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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)**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
WITH RESPECT TO THE PURCHASE OF EQUIPMENT AND  
RELATED SERVICES**

**The 2021 Equipment Purchase Agreement**

On 5 February 2021, Henan XLX entered into the 2021 Equipment Purchase Agreement with XLX Equipment and Xinxiang Shenzhou to renew the continuing connected transactions relating to the purchases of Equipment and Services by Henan XLX from the aforementioned members of XLX Chem Group for another three years ending on 31 December 2023.

**Listing Rules Implications**

Each of XLX Equipment and Xinxiang Shenzhou is a wholly-owned subsidiary of XLX Chem. As XLX Chem is deemed to be a connected person of the Company under Rule 14A.07 of the Listing Rules (as discussed in greater details below), the transactions contemplated under the 2021 Equipment Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest relevant percentage ratio calculated on an annual basis under the Listing Rules for the 2021 Equipment Purchase Agreement is more than 0.1% but less than 5%, the 2021 Equipment Purchase Agreement is subject to the reporting and announcement requirements only but exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **BACKGROUND, REASONS FOR AND BENEFITS OF THE 2021 EQUIPMENT PURCHASE AGREEMENT**

Henan XLX, a subsidiary of the Company, has been purchasing certain production equipment, including pipes, vessels and pressure vessels, and related installation and anti-corrosion services from the XLX Chem Group during the course of the Group's ordinary business. On 24 December 2018, Henan XLX entered into the 2018 Equipment Purchase Agreement with two members of the XLX Chem Group (namely XLX Equipment and Xinxiang Shenzhou) to revise the annual caps and extend the term of the previous agreement to 31 December 2020. In order to ensure compliance with Chapter 14A of the Listing Rules, on 5 February 2021, Henan XLX entered into the 2021 Equipment Purchase Agreement with XLX Equipment and Xinxiang Shenzhou (both are wholly-owned subsidiaries of XLX Chem) to facilitate the purchases of equipment and related services from XLX Chem Group.

The terms of the 2021 Equipment Purchase Agreement were arrived at after arm's length negotiations between the parties. Each of XLX Equipment and Xinxiang Shenzhou is a qualified supplier of the Group and the Group can enjoy a more favourable pricing terms offered by them. In addition, given the proximity of their geographical location with the operations of the Group, the Group can also have the benefit of reliable and timely delivery of Equipment and Services in a more cost effective manner.

### **2021 EQUIPMENT PURCHASE AGREEMENT**

The principal terms of the 2021 Equipment Purchase Agreement are as follows:

**Date:** 5 February 2021

**Parties:**

- (i) Henan XLX (as purchaser)
- (ii) XLX Equipment
- (iii) Xinxiang Shenzhou (parties (ii) and (iii) as vendors)

**Nature of Transaction:** The vendors will supply the Equipment, which comprises pipes, vessels, pressure vessels primarily used for the manufacturing of fertiliser products, and related installation and anti-corrosion services in accordance with the need of Henan XLX.

Prices for the Equipment and Services will vary depending on the product type, quantity and quality specifications as required by Henan XLX from time to time and will be determined by the parties based on normal commercial terms.

**Term of Agreement:** From 1 January 2021 to 31 December 2023 (both dates inclusive).

**Payment:** Once the relevant vendor accepts an order placed by Henan XLX, it will issue an invoice to Henan XLX and such fees will be paid in cash by Henan XLX on terms agreed in the order.

**Pricing Policy:** The purchase of Equipment and Services is subject to the Group's internal qualification and tendering procedures with potential suppliers of Equipment and Services. A potential supplier of Equipment and Services must pass certain qualification procedures internally formulated by the Group based on qualifications, product quality and price in order to become a qualified supplier. Both of XLX Equipment and Xinxiang Shenzhou are in the pool of qualified suppliers of the Group which are subject to review by the Group from time to time. Whenever Henan XLX is in need of the Equipment/ Services, it will initiate the tendering process and seek quotations from at least additional two to four (depending on the contract price) qualified suppliers other than XLX Equipment and Xinxiang Shenzhou and if all other conditions being equal, will order from the supplier who offers the most competitive price. The 2021 Equipment Purchase Agreement was entered into due to more favourable pricing terms offered by XLX Equipment and Xinxiang Shenzhou for the Equipment/ Services in the past.

The Company will put in place internal control measures to ensure that the tendering process is conducted in a fair and open manner. The tendering process is supervised and monitored by the Group's general managers in charge and technical personnel to ensure that the 2021 Equipment Purchase Agreement is conducted on normal commercial terms or terms more favourable to the Group and will not be otherwise prejudicial to the interests of the Company and its Shareholders as a whole.

## Annual caps

The annual caps under the 2021 Equipment Purchase Agreement are as follows:

	For 12 months ending 31 December		
	2021	2022	2023
Annual caps	RMB40,000,000 (approximately HK\$48,000,000)	RMB40,000,000 (approximately HK\$48,000,000)	RMB45,000,000 (approximately HK\$54,000,000)

The annual caps under the 2021 Equipment Purchase Agreement have been determined by the relevant parties by reference to the following factors:

- (i) in the second half of 2020, Henan XLX group acquired the major operating assets of XLX Equipment (which transaction was fully exempt under Rule 14A.76 of the Listing Rules) with a view to enhance its existing business and reduce the continuing connected transactions with XLX Equipment in the future to the extent possible. As a result, the transaction amount for the purchase of Equipment by the Group from the XLX Chem Group has reduced significantly since then. For that reason and due to the early leave arrangement implemented by the Group in contemplation of the coming Chinese New Year holidays, the transaction amount for the purchases of Equipment and Services by Henan XLX in January 2021 was approximately RMB275,000 (approximately HK\$330,000);
- (ii) contractual obligation with XLX Equipment for the purchase of Equipment which was entered into prior to the acquisition as mentioned in (i) above but remains to be performed in 2021 of not more than approximately RMB20,000,000 (approximately HK\$24,000,000);
- (iii) the historical purchases of Services for Xinjiang Base and Xinxiang Base by Henan XLX from Xinxiang Shenzhou during the past three years ended 31 December 2018, 2019 and 2020 of approximately RMB7,200,000 (approximately HK\$8,640,000), RMB8,100,000 (approximately HK\$9,720,000) and RMB9,600,000 (approximately HK\$11,520,000), respectively. It is expected that the Jiujiang Base will commission in 2021 and the need for Services is expected to increase significantly;

- (iv) estimated need of the Group for Services from Xinxiang Shenzhou in view of the planed or possible expansion of production capacity in Xinjiang Based and/or Xinxiang Base in the coming three years; and
- (v) some buffer necessary to provide flexibility for the Group and cater for any unexpected circumstances which may result in the increase in the transaction amount going forward.

In view of the above, the Directors (including the independent non-executive Directors) consider that the transactions contemplated under the 2021 Equipment Purchase Agreement are on normal commercial terms or better to the Company and in the ordinary and usual course of business of the Group, and the terms of the 2021 Equipment Purchase Agreement, including the annual caps, are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **HISTORICAL ANNUAL CAPS AND ACTUAL TRANSACTION AMOUNTS**

The table below sets out the historical annual caps for each of the three years ended 31 December 2018, 2019 and 2020 and the actual purchases of Equipment and Services by Henan XLX from members of the XLX Chem Group under the 2018 Equipment Purchase Agreement:

	<b>For 12 months ending 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Previous annual caps	RMB70,000,000 (approximately HK\$84,000,000)	RMB85,000,000 (approximately HK\$102,000,000)	RMB90,000,000 (approximately HK\$108,000,000)
Actual transaction amount	RMB69,902,000 (approximately HK\$83,882,400)	RMB72,080,000 (approximately HK\$86,496,000)	RMB62,200,000 (approximately HK\$74,640,000)

### **INFORMATION ON THE COMPANY AND HENAN XLX**

The Company is an investment holding company and Henan XLX is principally engaged in research and development, manufacturing, sales and trading of urea, compound fertilisers, methanol, dimethyl ether, melamine and related differentiated products.

## **INFORMATION ON XLX CHEM GROUP**

XLX Chem is engaged in the business of producing and trading of equipment, chemical products and raw materials, and the provision of accommodation and catering services. XLX Chem is owned by 46 individuals who are incumbent or retired directors, senior management or employees of the Group, and three of such shareholders are also directors of the Company. Mr. Liu Xingxu, the Chairman and executive Director, is the largest shareholder who holds 9.98% equity interest in XLX Chem. Ms. Yan Yunhua and Mr. Zhang Qingjin, executive Directors, hold 3.69% and 2.14% equity interest in XLX Chem, respectively.

Each of XLX Equipment and Xinxiang Shenzhou is a wholly-owned subsidiary of XLX Chem. XLX Equipment is primarily engaged in the manufacturing, installation and maintenance of equipment including pipes, vessels and pressure vessels. Xinxiang Shenzhou is primarily engaged in the anti-corrosion and heat preservation projects.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Mr. Liu Xingxu, Ms. Yan Yunhua and Mr. Zhang Qingjin, being executive Directors, collectively hold an aggregate of approximately 15.81% equity interest in XLX Chem and together are the largest shareholders of XLX Chem and have the largest influence through their shareholders' rights on the major decisions of XLX Chem. As with the case at time of the Company's listing on the Stock Exchange, XLX Chem, its subsidiaries and associates were and remain to be deemed as connected persons of the Company under Rule 14A.07 of the Listing Rules.

Accordingly, transactions contemplated under the 2021 Equipment Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Save and except for Mr. Liu Xingxu, Ms. Yan Yunhua and Mr. Zhang Qingjin who had abstained from voting on the Board resolution in relation to the 2021 Equipment Purchase Agreement, no other Director has any material interest in the 2021 Equipment Purchase Agreement or is required to abstain from voting at the Board meeting of the Company.

As the highest relevant percentage ratio calculated on an annual basis under the Listing Rules for the 2021 Equipment Purchase Agreement is more than 0.1% but less than 5%, the 2021 Equipment Purchase Agreement is subject to the reporting and announcement requirements only but exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

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

“2018 Equipment Purchase Agreement”	the agreement dated 24 December 2018 entered into between Henan XLX, XLX Equipment and Xinxiang Shenzhou in relation to the purchase of Equipment and related Services by Henan XLX from XLX Equipment and Xinxiang Shenzhou, details of which are set out in the announcement of the Company dated 24 December 2018
“2021 Equipment Purchase Agreement”	the agreement entered into between Henan XLX, XLX Equipment and Xinxiang Shenzhou on 5 February 2021 in relation to the purchase of Equipment and related Services by Henan XLX from XLX Equipment and Xinxiang Shenzhou
“associate”	has the meaning ascribed thereto in the Listing Rules
“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)
“Director(s)”	the director(s) of the Company
“Equipment”	pipes, vessels and pressure vessels primarily used for the production of fertiliser products
“Group”	the Company and its subsidiaries
“Henan XLX”	Henan Xinlianxin Chemical Industry 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
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	related installation and anti-corrosion services for the Equipment
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinxiang Shenzhou”	Xinxiang Shenzhou Anti-corrosion Installation Co., Ltd* (新鄉市神州防腐安裝有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of XLX Chem
“XLX Chem”	Henan Xinlianxin Huagong Group Co., Ltd.* (河南心連心化工集團有限公司), a company incorporated in the PRC and deemed to be a connected person of the Company under Rule 14A.07 of the Listing Rules
“XLX Chem Group”	XLX Chem together with its subsidiaries
“XLX Equipment”	Xinxiang Xinlianxin Chemical Equipment Co., Ltd.* (新鄉市中心連心化工設備有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of XLX Chem
“%”	per cent.



*For illustration purposes only, the exchange rate of RMB1 = HK\$1.2 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*

5 February 2021

*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*