (i.e. RMB4.00 (approximately HK\$4.44) per share) is arrived at after arm's length negotiations between the Group and the Investor by reference to the subscription price paid by the other investors in the Previous Investments (i.e. RMB4.00 (approximately HK\$4.44) per share). This represents a price to earnings multiple of approximately 18 times with reference to the net profit attributable to the owners of Henan XLX in 2019 of approximately RMB407,658,571.

By reference to the closing price of the shares in the Company for the trading day immediately prior to the date of the Investment Agreement, the Company was trading at a price to earnings multiple of approximately 6 times with reference to the net profit attributable to its owners in 2019.

**Conditions of the Investment:** The Investor is required to pay the aggregate subscription price within 10 business days after all of the conditions as set out below are satisfied:

- (1) the Board and the shareholders of Henan XLX having respectively passed resolutions approving the Investment Agreement and the transaction contemplated thereunder; and
- (2) there being no material adverse change to Henan XLX in the commercial, technological, legal and financial aspects; and all representations and warranties made by Henan XLX and the Company (as the holding company of Henan XLX) remaining true and effective in all material respects.

**Completion:** Completion will take place upon payment by the Investor of the consideration within 10 business days after all conditions precedent are satisfied.

Henan XLX will continue to be a subsidiary of the Company upon completion of the Investment Agreement.

**Termination:** The Investment Agreement may be terminated (i) by agreement among all parties thereto; or (ii) by the Investor if any of the conditions precedent is not satisfied within 90 days after the date of the Investment Agreement.

Under the terms of the Investment Agreement, the Company and Henan XLX have undertaken to the Investor that:

- (a) for each financial year ending after the completion of the Investment Agreement, unless otherwise unanimously agreed by all shareholders of Henan XLX, Henan XLX agrees to declare no less than 10% of its distributable profits as cash dividend;
- (b) within five years from the completion of the Investment Agreement, unless with the written prior consent of the Investor, the Company shall not: (i) transfer its shares or interest in Henan XLX; (ii) use such shares or interest to guarantee external party; (iii) pledge such shares or interest to any third parties; or (iv) create any other rights over such shares or interest for any third parties;
- (c) within five years from the completion of the Investment Agreement, unless with the written prior consent of the Investor, the Company shall not: (i) pledge any equity interest directly or indirectly held by it in its other subsidiaries to any third parties; or (ii) create any rights over such equity interest;
- (d) after completion of the Investment Agreement, unless with the written prior consent of the Investor, Henan XLX shall not transfer any equity interest held by it in its subsidiaries to any third parties.

**Financial effect of the deemed disposal on the Group and the application of the fund from the Investment**

No gain or loss is expected to be accrued to the Group as a result of the transaction under the Investment Agreement.

Henan XLX intends to utilize the proceeds from the Investment in the construction of new production facilities for compound fertilizer (designed annual production capacity of 300,000 tons) and water soluble fertilizer (designed annual production capacity of 150,000 tons) and as general working capital.

### **Financial information on Henan XLX and its subsidiaries**

The following are the audited financial information on Henan XLX and its subsidiaries for the two years ended 31 December 2018 and 2019:

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2019</b>
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Net profit before tax	806,279 (approximately HK\$911,095,000)	523,272 (approximately HK\$580,831,920)
Net profit after tax	709,837 (approximately HK\$802,116,000)	456,121 (approximately HK\$506,294,310)
Net assets value	4,784,951 (approximately HK\$5,406,995,000)	5,619,767 (approximately HK\$6,237,941,000)

### **INFORMATION ON THE GROUP AND THE INVESTOR AND REASONS FOR AND BENEFITS OF ENTERING INTO THE INVESTMENT AGREEMENT**

The Group is principally engaged in the development, manufacturing and selling of urea, compound fertiliser, methanol, dimethyl ether, melamine, furfuryl alcohol and other related products. The Group is also one of the largest coal-based urea producers in the PRC. Henan XLX is a 78.37% owned subsidiary of the Company as at the date of this announcement and is principally engaged in research and development, manufacturing, sales and trading of urea, compound fertilisers, methanol, dimethyl ether, melamine and related differentiated products.

The Investor is a fund initiated by the Ministry of Finance of the PRC and under the direct supervision of the SASAC. It was formed in 2016 with an ultimate aim to alleviate poverty in China through investing in the development and utilization of resources in poor areas, the construction of industrial parks and the development of new urbanization. It currently manages more than RMB30 billion, which was funded by over 90 prominent State-owned enterprises.

The Group's construction of the Phase II production line in the Jiujiang Base (which has a designed annual production capacity of 600,000 tons of synthetic ammonia, 520,000 tons of urea and 400,000 tons of dimethyl ether) started since June 2019 and the new production line requires a total estimated investment of approximately RMB4,200,000,000. As at the date of this announcement, the proceeds from the Previous Investments were used up by the Group. In addition, the Group plans to set up new production facilities for the production of compound fertilizer and water soluble fertilizer in its Xinjiang Based.

The Directors believe that not only can the Investment bring additional capital into the Group, the Group may also leverage on the resources of the Investor which will become a strategic investor of Henan XLX upon completion of the Investment. In view of the above, the Directors believe that the terms of the Investment Agreement are fair and reasonable and the Investment is in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

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The highest percentage ratio applicable for the Investment, when aggregated with the Previous Investments pursuant to Rule 14.22 of the Listing Rules, is above 25% but below 75%. As such, the Investment as aggregated with the Previous Investments will be regarded as a major transaction for the Company under Chapter 14 of the Listing Rules. As the Company has already complied with the major transaction requirements in respect of the Previous Investments, the Company is not required to reclassify the Investment as a major transaction by aggregating it with the Previous Investments.

## DEFINITIONS

“Board”	the board of Director(s)
“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)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Henan XLX”	Henan Xinlianxin Chemicals Group Co., Ltd.* (河南心連心化學工業集團股份有限公司), a subsidiary of the Company incorporated in the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an entity which is a third party independent of the Company and its connected person(s)
“Investment”	the proposed subscription by the Investor of 50,000,000 shares in Henan XLX for an aggregate subscription price of RMB200,000,000 under the Investment Agreement

“Investment Agreement”	the agreement dated 19 June 2020 entered into between the Company, Henan XLX and the Investor with respect to the Investment
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement
“Previous Investments”	the investment of an aggregate of approximately RMB796,500,000 into Henan XLX by 10 investors in September 2019, details of which are set out in the announcements of the Company dated 11 June 2019 and 18 September 2019, and the circular of the Company dated 31 July 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Investor”	中央企業貧困地區產業投資基金股份有限公司 (Central SOEs Industrial Investment Fund for Poor Area Co., Ltd*), a company incorporated in the PRC with limited liability
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent



*For illustration purposes only, the exchange rate of RMB1 = HK\$1.11 has been adopted for translating RMB into HK\$ in this announcement. No representation is made that any amounts can be or could have been converted at the relevant dates at the above rate or any other rates at all.*

By Order of the Board  
**China XLX Fertiliser Ltd.**  
**Liu Xingxu**  
*Chairman*

19 June 2020

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

*\* for identification purpose only*