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**心连心**

**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 JIANGXI XLX**

**THE CAPITAL CONTRIBUTION**

On 19 January 2024, Jiangxi XLX (a subsidiary of the Company) entered into the Capital Contribution Agreement with the Original Shareholder (Henan XLX, a subsidiary of the Company) and ABC Financial, pursuant to which ABC Financial agreed to subscribe for certain interests of Jiangxi XLX at the consideration of RMB500,000,000, of which approximately RMB283,096,000 will be registered as the additional capital of Jiangxi XLX and the remaining amount of approximately RMB216,904,000 will be included in the capital reserve of Jiangxi XLX. Upon completion of the Capital Contribution, the registered capital of Jiangxi XLX will be increased from RMB270,000,000 to approximately RMB2,983,096,000 and each of Henan XLX and ABC Financial will hold approximately 90.51% and 9.49% of Jiangxi XLX's enlarged equity interests.

**CALL OPTION**

Under the Capital Contribution Agreement, ABC Financial granted an option to Henan XLX, pursuant to which Henan XLX is entitled to purchase at its discretion the equity interests of Jiangxi XLX held by ABC Financial where any of the events stipulated in the Capital Contribution Agreement has occurred, at the agreed exercise price.

**LISTING RULES IMPLICATIONS**

The Capital Contribution will result in a reduction in the equity interests indirectly held by the Company in Jiangxi XLX from 100.00% to approximately 90.51%, and therefore constitutes a deemed disposal of the Company pursuant to Rule 14.29 of the Listing Rules. As one or more applicable percentage ratios in respect of the Capital Contribution as defined under Rule 14.07 of the Listing Rules are higher than 5% but all applicable percentage ratios are less than 25%, the

Capital Contribution and deemed disposal under the Capital Contribution Agreement constitute a discloseable transaction of the Company which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules, but is exempt from the relevant shareholders' approval requirements.

The call option is granted to the Group at nil consideration and the exercise of which is at the discretion of the Group. Pursuant to Rule 14.75 of the Listing Rules, on the grant of the call option, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. The grant of such call option does not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules, nor will it give rise to obligations to make announcement or seek for shareholders' approval. The Company will comply with the requirements under Chapter 14 of the Listing Rules as and when such option is exercised.

## **INTRODUCTION**

On 19 January 2024, Jiangxi XLX (a subsidiary of the Company) entered into the Capital Contribution Agreement with the Original Shareholder (Henan XLX, a subsidiary of the Company) and ABC Financial, pursuant to which ABC Financial agreed to subscribe for certain interests of Jiangxi XLX at the consideration of RMB500,000,000, of which approximately RMB283,096,000 will be registered as the additional capital of Jiangxi XLX and the remaining amount of approximately RMB216,904,000 will be included in the capital reserve of Jiangxi XLX. Upon completion of the Capital Contribution, the registered capital of Jiangxi XLX will be increased from RMB270,000,000 to approximately RMB2,983,096,000 and each of Henan XLX and ABC Financial will hold approximately 90.51% and 9.49% of Jiangxi XLX's enlarged equity interests.

## **PRINCIPAL TERMS OF THE CAPITAL CONTRIBUTION AGREEMENT**

The principal terms of the Capital Contribution Agreement are summarized as below:

### **Date**

19 January 2024

### **Parties**

- (1) Jiangxi XLX;
- (2) Henan XLX; and
- (3) ABC Financial.

## **Capital Contribution**

ABC Financial agreed to subscribe for certain interests of Jiangxi XLX at a consideration of RMB500,000,000 (the “**Subscription Consideration**”), of which approximately RMB283,096,000 will be registered as the additional capital of Jiangxi and the remaining amount of approximately RMB216,904,000 will be included in the capital reserve of Jiangxi XLX.

Upon completion of the Capital Contribution, the registered capital of Jiangxi XLX will be increased from RMB270,000,000 to approximately RMB2,983,096,000 and each of Henan XLX and ABC Financial will be interested in approximately 90.51% and 9.49% of the enlarged equity interests in Jiangxi XLX.

## **PAYMENT OF SUBSCRIPTION CONSIDERATION AND CONDITIONS PRECEDENT**

The Subscription Consideration for the Capital Contribution will be paid by ABC Financial in one lump sum in accordance with the Capital Contribution Agreement. Unless otherwise waived in writing by ABC Financial, the Subscription Consideration to be made by ABC Financial is conditional upon the satisfaction of all the following conditions precedent:

- (1) The Capital Contribution has been fully registered, recorded, filed or approved in accordance with applicable laws, regulations and regulatory documents, articles of association of all parties thereto, and relevant requirements of competent authorities or departments. Jiangxi XLX and Henan XLX have obtained the approval from competent authorities or departments for the Capital Contribution;
- (2) The following matters have been completed: 1) Jiangxi XLX has produced legal and valid written resolutions in accordance with its articles of association, stating that Henan XLX has consented to the Capital Contribution and has waived its pre-emptive rights to subscribe for the Target Interests in the Capital Contribution; 2) Jiangxi XLX and Henan XLX have agreed to disclose relevant information to the public as required under applicable laws, regulations and regulatory documents in a timely and accurate manner (if necessary);
- (3) The legal documents for the Capital Contribution have been signed by all parties and come into effect, and since the date of signing, no default has occurred, or the default has been resolved or waived to the satisfaction of ABC Financial;
- (4) An escrow account for the Capital Contribution (the “**Escrow Account**”) has been opened by Jiangxi XLX;
- (5) The representations, warranties and undertakings made by the Jiangxi XLX and Henan XLX under the Capital Contribution Agreement continue to be true, complete and accurate in all material aspects up to the completion date stipulated in the Capital Contribution Agreement;

- (6) The financial positions, business operations and asset conditions of Jiangxi XLX and Henan XLX have not experienced any significant adverse changes since the entering into the Capital Contribution Agreement till the completion date;
- (7) ABC Financial has obtained internal approvals regarding the Capital Contribution; and
- (8) Jiangxi XLX and Henan XLX have provided ABC Financial with written confirmation letters as well as relevant supporting documents confirming the fulfilment of all conditions precedent.

ABC Financial has the right to decide to pay all or part of the Subscription Consideration to the Capital Contribution in advance notwithstanding all of the above conditions have not been satisfied.

If, within 30 days upon signing the Capital Contribution Agreement, all of the above conditions precedent have not been satisfied or waived by ABC Financial in writing, ABC Financial has the right to choose by way of written notice: (1) to unilaterally extend the aforementioned period; or (2) to unilaterally terminate the Capital Contribution Agreement.

### **Completion**

After ABC Financial has confirmed that all conditions precedent are satisfied, or the conditions precedent have been waived in whole or in part by ABC Financial in writing, ABC Financial may deposit the Subscription Consideration to the Escrow Account. The date on which ABC Financial deposits the Subscription Consideration shall be the completion date of the Capital Contribution.

### **Performance Undertaking**

Henan XLX will undertake that every year, including the year in which the Capital Contribution is completed, after the Capital Contribution Agreement has come into effect, as long as ABC Financial is interested in Jiangxi XLX, the annual distributable profits to be realized by Jiangxi XLX on a consolidated basis for such period (the “**Distributable Profits Realized for the Year**”) shall not be lower than RMB466 million (the “**Expected Performance Value**”).

### **Profit Distribution**

During the period which ABC Financial holds the Target Interests, each shareholder of Jiangxi XLX shall be entitled to all the distributable profits proportionate to their paid-in capital contribution (including but not limited to the Distributable Profits Realized for the Year and accumulated undistributed profits, etc.).

Jiangxi XLX should calculate the annual dividend targets (the “**Annual Expected Dividend Amount**”) of each shareholder based on their paid-in capital contribution, being:

The Annual Expected Dividend Amount = the Expected Performance Value of Jiangxi XLX × distribution ratio (65%) × shareholders’ paid-in capital contribution percentage

## **Anti-dilution**

Unless otherwise agreed in writing by ABC Financial and Henan XLX, ABC Financial and Henan XLX shall not make additional capital contribution into Jiangxi XLX from the completion date and during the period when ABC Financial holds the Target Interests. Jiangxi XLX shall seek the approval of all the shareholders of Jiangxi XLX at the general meetings before introducing new investors by any means.

Without prejudice to the preceding provision, whenever Jiangxi XLX conducts any new equity financing, ABC Financial shall be entitled to such more favourable financing price and conditions or terms automatically if the financing price and conditions or terms of the new financing are more favourable than those of the Capital Contribution. ABC Financial is entitled to request Henan XLX and Jiangxi XLX to take the necessary measures and steps to ensure ABC Financial's interests are not diluted from the perspective of economic benefit calculated with reference to the new financing price. Henan XLX shall procure the directors and shareholders so appointed to vote in favour of the resolutions approving the aforesaid steps.

The following issuances will not trigger anti-dilution adjustments: (1) Jiangxi XLX's issuance of additional registered capital pursuant to equity incentive scheme or employee share ownership scheme as approved in writing by ABC Financial; or (2) Jiangxi XLX's issuance shares upon listing (provided that the issuance price is approved by ABC Financial).

## **Transfer Restriction**

During the period which ABC Financial holds the Target Interests, Henan XLX shall not, except with the prior approval and recognition of ABC Financial, directly or indirectly sell, give, pledge, encumber or otherwise dispose of any equity interests held in Jiangxi XLX, irrespective of whether the other party exercised the pre-emptive rights unless otherwise agreed in the Capital Contribution Agreement or approved by ABC Financial in writing.

In the event that Henan XLX or a third party designated by Henan XLX elects not to purchase the Target Interests, the transfer of the Target Interests by ABC Financial shall not be bound by any restrictions. In the event that approval by Jiangxi XLX or Henan XLX is required for ABC Financial to transfer the Target Interests, Jiangxi XLX and Henan XLX shall grant their consent. In the event that Henan XLX and/or Jiangxi XLX caused ABC Financial to fail to exit the equity investment as agreed and to transfer the Target Interests, Henan XLX agrees to waive its pre-emptive rights under the same conditions.

## **Tag-along Right**

Subject to the provisions of the Capital Contribution Agreement, if Henan XLX intends to transfer its equity in Jiangxi XLX to any third party after the completion date, Henan XLX shall issue a tag-along notice 60 days in advance. The maximum equity ratio to be sold by ABC Financial in the

exercise of its tag-along right shall not exceed the ratio of equity to be transferred by Henan XLX  $\times$  the then equity ratio held by ABC Financial/the then total equity ratio held by ABC Financial and Henan XLX.

If ABC Financial exercises the tag-along right, Henan XLX shall take necessary steps, including the reduction of the amount of equity to be disposed of, to ensure ABC Financial's tag-along right could be exercised. If ABC Financial exercises its tag-along right pursuant to the Capital Contribution Agreement and the transferee refuses to purchase the relevant equity from ABC Financial, Henan XLX shall not sell any of Jiangxi XLX's equity to the transferee, unless Henan XLX purchases all the equity held by ABC Financial that was proposed to be transferred to transferee in exercise of tag-along right under the same conditions at the same time.

### **Option**

Under the Capital Contribution Agreement, Henan XLX or a third party designated by Henan XLX has the right to purchase the equity of Jiangxi XLX held by ABC Financial at the agreed transfer price in the occurrences of any of the following events:

- (1) 36 months since the completion date;
- (2) During the period which ABC Financial holds the Target Interests, Jiangxi XLX failed to achieve the annual Expected Performance Value, unless exempted by ABC Financial in writing;
- (3) During the period which ABC Financial holds the Target Interests, Jiangxi XLX failed to convene a shareholders' meeting to review profit distribution as agreed, or the shareholders failed to reach a unanimous shareholders' meeting resolution in relation to the distribution of dividends, or Jiangxi XLX achieved the Expected Performance Value but failed to pay dividends as agreed in the Capital Contribution Agreement;
- (4) Jiangxi XLX and Henan XLX violated the stipulations in the relevant transaction documents of the Capital Contribution and have not properly rectified such violations in the manner stipulated by ABC Financial within the grace period, unless exempted by ABC Financial in writing;
- (5) Risks of bankruptcy or liquidation have arisen in Jiangxi XLX, unless exempted by ABC Financial in writing in respect of such events;
- (6) Significant risk events, material illegal acts or circumstances that would substantially affect the acquisition of the Target Interests by Henan XLX have occurred within Jiangxi XLX, Henan XLX or their de facto controllers;
- (7) there has been a change to the de facto controllers of Jiangxi XLX or Henan XLX.

When any of the specific events stipulated in the preceding paragraph occurs, if Henan XLX or its designated third parties opted to purchase the Target Interests, they shall pay the transfer price to ABC Financial within one month from the date of receiving the written notice from ABC Financial. The transfer price will be determined with reference to following formulae:

- (a) The appraisal results of the equity value of Jiangxi XLX held by ABC Financial from a professional valuer shall be used as the transfer price (“**Transfer Price 1**”);
- (b) If Henan XLX and ABC Financial failed to reach an agreement on the transfer of the equity of Jiangxi XLX held by ABC Financial to Henan XLX or its designated third parties at Transfer Price I as stated in the abovementioned paragraph (a), Henan XLX and ABC Financial agreed to adopt transfer price II (“**Transfer Price II**”) as the transfer price.

$$\text{Transfer Price II} = \text{investment amount of ABC Financial} + (P - D) / 0.75$$

For the avoidance of doubt, P represents the sum of expected annual dividends to ABC Financial for the period during which ABC Financial holds the Target Interests. D represents the amount of dividend income that ABC Financial has received from Jiangxi XLX for the period during which ABC Financial holds the Target Interests.

## **BASIS FOR DETERMINATION OF THE SUBSCRIPTION CONSIDERATION**

The Subscription Consideration of ABC Financial in the Capital Contribution was determined having considered the unaudited net asset value of Jiangxi XLX of RMB3,512,430,000 as of 30 September 2023 and the price-to-book ratio of approximately 1.36 times. Such price-to-book ratio was determined at arm’s length negotiations among the parties with reference to the average price-to-book ratio of comparable companies in the domestic fertilizer industry (approximately 1.4 times).

## **USE OF PROCEEDS**

The proceeds raised from the Capital Contribution will be used to repay loans from financial institutions. The proceeds raised from the Capital Contribution will be fully utilised within three months after the completion date.

## **FINANCIAL EFFECT OF THE CAPITAL CONTRIBUTION**

Since Jiangxi XLX will remain as a subsidiary of the Company upon completion of the Capital Contribution, the financial results of Jiangxi XLX will continue to be consolidated into the financial statements of the Group. It is expected that the Group will not record any gain or loss from the Capital Contribution.

## **REASONS FOR AND BENEFITS OF THE CAPITAL CONTRIBUTION**

The Capital Contribution is based on the further deepening of the comprehensive strategic cooperation between Jiangxi XLX and ABC Financial. Both parties have reached an agreement on the capital increase, which will help fulfill the operating capital needs of Jiangxi XLX and provide sufficient capital for the future sustainable development. In addition, the Capital Contribution will significantly improve the gearing ratio of Jiangxi XLX, which will be beneficial for Jiangxi XLX to obtain bank facilities, thus further improving its financing capacity to meet the capital requirements for investment and daily operation.

The Directors (including the independent non-executive Directors) are of the view that the Capital Contribution Agreement and the transaction contemplated thereunder are entered on normal commercial terms and in the ordinary course of business of the Company, and the terms of the Capital Contribution Agreement are fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

## **INFORMATION ON THE PARTIES**

### **HENAN XLX**

Henan XLX is a subsidiary of the Company and is principally engaged in research and development, manufacturing, sales and trading of urea, compound fertilisers, methanol, dimethyl ether, melamine and related differentiated products.

### **JIANGXI XLX**

As at the date of this announcement, Jiangxi XLX is directly held as to 100.00% by Henan XLX, a subsidiary of the Company.

Jiangxi XLX is a company established under the laws of the PRC with limited liability. Jiangxi XLX is principally engaged in manufacturing and sales of urea, compound fertilisers, mixed fertilisers, melamine, water-soluble fertiliser, foliar and related differentiated products.

The following table sets out certain financial information of Jiangxi XLX as at 31 December 2021, 2022 and 30 September 2023 and for the year/period then ended, extracted from financial statements prepared in accordance with the PRC Accounting Standards:

	For the year ended 31 December		For the nine months ended 30 September
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
Operating revenue	4,905,264	6,956,972	5,213,786
Profit/(loss) before tax	1,014,553	766,630	607,871
Profit/(loss) after tax	783,848	651,871	542,199

As at 30 September 2023, the unaudited total assets and net asset value of Jiangxi XLX amounted to approximately RMB7,358,890,000 and RMB3,512,430,000 respectively.

## **ABC Financial**

ABC Financial is a company established in the PRC with limited liability. It is principally engaged in conducting market-oriented and law-based debt-to-equity swaps and supporting business, raising funds from qualified investors in society for supporting the implementation of market-oriented debt-to-equity swaps, issuance of financial bonds, financial advisory and consulting business associated with debt-to-equity swaps and other businesses. ABC Financial is wholly owned by Agricultural Bank of China Limited, a company incorporated in the PRC with limited liability, whose H shares and A shares are listed on the Stock Exchange (stock code: 1288) and the Shanghai Stock Exchange (stock code: 601288) respectively.

To the Directors' knowledge, information and belief, having made all reasonable enquiries, ABC Financial and its ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

## **LISTING RULES IMPLICATIONS**

The Capital Contribution will result in a reduction in the equity interests indirectly held by the Company in Jiangxi XLX from 100.00% to approximately 90.51%, and therefore constitutes a deemed disposal of the Company pursuant to Rule 14.29 of the Listing Rules. As one or more applicable percentage ratios in respect of the Capital Contribution as defined under Rule 14.07 of the Listing Rules are higher than 5% but all applicable percentage ratios are less than 25%, the Capital Contribution and deemed disposal under the Capital Contribution Agreement constitute a discloseable transaction of the Company which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules, but is exempt from the relevant shareholders' approval requirements.

The call option is granted to the Group at nil consideration and the exercise of which is at the discretion of the Group. Pursuant to Rule 14.75 of the Listing Rules, on the grant of the call option, only the premium will be taken into consideration for the purpose of classification of notifiable transactions. The grant of such call option does not constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules, nor will it give rise to obligations to make announcement or seek for shareholders' approval. The Company will comply with the requirements under Chapter 14 of the Listing Rules as and when such option is exercised.

## DEFINITIONS

“ABC Financial”	ABC Financial Asset Investment Co., Ltd, a company established in the PRC with limited liability, which is wholly-owned by Agricultural Bank of China Limited
“Board”	the board of Directors
“Capital Contribution”	the capital contribution contemplated under the Capital Contribution Agreement
“Capital Contribution Agreement”	the capital contribution agreement and supplemental agreement dated 19 January 2024 entered into by Jiangxi XLX with Henan XLX and ABC Financial
“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(s)”	shall have the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Jiangxi XLX”	Jiangxi Xinlianxin Limited* (江西心連心有限公司)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Original Shareholder”	the original shareholder of Jiangxi XLX, being Henan XLX

“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Interests”	Approximately 9.49% of the enlarged equity interests of Jiangxi XLX held by ABC Financial after the completion of the Capital Contribution
“%”	per cent

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

Hong Kong, 19 January 2024

*As at the date of this announcement, the executive directors of the Company are Mr. Liu Xingxu, Mr. Zhang Qingjin and Ms. Yan Yunhua; and 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*