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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China XLX Fertiliser Ltd., you should at once hand this circular, together with the accompanying proxy form, to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

(Company Registration No. 200610384G)

(Hong Kong Stock Code: 1866)

MAJOR TRANSACTION

- (1) RAISING OF UP TO RMB1 BILLION BY HENAN XLX;**
- (2) DEEMED DISPOSAL OF EQUITY INTEREST IN HENAN XLX; AND**
- (3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee and
the Independent Shareholders**

ALTUS CAPITAL LIMITED

A notice convening the extraordinary general meeting of China XLX Fertiliser Ltd. to be held at the Library, Mezzanine Floor, Grand Hyatt, 1 Harbour Road, Wanchai, Hong Kong on 21 August 2019 at 9:00 a.m. is set out on pages 52 to 56 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.chinaxlx.com.hk).

If you are not able to attend the extraordinary general meeting in person, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for the holding of the extraordinary general meeting (i.e., not later than 9:00 a.m. on 19 August 2019) or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

31 July 2019

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	20
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	21
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	44
APPENDIX II – GENERAL INFORMATION	47
NOTICE OF EXTRAORDINARY GENERAL MEETING	52

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Announcement”	the announcement of the Company dated 11 June 2019 in relation to the Investments and Proposed Investment
“Board”	the board of Director(s)
“CCB”	CCB Financial Asset Investment Company Limited* (建信金融資產投資有限公司), a company incorporated in the PRC with limited liability
“close associate”	has the meaning ascribed to it under the Listing Rules
“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)
“Companies Act”	the Companies Act (Chapter 50) of Singapore
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be held by the Company on 21 August 2019 at 9:00 a.m. at the Library, Mezzanine Floor, Grand Hyatt, 1 Harbour Road, Wanchai, Hong Kong for the purposes of considering and, if thought fit, approving the resolutions in relation to the Investments
“Group”	the Company and its subsidiaries
“Go Power”	Go Power Investments Limited, an investment holding company established in the British Virgin Islands. As at the Latest Practicable Date, Ms. Yan beneficially owned 12.74% of the equity interest in Go Power, and holds the remaining 87.26% of the equity interest in Go Power in trust for a total of 1,463 beneficiaries including members of the management and employees of the Group under a trust agreement dated 26 July 2016. Pursuant to the trust agreement, Ms. Yan is irrevocably granted the absolute discretion to exercise the voting rights and the rights to the day-to-day management of Go Power

DEFINITIONS

“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 Board Committee”	an independent committee of the Board (which comprises Mr. Ong Kian Guan, Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Li Hongxing, all being the independent non-executive Directors) established to advise the Independent Shareholders with regard to the terms of the Investment Agreements and the transactions contemplated thereunder
“Independent Financial Adviser” or “Altus Capital”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of the Investment Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than Mr. Liu, Ms. Yan, Mr. Zhang and their respective close associates
“Independent Third Party”	to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, a person or a company which is a third party independent of the Company and its connected person(s)
“Investments”	comprising the proposed investments into Henan XLX by (i) Ningbo Yuannian as to RMB73,520,000; (ii) Tonglingshi Lingtong as to RMB160,000,000; (iii) Xiamen Baodarun as to RMB100,000,000; (iv) Shanghai Jinpu Town Development as to RMB200,000,000; (v) Shanghai Jinpu Guotiao as to RMB100,000,000; (vi) Shanghai Xinchu as to RMB31,640,000; (vii) Shanghai Xinyuan as to RMB21,640,000; (viii) Shanghai Xinzheng as to RMB65,200,000; (ix) Shanghai Xinzhu as to RMB38,000,000; (x) Zhuhai Hengqin as to RMB10,000,000; and (xi) CCB as to RMB200,000,000

DEFINITIONS

“Investment Agreements”	collectively the agreements dated 11 June 2019 entered into by the Company and Henan XLX with each of Ningbo Yuannian, Tonglingshi Lingtong, Xiamen Baodarun, Shanghai Jinpu Town Development, Shanghai Jinpu Guotiao, Shanghai Xinchu, Shanghai Xinyuan, Shanghai Xinzheng, Shanghai Xinzhu and Zhuhai Hengqin; and the agreement dated 22 July 2019 entered into by the Company, Henan XLX and CCB, and each an “Investment Agreement”
“Investor(s)”	collectively Ningbo Yuannian, Tonglingshi Lingtong, Xiamen Baodarun, Shanghai Jinpu Town Development, Shanghai Jinpu Guotiao, Shanghai Xinchu, Shanghai Xinyuan, Shanghai Xinzheng, Shanghai Xinzhu, Zhuhai Hengqin and CCB, and each an “Investor”
“Latest Practicable Date”	26 July 2019, being the latest practicable date prior to printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the model code for Securities Transactions by Directors of Listed Issuers
“MOU”	a memorandum of understanding entered into between the Company and CCB on 11 June 2019 with respect to the Proposed Investment
“Mr. Liu”	Mr. Liu Xingxu, the Chairman of the Board and an executive Director
“Mr. Zhang”	Mr. Zhang Qingjin, an executive Director
“Ms. Yan”	Ms. Yan Yunhua, an executive Director
“Ningbo Yuannian”	Ningbo Yuannian Hejin Investment Partnership (Limited Partnership)* (寧波元年合金投資合夥企業(有限合伙)), a limited partnership established in the PRC

DEFINITIONS

“Pioneer Top”	Pioneer Top Holdings Limited, an investment holding company established in the British Virgin Islands. As at the Latest Practicable Date, Mr. Liu beneficially owned 42% of the equity interest in Pioneer Top, and holds the remaining 58% of the equity interest in Pioneer Top in trust for seven beneficiaries including senior management of the Group such as Mr. Zhang under a trust agreement dated 26 July 2016. Pursuant to the trust agreement, Mr. Liu is irrevocably granted the absolute discretion to exercise the voting rights and the rights to the day-to-day management of Pioneer Top
“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 circular
“Previous Investment”	the investment of an aggregate of RMB600,000,000 in Henan XLX by Ningbo Yuannian and the other five investors in November 2018, details of which are set out in the announcements of the Company dated 31 July 2018 and 30 November 2018
“Proposed Investment”	the proposed subscription by CCB for 50,000,000 shares in Henan XLX pursuant to the MOU
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Jinpu Guotiao”	Shanghai Jinpu Guotiao Merger Share Investment Fund Partnership (Limited Partnership)* (上海金浦國調并購股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC
“Shanghai Jinpu Town Development”	Shanghai Jinpu Town Development Shares Investment Fund Management Company Limited* (上海金浦城市發展股權投資基金管理有限公司), a company incorporated in the PRC with limited liability
“Shanghai Xinchí”	Shanghai Xinchí Corporate Management Consultant Partnership (Limited Partnership)* (上海心熾企業管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC

DEFINITIONS

“Shanghai Xinyuan”	Shanghai Xinyuan Corporate Management Consultant Partnership (Limited Partnership)* (上海心媛企業管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC
“Shanghai Xinzheng”	Shanghai Xinzheng Corporate Management Consultant Partnership (Limited Partnership)* (上海心箏企業管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC
“Shanghai Xinzu”	Shanghai Xinzu Corporate Management Consultant Partnership (Limited Partnership)* (上海心祖企業管理諮詢合夥企業(有限合夥)), a limited partnership established in the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tonglingshi Lingtong”	Tonglingshi Lingtong Trading Company Limited* (銅陵市靈通貿易有限責任公司), a company incorporated in the PRC with limited liability
“Xiamen Baodarun”	Xiamen Baodarun Investment Partnership (Limited Partnership) * (廈門寶達潤投資合夥企業(有限合夥)), a limited partnership established in the PRC
“Zhuhai Hengqin”	Zhuhai Hengqin Renhe Tianji Share Investment Fund Partnership (Limited Partnership)* (珠海橫琴仁禾天璣股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC
“%”	per cent

Unless otherwise specified in this circular, translations of RMB into HK\$ are made in this circular, for illustration only, at the rate of RMB1.00 to HK\$1.13. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at that rate or at any other rate.

LETTER FROM THE BOARD



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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)

(Company Registration No. 200610384G)

(Hong Kong Stock Code: 1866)

Executive Directors:

Mr. Liu Xingxu (*Chairman*)

Mr. Zhang Qingjin

Ms. Yan Yunhua

Non-executive Director:

Mr. Zheng Jiaqi

Independent non-executive Directors:

Mr. Ong Kian Guan

Mr. Li Shengxiao

Mr. Ong Wei Jin

Mr. Li Hongxing

Registered office:

80 Robinson Road

#02-00, Singapore 068898

Principal place of business

in Hong Kong:

20/F, Alexandra House

18 Chater Road

Central

Hong Kong

31 July 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

- (1) RAISING OF UP TO RMB1 BILLION BY HENAN XLX; AND
(2) DEEMED DISPOSAL OF EQUITY INTEREST IN HENAN XLX**

INTRODUCTION

Reference is made to the Announcement in which the Board announced that on 11 June 2019, the Company and its subsidiary, Henan XLX, entered into the investment agreements with each of the 10 Investors and the MOU with CCB which, if proceeded with to completion, could raise RMB1 billion for Henan XLX.

** for identification purpose only*

LETTER FROM THE BOARD

As at the Latest Practicable Date, Henan XLX is held as to 87.86% by the Company and the remaining 12.14% is held by six other shareholders, all of whom are Independent Third Parties. Following completion of the Investment Agreements (including the one with CCB which was signed on 22 July 2019), the Company's shareholding interest in Henan XLX will be diluted to 76.27%.

The purpose of this circular is to provide you with, among other things, (i) further details about the Investments; (ii) the recommendations of the Independent Board Committee on the Investments; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Investments and the transactions contemplated thereunder; and (iv) the notice convening the EGM.

THE INVESTMENT AGREEMENTS

- Date:**
- (i) 11 June 2019 (for Investors other than CCB)
 - (ii) 22 July 2019 (for CCB)
- Parties:**
- The Company and Henan XLX with each of: (i) Ningbo Yuannian, (ii) Tonglingshi Lingtong, (iii) Xiamen Baodarun, (iv) Shanghai Jinpu Town Development, (v) Shanghai Jinpu Guotiao, (vi) Shanghai Xinchu, (vii) Shanghai Xinyuan, (viii) Shanghai Xingzheng, (ix) Shanghai Xinzhu, (x) Zhuhai Hengqin and (xi) CCB.
- Consideration:**
- Pursuant to the Investment Agreement with:
- a. Ningbo Yuannian, Ningbo Yuannian agreed to subscribe for 18,380,000 shares in Henan XLX at a total consideration of RMB73,520,000 (approximately HK\$83,077,600).
 - b. Tonglingshi Lingtong, Tonglingshi Lingtong agreed to subscribe for 40,000,000 shares in Henan XLX at a total consideration of RMB160,000,000 (approximately HK\$180,800,000).
 - c. Xiamen Baodarun, Xiamen Baodarun agreed to subscribe for 25,000,000 shares in Henan XLX at a total consideration of RMB100,000,000 (approximately HK\$113,000,000).

LETTER FROM THE BOARD

- d. Shanghai Jinpu Town Development, Shanghai Jinpu Town Development agreed to subscribe for 50,000,000 shares in Henan XLX at a total consideration of RMB200,000,000 (approximately HK\$226,000,000).
- e. Shanghai Jinpu Guotiao, Shanghai Jinpu Guotiao agreed to subscribe for 25,000,000 shares in Henan XLX at a total consideration of RMB100,000,000 (approximately HK\$113,000,000).
- f. Shanghai Xinchu, Shanghai Xinchu agreed to subscribe for 7,910,000 shares in Henan XLX at a total consideration of RMB31,640,000 (approximately HK\$35,753,200).
- g. Shanghai Xinyuan, Shanghai Xinyuan agreed to subscribe for 5,410,000 shares in Henan XLX at a total consideration of RMB21,640,000 (approximately HK\$24,453,200).
- h. Shanghai Xinzheng, Shanghai Xinzheng agreed to subscribe for 16,300,000 shares in Henan XLX at a total consideration of RMB65,200,000 (approximately HK\$73,676,000).
- i. Shanghai Xinzhu, Shanghai Xinzhu agreed to subscribe for 9,500,000 shares in Henan XLX at a total consideration of RMB38,000,000 (approximately HK\$42,940,000).
- j. Zhuhai Hengqin, Zhuhai Hengqin agreed to subscribe for 2,500,000 shares in Henan XLX at a total consideration of RMB10,000,000 (approximately HK\$11,300,000).
- k. CCB, CCB agreed to subscribe for 50,000,000 shares in Henan XLX at a total consideration of RMB200,000,000 (approximately HK\$226,000,000).

LETTER FROM THE BOARD

As at the Latest Practicable Date (and prior to completion of the Investment Agreements), the share capital of and the number of shares in Henan XLX is RMB1,646,355,000 (approximately HK\$1,860,381,150) and 1,646,355,000 shares, respectively, and its shareholding structure is as follows:

Shareholder	Shareholding in Henan XLX
The Company	87.86%
The other six shareholders of Henan XLX (<i>Note</i>)	12.14%
Total	<u>100%</u>

Note: including Ningbo Yuannian which holds approximately 2.46% in Henan XLX

Upon completion of the Investment Agreements, Henan XLX will raise up to RMB1,000 million and its share capital of and number of shares will increase to RMB1,896,355,000 (approximately HK\$2,142,881,000) and 1,896,355,000 shares, respectively. Immediately after completion of the Investment Agreements, the shareholding structure is expected to be as follows:

Shareholder	Shareholding in Henan XLX
The Company	76.27%
Ningbo Yuannian	3.10%
Tonglingshi Lingtong	2.11%
Xiamen Baodarun	1.32%
Shanghai Jinpu Town Development	2.64%
Shanghai Jinpu Guotiao	1.32%
Shanghai Xinchu	0.42%
Shanghai Xinyuan	0.28%
Shanghai Xinzheng	0.86%
Shanghai Xinzhu	0.50%
Zhuhai Hengqin	0.13%
CCB	2.64%
The other existing shareholders of Henan XLX (other than the Company and Ningbo Yuannian)	8.41%
Total	<u>100%</u>

LETTER FROM THE BOARD

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

**Conditions of
the Investments:**

Each of the Investors other than Shanghai Xinchí, Shanghai Xinyuan, Shanghai Xinzheng and Shanghai Xinzú are required to pay their respective consideration within 10 business days after all of the conditions as set out below are satisfied or waived by the respective Investor (as the case may be), and in the case of Shanghai Xinchí, Shanghai Xinyuan, Shanghai Xinzheng and Shanghai Xinzú, each of them are required to pay their respective consideration within 10 business days after condition (1) below is satisfied or waived by the respective Investor (as the case may be):

- (1) (for Investment Agreements with Investors other than CCB) the Board and the shareholders of Henan XLX having respectively passed resolutions approving the Investment Agreements and transactions contemplated thereunder;
- (2) (for Investment Agreement with CCB) the board of directors of the Company and Henan XLX having respectively passed resolutions approving the Investment Agreement and transactions contemplated thereunder;
- (3) 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; and
- (4) the directors, senior management team and core staff of Henan XLX having entered into (i) employment agreements with a term of not less than 5 years; and (ii) non-competition agreements (including confidentiality agreements or competition restriction agreements restricting such personnel from competing with Henan XLX or its subsidiaries within two years after termination of employment) with Henan XLX or its subsidiaries.

As at the Latest Practicable Date, other than condition 1, the above conditions have been fulfilled.

LETTER FROM THE BOARD

Completion: Completion will take place upon payment by the relevant Investor of their respective consideration under the Investment Agreement within 10 business days after all conditions precedent are satisfied or waived by such Investor (as the case may be) and Henan XLX having updated its record with the local Administration for Industry and Commerce.

The completion of any one Investment Agreement is not conditional on the completion of the other Investment Agreements but it is contemplated that completion of such Investment Agreements may take place around the same time.

Termination: The Investment Agreement may be terminated (i) by parties thereto; or (ii) by the relevant Investor if any of the conditions precedent is not satisfied or waived (as the case may be) within 30 days (for CCB) or 90 days (for the other Investors) after the date of the Investment Agreement.

The consideration to be paid by each of the Investor represents a price of RMB4.00 for each share in Henan XLX to be subscribed for by the Investors, is arrived at after arm's length negotiations between parties to the Investment Agreements and took into account primarily:

- the terms of the Previous Investment including an agreed price to earnings multiple of approximately 11 times with reference to the net profit attributable to the owners of Henan XLX in 2018 of approximately RMB665,671,000 (unaudited). For a manufacturer, the price to earnings ratio is a common valuation ratio used by investors. When a price to earnings ratio, as is the case here, is approximately 11 times, it means that the valuation represents approximately 11 times of Henan XLX's earnings in 2018, while the price to earnings ratios of the Company as set out in greater details below are substantially lower; and

LETTER FROM THE BOARD

- the price to earnings ratios of comparable companies engaged in the fertiliser industry, comprising four companies listed on the Stock Exchange and five companies listed on the Shanghai/Shenzhen Stock Exchange as set out below:

Company name (stock code)	PE ^(Note)
<i>Comparable companies listed on the Stock Exchange</i>	
Sinofert Holdings Limited (00297)	12.1
China BlueChemical Ltd. (03983)	7.0
Dongguang Chemical Ltd (01702)	10.7
Century Sunshine Group (0509)	4.6
<i>Comparable companies listed on Shanghai Stock Exchange/Shenzhen Stock Exchange</i>	
Xinyangfeng Agricultural Technology Co Ltd (000902.SZ)	17.4
Shangdong Hualu Hengsheng Chemical Co Ltd (600426.SH)	7.3
Hubei Yihua Chemical Industry Co Ltd (000422.SZ)	10.2
Stanley Agricultural Group Co Ltd (002588.SZ)	27.7
Anhui Sierte Fertilizer Industry Ltd (002538.SZ)	11.7

Note: price to earnings ratio by reference to the net profit attributable to owners in 2018.

In selecting the comparables, the Company has considered the industry in which they engaged (fertiliser and related products), market capitalisation (each comparable having a market capitalisation of at least RMB1 billion on 11 June 2019, being the date of the Investment Agreements except the one with CCB), the audited net profit attributable to owners for the financial year immediately preceding the date of the Investment Agreements (each comparable having such net profit of at least RMB100 million) and the audited net asset value attributable to owners as at the financial year end immediately preceding the date of the Investment Agreements (each comparable having such net asset value of at least RMB1 billion). The Company considers the above companies appropriate comparables.

The issue price of RMB4.0 was considered fair and reasonable by the Directors taking into account that the current price to earnings ratio of approximately 11 times is close to the upper end of the price to earnings ratios of the fertiliser manufacturers listed in Hong Kong (ranging between 4.6 and 12.1 times) and within the range of the price to earnings ratios of those listed in the Shanghai/Shenzhen Stock Exchange (ranging between 7.3 to 27.7 times) and also above the median of the price to earnings ratios of all Hong Kong, Shanghai and Shenzhen listed comparables.

By reference to the closing price of the shares in the Company on the trading day immediately prior to the date of the investment agreements in the Previous Investments and the Investment Agreements, the Company was trading at a price to earnings ratio of approximately 8.50 times with reference to the net profit attributable to its owners in 2017 and approximately 3.7 times with reference to the net profit attributable to its owners in 2018.

LETTER FROM THE BOARD

For ease of reference, the subscription price per share in Henan XLX is also at a premium to the price of RMB3.00 for each share in Henan XLX subscribed for by the investors in the Previous Investment.

Under the Investment Agreements, the Company has undertaken to seven of the Investors (namely those Investors whose ultimate owners/controlling shareholders do not include management or employees of the Group) that:

- (a) for each financial year ending after the completion of such Investment Agreements, 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 such Investment Agreements, unless with the written prior consent of the respective 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 such Investment Agreements, unless with the written prior consent of the respective 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 such Investment Agreements, unless with the written prior consent of the respective Investor, Henan XLX shall not transfer any equity interest held by it in its subsidiaries to any third parties.

Given that the issue price in the current Investments (RMB4.0 per share) is higher than that in the Previous Investment (RMB3.0 per share) but the undertakings and limitations in the Investment Agreements are identical to those in the Previous Investment, the Directors consider such undertakings and limitations fair and reasonable in the context of the Investments, in normal commercial terms and in the interest of the Company and its shareholders as a whole.

Under the Investment Agreement with CCB, CCB is entitled, while it remains as a shareholder of Henan XLX, to appoint a supervisor to Henan XLX.

Financial effect of the Investments on the net asset value and cash position of the Group

Net asset value

As at 31 December 2018, the net asset value of the Group was approximately RMB4.9 billion. Upon completion of the Investment Agreements, Henan XLX will be able to raise RMB1,000 million in aggregate. Based on the estimation of the Board, the net asset value of the Group would be approximately RMB5.9 billion (the Investment is not expected to have any impact on the liabilities of the Group), representing an increase of approximately 20.4% from approximately RMB4.9 billion.

LETTER FROM THE BOARD

Cash position

As at 31 December 2018, the Group's cash and cash equivalent position was approximately RMB346 million. Upon completion of the Investment Agreements, Henan XLX will be able to raise RMB1,000 million in aggregate. Based on the estimation of the Management, assuming completion of the Investment Agreements took place on 31 December 2018, the cash and cash equivalent position of the Group would be approximately RMB1.3 billion, representing an increase of approximately 288.9% from approximately RMB346 million.

Earnings

The total revenue and profit after tax of the Group for the year ended 31 December 2018 were approximately RMB9,194.7 million and approximately RMB655.3 million, respectively. The Investments, if completed, are not expected to significantly change the revenue and earnings base for the Group in the immediate future.

Financial effect of the deemed disposal on the Group

Following completion of the Investment Agreements, the Company's shareholding interest in Henan XLX will be diluted to 76.27%. Hence, Henan XLX will continue to be a subsidiary of the Company. No gain or loss is expected to be accrued to the Group as a result of the transactions under the Investment Agreements.

The application of the proceeds from the Investments

Henan XLX intends to utilize the proceeds from the Investments for repayment of debt, capital investment in its production facility and the improvement of its production lines and as general working capital, details of which are set out below:

Proposed use	Expected amount* <i>(RMB)</i>	Estimated period of use*
Construction of the Phase II production line in Jiujiang Base, Jiangsu Province, as set out in greater details on page 17 below	200,000,000	August to December 2019
Upgrade of the production facility in Henan Base	200,000,000	August to December 2019
Repayment of bank loans	400,000,000	September to October 2019
General working capital, including payment for utilities, purchase of raw materials such as coal and potash	200,000,000	August to December 2019

* *These are estimates by the Company based on the information available as at the Latest Practicable Date and are subject to changes as the circumstances may require.*

LETTER FROM THE BOARD

Financial information on Henan XLX and its subsidiaries

The following are the unaudited financial information on Henan XLX and its subsidiaries for the two years ended 31 December 2017 and 2018 prepared in compliance with the PRC Generally Accepted Accounting Practice:

	For the year ended 31 December	
	2017	2018
	(RMB '000)	(RMB '000)
Net profit before tax	502,204 (approximately HK\$567,491,000)	809,248 (approximately HK\$914,450,000)
Net profit after tax	439,629 (approximately HK\$496,781,000)	700,851 (approximately HK\$791,962,000)
Net assets value	4,104,515 (approximately HK\$4,638,102,000)	4,795,180 (approximately HK\$5,418,553,000)

As at 31 December 2018, the unaudited consolidated net asset of Henan XLX is approximately RMB4.8 billion.

INFORMATION ON THE GROUP AND THE INVESTORS

The Group is principally engaged in 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 87.86% owned subsidiary of the Company as at the Latest Practicable Date and is principally engaged in research and development, manufacturing, sales and trading of urea, compound fertilisers, methanol, dimethyl ether, melamine and related differentiated products.

LETTER FROM THE BOARD

Of the 11 Investors, the ultimate owners/controllers of seven Investors, namely Ningbo Yuannian, Tonglingshi Lingtong, Xiamen Baodarun, Shanghai Jinpu Town Development, Shanghai Jinpu Guotiao, Zhuhai Hengqin and CCB, are Independent Third Parties that do not include members of management or employees of the Group. Xiamen Baodarun is a partnership managed and wholly-owned by Xiamen ITG Group Corp., Ltd. (a company listed on the Shanghai Stock Exchange). CCB is a wholly-owned subsidiary of China Construction Bank Corporation (a company listed both on the Shanghai Stock Exchange and in Hong Kong). Shanghai Jinpu Town Development is ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Shanghai Municipal Government. Shanghai Jinpu Guotiao is a partnership managed by GP Innovation Capital Co., Ltd.* (上海金浦創新股權投資管理有限公司, a company controlled by the State-owned Assets Supervision and Administration Commission of the Shanghai Municipal Government) and Shanghai Duotian Enterprises Management Centre (Limited Partnership)* (上海垛田企業管理中心(有限合夥)) and the single largest equity owner, China Structural Reform Fund Corporation Limited* (中國國有企業結構調整基金股份有限公司), holds 21.67%. Ningbo Yuannian is a partnership managed by Xu Zhenhua and the single largest equity owner, Huang Yu, holds 31.15%. Zhuhai Hengqin is a partnership managed by Shenzhen Qianhai Renhe Fund Management Co., Ltd* (深圳市前海仁禾基金管理有限公司) and the single largest equity owner, Liu Lanying, holds 58%. Tonglingshi Lingtong is ultimately owned by Xie Tongbao. Each of the Investor is an Independent Third Party. CCB is principally engaged in the business of debt for equity swap, related fund raising and issue of financial instruments for debt for equity swap purposes. Tonglingshi Lingtong is principally engaged in the wholesale and retail of diesel and liquid natural gas and is a long-term customer of Henan XLX. The other Investors are principally engaged in, among other things, equity investment.

The remaining four Investors are Shanghai Xinzu, Shanghai Xinchu, Shanghai Xinyuan and Shanghai Xinzheng, all of whom are relatively new partnerships set up in connection with the Investments. The ultimate equity owners of these four Investors as at the Latest Practicable Date include directors and other employees of the Group, and in the case of:

- Shanghai Xinzu, Mr. Liu, Ms. Yan and Mr. Zhang, all of whom are directors of the Company, holds approximately 10.53%, 6.32% and 5.26% of the equity interests in Shanghai Xinzu, respectively, eight directors of the subsidiaries of the Company hold in aggregate approximately 58.32% of the equity interests in Shanghai Xinzu and the remaining 19.58% is held by five senior management of the Group. The single largest equity owner of Shanghai Xinzu holds approximately 15.79% equity interests;
- Shanghai Xinchu, four directors of the subsidiaries of the Company hold in aggregate approximately 9.73% of the equity interests in Shanghai Xinchu and the remaining 90.27% is held by 32 employees of the Group. The single largest equity owner of Shanghai Xinchu holds approximately 6.70% equity interests;
- Shanghai Xinyuan, two directors of the subsidiaries of the Company hold in aggregate approximately 9.24% of the equity interest in Shanghai Xinyuan and the remaining 90.76% is held by 24 employees of the Group. The single largest equity owner of Shanghai Xinyuan holds approximately 14.79% equity interests; and

LETTER FROM THE BOARD

- Shanghai Xinzheng, four directors of the subsidiaries of the Company hold in aggregate approximately 15.83% of the equity interest in Shanghai Xinzheng and the remaining 84.17% is held by 45 employees of the Group. The single largest equity owner of Shanghai Xinzheng holds approximately 12.33% equity interests.

Save for Mr. Liu who holds 600,000 shares in the Company directly and 413,007,999 shares through Pioneer Top and Ms. Yan who holds 300,000 shares in the Company directly and 276,465,000 shares through Go Power, as at the Latest Practicable Date, none of the equity owners of these four Investors (i) individually hold 30% or more of such Investors; or (ii) hold any shares in the Company directly or through their respective close associates.

With respect to CCB, it is a wholly-owned subsidiary of China Construction Bank Corporation and is a fellow subsidiary of a 11.9% shareholder of a subsidiary of the Company. Therefore, CCB is an associate of a connected person of the Company at subsidiary level. As such, the Investment Agreement with CCB constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Having said that, the transaction contemplated under such Investment Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 because the Board has approved such transactions and the Independent Board Committee has confirmed as set out below that the terms of the Investment Agreement with CCB are fair and reasonable, the transaction contemplated thereunder is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the Investors, and their respective holding company, ultimate beneficial owners, general partners, limited partners and fund managers (as applicable) is an Independent Third Party.

REASONS FOR AND BENEFITS OF ENTERING INTO THE INVESTMENT AGREEMENTS

Following completion of the Previous Investment in November 2018, the Group has started to construct 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 and with a total estimated investment of approximately RMB4.2 billion. As at the date of the Announcement, the proceeds from the Previous Investment were used up by the Group. In addition, as disclosed in the 2018 interim report of the Company, the Group plans to establish a new advanced coal gasification production line for the production of urea in its chemical park in Henan after the closure of its obsolete urea production line in the end of 2018.

The Directors believe that the Investments can bring additional capital into the Group which may be deployed to further develop and strengthen the existing business of the Group. In addition, the Investments provide good opportunities for the Group to broaden its capital raising channels by introducing new investors into the Group as strategic investors and to align the long-term interests between the Group and its senior management term/employees. On the other hand, other financing methods, such as placing, open offer or rights issue by the Company have not been considered in light of (i) the continuous volatility in stock markets; and (ii) the relatively low trading volume and

LETTER FROM THE BOARD

trading price of the shares in the Company, and the Directors consider fund raising by way of debt financing is not desirable because (i) borrowing in such a large amount will substantially increase the amount of interest-bearing indebtedness of the Group by approximately 20% as compared to the total interest-bearing indebtedness of the Group as at 31 May 2019 and adversely affect the gearing position of the Group; and (ii) the terms, including interest rate, of such borrowing, if available, may not be favorable and/or affordable to the Group.

In view of the above, the Directors believe that the terms of the Investment Agreements are fair and reasonable and the Investments are in the interests of the Company and its Shareholders as a whole.

LISTING RULE IMPLICATIONS

The dilution of the Company's shareholding interest from 87.86% to, possibly, as low as 76.27% will constitute a deemed disposal by the Company pursuant to Rule 14.29 of the Listing Rules. As the highest percentage ratio (assuming completion of all of the Investment Agreements) exceeds 25% but is below 75%, this deemed disposal pursuant to the Investment Agreements constitutes a major transaction for the Company subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As set out above, the Investment Agreement with CCB constitutes a connected transaction of the Company with a connected person at the subsidiary level and meets the criteria under Rule 14A.101 of the Listing Rules, therefore such Investment Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, some of the equity owners of four of the Investors include directors of the Company (namely, Mr. Liu, Ms. Yan and Mr. Zhang) and others who are directors of the Company's subsidiaries. As set out above, none of such directors individually controls 30% or more of the relevant investment vehicles who participate as Investors and therefore, such Investors are not close associates of any of the connected persons of the Company. As a result, given such interests of Mr. Liu, Ms. Yan and Mr. Zhang in Shanghai Xinzu and so as to avoid a perception of a conflict of interest, each of them has agreed to voluntarily abstain and shall procure their respective close associates (including Pioneer Top and Go Power) not to vote at the EGM in respect of the relevant resolution to approve the Investment Agreement with Shanghai Xinzu where they have an equity interest. As at the Latest Practicable Date, the number of shares of the Company which will not vote at the EGM is 690,372,999 shares which comprises approximately 58.92% of the total shares of the Company.

The Independent Board Committee, comprising Mr. Ong Kian Guan, Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Li Hongxing, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the Investments. An independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Investments.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 August 2019 to 21 August 2019, both dates inclusive, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 15 August 2019.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 20 of this circular; and (ii) the letter from the Independent Financial Adviser set out on pages 21 to 43 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in connection with the Investment Agreements and the transactions contemplated thereunder.

The Directors (including the Independent Board Committee) consider that (i) the transaction contemplated under the Investment Agreement with CCB is on normal commercial terms or better; and (ii) the terms of the Investment Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Investment Agreements and the transactions contemplated thereunder.

Completion of the Investment Agreements is subject to the fulfillment of certain conditions, therefore the Investments may or may not proceed. As such, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares of the Company.

Your attention is also drawn to the additional information set out in the appendixes to this circular.

Yours faithfully,
By order of the Board
China XLX Fertiliser Ltd.
Liu Xingxu
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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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)

(Company Registration No. 200610384G)

(Hong Kong Stock Code: 1866)

31 July 2019

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION

**(1) RAISING OF UP TO RMB1 BILLION BY HENAN XLX; AND
(2) DEEMED DISPOSAL OF EQUITY INTEREST IN HENAN XLX**

We refer to the circular of the Company to the Shareholders dated 31 July 2019 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to consider and to give recommendation to the Independent Shareholders on the Investment Agreements and the transactions contemplated thereunder. We wish to draw your attention to the letter from the Board set out on pages 6 to 19 of the Circular and the letter from the Independent Financial Adviser set out on pages 21 to 43 of the Circular.

Having considered the factors and reasons considered by and the opinion of the Independent Financial Adviser as stated in its letter, we are of the view that (i) the transaction contemplated under the Investment Agreement with CCB is on normal commercial terms or better; and (ii) terms of the Investment Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions approving the Investment Agreements and the transactions contemplated thereunder at the EGM.

Yours faithfully,

Independent Board Committee

Mr. Ong Kian Guan
Independent
non-executive Director

Mr. Ong Wei Jin
Independent
non-executive Director

Mr. Li Shengxiao
Independent
non-executive Director

Mr. Li Hongxing
Independent
non-executive Director

** for identification purpose only*

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Altus Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Investments contemplated under the Investment Agreements, which have been prepared for the purpose of incorporation in this circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

31 July 2019

To the Independent Board Committee and the Independent Shareholders

China XLX Fertiliser Ltd.

20/F Alexandra House
18 Chater Road
Central
Hong Kong

Dear Sir or Madam,

MAJOR TRANSACTION

(1) RAISING OF UP TO RMB1 BILLION BY HENAN XLX; AND (2) DEEMED DISPOSAL OF EQUITY INTEREST IN HENAN XLX

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the major transaction (i) raising of up to RMB1 billion by Henan XLX; and (ii) deemed disposal of equity interest in Henan XLX (the “**Transaction**”). Details of the Transaction are set out in the “Letter from the Board” contained in the circular of the Company dated 31 July 2019 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 11 June 2019, the Company and its subsidiary, Henan XLX, entered into the Investment Agreements with each of the 10 Investors and the MOU with CCB which, if proceeded with to completion, could raise RMB1 billion for Henan XLX.

On 22 July 2019, the Company and Henan XLX entered into the Investment Agreement with CCB.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Henan XLX was held as to 87.86% by the Company and the remaining 12.14% was held by six other shareholders, all of whom are Independent Third Parties. Following completion of the Investment Agreements including the one with CCB which was signed on 22 July 2019, the Company's shareholding interest in Henan XLX will be diluted to 76.27%.

LISTING RULE IMPLICATIONS

The dilution of the Company's shareholding interest from approximately 87.86% to approximately 76.27% in its subsidiary, Henan XLX, will constitute a deemed disposal by the Company pursuant to Rule 14.29 of the Listing Rules.

As the highest percentage ratio (assuming completion of all of the Investment Agreements) exceeds 25% but is below 75%, this deemed disposal pursuant to the Investment Agreements also constitutes a major transaction for the Company subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As set out in the paragraph headed "5.1 Information of the Investors" below, the Investment Agreement with CCB constitutes a connected transaction of the Company with a connected person at the subsidiary level and meets the criteria under Rule 14A.101 of the Listing Rules, therefore such Investment Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, some of the equity owners of four of the Investors include directors of the Company (namely Mr. Liu, Ms. Yan and Mr. Zhang) and others who are directors of the Company's subsidiaries. None of such directors individually controls 30% or more of the relevant investment vehicles who participate as Investors and therefore, such Investors are not close associates of any of the connected persons of the Company. As a result, given such interests of Mr. Liu, Ms. Yan and Mr. Zhang in Shanghai Xinzu and so as to avoid a perception of a conflict of interest, each of them has agreed to voluntarily abstain and shall procure their respective close associates (including Pioneer Top and Go Power) not to vote at the EGM in respect of the resolution to approve the relevant Investment Agreement with Shanghai Xinzu where they have an equity interest in. As at the Latest Practicable Date, the number of shares which would not vote at the EGM were 690,372,999 shares, representing approximately 58.92% of the total shares of the Company.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ong Kian Guan, Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Li Hongxing, has been established to advise the Independent Shareholders in relation to the Investments on (i) whether the transaction contemplated under the Investment Agreement with CCB is on normal commercial terms or better; (ii) whether the terms of the Investment Agreements and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to be proposed at the EGM, taking into account the recommendation of the Independent Financial Adviser.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the transaction contemplated under the Investment Agreement with CCB is on normal commercial terms or better; (ii) whether the terms of the Investment Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions relating thereto to be proposed at the EGM.

We have not acted as independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Transaction is at market level and not conditional upon successful passing of the resolutions at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed (i) the Investment Agreements and the MOU; (ii) the interim report of the Company for the six months ended 30 June 2018; (iii) the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”); (iv) the unaudited financial information of Henan XLX Group for the year ended 31 December 2018 (the “**2018 Henan XLX Unaudited Financial Information**”); (v) the Circular; and (vi) other information set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any such statements, information, opinions or representations we relied on in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Company and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have considered the following principal factors and reasons:

1. BACKGROUND INFORMATION OF THE GROUP

1.1 Principal activities of the Group

The Group is principally engaged in 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.

1.2 Historical financial information of the Group

Set out below is a summary of the operating results of the Group for each of the year ended 31 December 2017 and 2018 as extracted from the 2018 Annual Report.

	For the year ended/As at 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	9,194,676	7,561,547
Gross profit	2,239,431	1,586,950
Net profit for the year	655,314	423,532
Cash and cash equivalent	346,151	341,270
Net debt	7,965,630	7,564,997
Capital and net debt	11,841,691	10,603,879
Net assets	4,912,799	3,649,954
Gearing ratio	67.3%	71.3%

Source: 2018 Annual Report

Revenue for the year ended 31 December 2018 was approximately RMB9.2 billion, representing an increase of approximately 21.6% from approximately RMB7.6 billion for the year ended 31 December 2017. The increase of revenue was mainly due to the increase of sales volume of compound fertiliser, dimethyl ether and melamine, and higher average selling prices of urea, compound fertiliser and melamine.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Group's profit for the year ended 31 December 2018 was approximately RMB655.3 million, representing an increase of approximately 54.7% over approximately RMB423.5 million in the previous year. Such increase was mainly attributable to the increase in the gross profit margin of urea, and the flexibility of the Group to optimize its product mix after the operation of melamine and dimethyl ether production lines. The increase was partially offset by the increase in selling and distribution expenses, general and administrative expenses, finance costs and income tax expenses by approximately RMB25.1 million, RMB81.1 million, RMB39.5 million and RMB60.6 million respectively.

As at 31 December 2018 and 2017, the Group's cash and cash equivalent was approximately RMB346.2 million and RMB341.3 million respectively. The increase was mainly attributable to (i) the improvement in operations and profitability; and (ii) the funds raised under the Previous Investments (as defined below) in November 2018.

According to the Management, it is the Group's policy to keep the gearing ratio below 90%. Gearing ratio, is net debt divided by the aggregate of total capital and net debt. As at 31 December 2018 and 2017, the Group's gearing ratio was approximately 67.3% and 71.3% respectively. Such improvement was mainly attributable to the increase in equity attributable to the owners of the parent from approximately RMB3.4 billion to RMB3.9 billion due to the increase in profit attributable to owners of the parent, whereas, with the increase of the net debt from approximately RMB7.6 billion to RMB8.0 billion.

The Group's net asset value as at the year ended 31 December 2018 was approximately RMB4,912.8 million, representing an increase of approximately 34.6% when compared with approximately RMB3,650 million in 2017. Such increase was mainly attributable to the reasons mentioned above.

1.3 Outlook of the Group

It is noted that the Group planned to establish a new advanced coal gasification production line for the production of urea in its chemical park in Henan after the closure of its obsolete urea production line in the end of 2018.

According to the Management, the Group planned to promote the implementation of low cost and product differentiation strategies, so as to continue the increase in the Group's sales of high efficiency fertilisers, thereby enhancing the profitability and market competitiveness of the fertiliser products of the Group. The newly-commissioned melamine Phase II production line and coal mine in Xinjiang would further enhance the profitability and risk resistance of the Xinjiang base of the Group.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

With the implementation of the Group's Jiangxi Phase I compound fertilizer project, the Group has established a nationwide layout at an initial stage, which provides a solid foundation for the Company to strengthen and expand going forward.

In order to promote the development of the furfuryl alcohol business, in the fourth quarter of 2018, the Group established a separate unit under Henan Hydrogenpower Energy Co., Ltd., whose main business includes the production and sale of furfuryl alcohol. Meanwhile, Henan Heli Energy Co. Ltd has been acquired through capital injection, and its main business includes furfural and biomass power generation. Following completion of such acquisition on 29 December 2018, the Group established a vertically-integrated value chain for furfural, furfuryl alcohol and biomass power generation, which creates competitiveness for the Group in the new markets.

It is noted that the Group has started to construct 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 and with a total estimated investment of approximately RMB4.2 billion, following completion of the Previous Investment in November 2018.

In November 2018, the Group's subsidiary, Henan XLX, raised RMB600 million through equity fund raising ("the **Previous Investment**"), and brought in strategic shareholders such as Haitong Innovation Securities Investment Co., Ltd. and Ningbo Yuannian, in an effort to broaden its capital raising opportunities and lower the gearing of the Group. According to the Management, approximately 48.3%, 38.3% and 13.4% of the proceeds, representing approximately RMB290.0 million, RMB229.9 million and RMB80.3 million had been used for Jiujiang investment, repayment of debt and general working capital respectively. As at the Latest Practicable Date, proceeds from the Previous Investment were fully utilised by the Group.

Taking into account (i) the stated strategy of the Group, as mentioned above, is to continue to expand its operations with the objective to enhance profitability as well as to better manage its liquidity and debt position; (ii) the financial results of the Group, in particular, the cash position and the gearing ratio; and (iii) the business expansion plan of the Group going forward, the Management believes and we concur that the Investments will enable the Group to achieve the abovementioned objective by adhering to the Group's strategy and development plan.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

2. BACKGROUND INFORMATION OF HENAN XLX GROUP

2.1 Principal activities of Henan XLX Group

Henan XLX is an 87.86% directly owned subsidiary of the Company. Henan XLX Group is principally engaged in research and development, manufacturing, sales and trading of urea, compound fertilisers, methanol, dimethyl ether, melamine and related differentiated products.

As at the Latest Practicable Date, Henan XLX has fully paid registered capital of RMB1,646,355,000.

2.2 Historical financial information of Henan XLX Group

Set out below is a summary of certain key financial information of Henan XLX Group for each of the year ended 31 December 2017 and 2018 as extracted from the 2018 Henan XLX Unaudited Financial Information. The financial information extracted below is prepared in compliance with People's Republic of China Generally Accepted Accounting Practice.

	For the year ended/As at 31 December	
	2018	2017
	RMB '000	RMB '000
Net profit before tax	809,248	502,204
Net profit after tax	700,851	439,629
Net assets	4,795,180	4,104,515

Source: 2018 Henan XLX Unaudited Financial Information

Net profit after tax for the year ended 31 December 2018 was approximately RMB700,851,000, representing an increase of approximately 59.4% from approximately RMB439,629,000 for the year ended 31 December 2017 due to the increase in the gross profit margin for urea and the improvement of products mix in a flexible manner after the commencement of production of melamine and dimethyl ether products.

The net asset value of Henan XLX Group was approximately RMB4.8 billion as at 31 December 2018, representing an increase of approximately 16.8% when comparing to approximately RMB4.1 billion as at 31 December 2017. The increase in net asset value was mainly due to the increase in intangible assets and non-current assets.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

2.3 Future plans of Henan XLX Group

According to the Management, Henan XLX Group will continue to strengthen product research and development and increase the percentage of sales of high efficiency fertilisers, so as to further improve the profitability and market competitiveness of fertiliser products and the profitability of its chemical products. Henan XLX Group will leverage its production advantage in coal gasification to further expand the offering of its coal chemical products, which enables Henan XLX Group to adjust its product mix in a flexible manner according to the profit margin of its fertiliser and chemical products and further enhance its profitability and ability to withstand risks.

Following completion of the Previous Investment, Henan XLX Group has started to construct 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 and with a total estimated investment of approximately RMB4.2 billion.

In addition, a new advanced coal gasification production line is under construction in its chemical park in Henan to replace the Henan Group's first production line which has a designed annual production capacity of 300,000 tons of urea and 100,000 tons of methanol. The new advanced coal gasification production line will commence production in early 2020.

3. REASONS FOR AND BENEFITS OF THE TRANSACTION

As Henan XLX Group has commenced the construction of the Phase II production line in the Jiujiang Base and the proceeds from the Previous Investment were used by the Group, it is the intention of Henan XLX to utilise the proceeds from the Investments for repayment of debt, capital investment in its production facility and the improvement of its production lines and as general working capital, the details of which are set out below:

Proposed use	Expected amount* <i>(RMB)</i>	Estimated period of use*
Construction of the Phase II production line in Jiujiang Base, Jiangsu Province	200,000,000	August to December 2019
Upgrade of the production facility in Henan Base	200,000,000	August to December 2019
Repayment of bank loans	400,000,000	September to October 2019
General working capital, including payment for utilities, purchase of raw materials such as coal and potash	200,000,000	August to December 2019

* These are estimates by the Company based on the information available as at the Latest Practicable Date and are subject to changes as the circumstances may require.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Taking into account:

- (i) the stated strategy of the Group, as mentioned in paragraph headed “1.3 Outlook of the Group” above;
- (ii) the business expansion plan of the Group (including the Henan XLX Group) going forward;
- (iii) the purpose of the Investments is to bring in capital to support the existing and new projects and the operation of the Group, thus stimulating business growth of the Group;
- (iv) the financial results of the Group, in particular, the cash position and the gearing ratio, as mentioned in paragraph headed “1.2 Historical financial information of the Group” above;
- (v) the share price performance and trading volume of the Shares over the past 11 months, as mentioned in paragraph “6.1 Historical Share price vs the consideration per Henan XLX share” below;
- (vi) the Hong Kong stock market has turned sluggish amidst the ongoing Sino-US trade dispute and the increasing geo-political challenges, which in turn, exerts pressure on the share prices of the Company, as mentioned in paragraph “6.2 Historical Share price performance versus the Hang Seng Index” below;
- (vii) the current share price which is lower than the net asset value per Share, as mentioned in paragraph “6.1 Historical Share price vs the consideration per Henan XLX share” below, has restricted the Group’s fund raising ability through the equity market;
- (viii) the Investments will expand the investor base of the Group which serves additional means of raising capital for the Group; and
- (ix) the Transaction will exert a dilution effect of as much as 11.59% to the Company, which however, will not influence the position of the Company being the controlling shareholder of Henan XLX,

the Management believes and we concur that the Investments are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

4. PRINCIPAL TERMS OF THE INVESTMENT AGREEMENTS

4.1 The following summarises principal terms of the Investment Agreement(s):

Investment Agreement(s)

Date: (i) 11 June 2019 (for Investors other than CCB)
(ii) 22 July 2019 (for CCB)

Parties: The Company and Henan XLX with each of: (i) Ningbo Yuannian, (ii) Tonglingshi Lingtong, (iii) Xiamen Baodarun, (iv) Shanghai Jinpu Town Development, (v) Shanghai Jinpu Guotiao, (vi) Shanghai Xinchu, (vii) Shanghai Xinyuan, (viii) Shanghai Xinzheng, (ix) Shanghai Xinzhu, (x) Zhuhai Hengqin and (xi) CCB.

Consideration: Pursuant to the Investment Agreement(s) with:

Investor	Relationship with the Company	Consideration payable for the Investment		Number of Henan XLX shares to be subscribed under the Investment
		RMB	HK\$	
Ningbo Yuannian	Independent Third Party	73,520,000	83,077,600	18,380,000
Tonglingshi Lingtong	Independent Third Party	160,000,000	180,800,000	40,000,000
Xiamen Baodarun	Independent Third Party	100,000,000	113,000,000	25,000,000
Shanghai Jinpu Town Development	Independent Third Party	200,000,000	226,000,000	50,000,000
Shanghai Jinpu Guotiao	Independent Third Party	100,000,000	113,000,000	25,000,000
Zhuhai Hengqin	Independent Third Party	10,000,000	11,300,000	2,500,000
<i>Sub-total</i>		<i>643,520,000</i>	<i>727,177,600</i>	<i>160,880,000</i>
CCB	Associate of a connected person of the Company	200,000,000	226,000,000	50,000,000
Shanghai Xinchu	<i>Note</i>	31,640,000	35,753,200	7,910,000
Shanghai Xinyuan	<i>Note</i>	21,640,000	24,453,200	5,410,000
Shanghai Xinzheng	<i>Note</i>	65,200,000	73,676,000	16,300,000
Shanghai Xinzhu	<i>Note</i>	38,000,000	42,940,000	9,500,000
<i>Sub-total</i>		<i>356,480,000</i>	<i>402,822,400</i>	<i>89,120,000</i>
Total		1,000,000,000	1,130,000,000	250,000,000

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Note: The ultimate equity owners of these Investors as at the Latest Practical Date include directors and other employees of the Group, and in the case of Shanghai Xinzhu, including Mr. Liu, Ms. Yan and Mr. Zhang, all of whom are Directors. Save for Mr. Liu who holds 600,000 Shares directly and 413,007,999 Shares through Pioneer Top and Ms. Yan who holds 300,000 Shares directly and 276,465,000 Shares through Go Power, as at the Latest Practicable Date, none of the equity owners of these Investors (i) individually hold 30% or more of such Investors; or (i) hold any Shares directly or through their respective close associates.

Condition of the Investment: Each of the Investors other than Shanghai Xinchí, Shanghai Xinyuan, Shanghai Xinzheng and Shanghai Xinzhu are required to pay their respective consideration within 10 business days after all of the conditions as set out below are satisfied or waived by the respective Investor (as the case may be), and in the case of Shanghai Xinchí, Shanghai Xinyuan, Shanghai Xinzheng and Shanghai Xinzhu, each of them are required to pay their respective consideration within 10 business days after condition (1) below is satisfied or waived by the respective Investor (as the case may be):

- (1) (for Investment Agreements with Investors other than CCB) the Board and the shareholders of the Company and Henan XLX having respectively passed resolutions approving the Investment Agreements and transactions contemplated thereunder;
- (2) (for Investment Agreement with CCB) the Board and Henan XLX having respectively passed resolution approving the Investment Agreement and transaction contemplated thereunder;
- (3) 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; and
- (4) the directors, senior management team and core staff of Henan XLX having entered into (i) employment agreements with a term of not less than 5 years; and (ii) non-competition agreements (including confidentiality agreements or competition restriction agreements restricting such personnel from competing with Henan XLX or its subsidiaries within two years after termination of employment) with Henan XLX or its subsidiaries.

As at the Latest Practicable Date, other than condition 1, the above conditions have been fulfilled.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- Completion: Completion will take place upon payment by the relevant Investor of their respective consideration under the Investment Agreement within 10 business days after all conditions precedent are satisfied or waived by such Investor and Henan XLX having updated its record with the local Administration for Industry and Commerce.
- The completion of any one Investment Agreement is not conditional on the completion of the other Investment Agreements but it is contemplated that completion of such Investment Agreements may take place around the same time.
- Termination: The Investment Agreement may be terminated (i) by parties thereto; or (ii) by the relevant Investor if any of the conditions precedent is not satisfied or waived within 30 days (for CCB) or 90 days (for other Investors) after the date of the Investment Agreement.
- Undertaking: Under the terms of the Investment Agreements, the Company has undertaken to seven of the Investors (namely those Investors whose ultimate owners/controlling shareholders do not include management or employees of the Group) that:
- (a) for each financial year ending after the completion of such Investment Agreements, 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 such Investment Agreements, unless with the written prior consent of the respective 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 such Investment Agreements, unless with the written prior consent of the respective 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 such Investment Agreements, unless with the written prior consent of the respective Investor, Henan XLX shall not transfer any equity interest held by it in its subsidiaries to any third parties.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Given that the issue price in the current Investments (RMB4.0 per share) is higher than that in the Previous Investment (RMB3.0 per share) but the undertakings and limitations in the Investment Agreements are identical to those in the Previous Investment, the Directors consider such undertakings and limitations fair and reasonable in the context of the Investments, in normal commercial terms and in the interests of the Company and its shareholders as a whole.

Under the Investment Agreement with CCB, CCB is entitled, while it remains as a shareholder of Henan XLX, to appoint a supervisor to Henan XLX.

4.1.1 Section summary

In view of the amount of each Investment, we are of the view that it is normal for the Investors to impose the conditions mentioned above with a view to protect their interests and Henan XLX to provide such conditions with the view to show the management's confidence in the business and future prospects of the Henan XLX Group.

As Shanghai Xinchu, Shanghai Xinyuan, Shanghai Xinzheng and Shanghai Xindu are related to the directors and other employees of the Group, we are of the view that it is reasonable for the undertaking to be provided to the other seven Investors. In addition, we believe that this is intended to incentivise the Investors to invest in Henan XLX, an unlisted company. Taking into account the reasons for and benefits of the Transaction as mentioned above, we are of the view that the provision of the undertaking is fair and reasonable.

We noted that save as mentioned above, the other terms and conditions under the Investment Agreements are identical to all the 11 Investors. In other words, the terms enjoyed by those four Investors, who are related to the directors and other employees of the Group, are no more favourable than those seven Investors who are Independent Third Parties.

In view of the above, we are of the view that the Investment Agreements and the terms and conditions thereunder (including the undertakings and limitations set out above) are fair and reasonable as far as the Independent Shareholders are concerned, in normal commercial terms and in the interests of the Company and its shareholders as a whole.

4.2 Basis of consideration

The number of shares in Henan XLX to be subscribed for by each of the Investors was reached based on their own discretion.

The consideration to be paid by each of the Investor represents a price of RMB4.00 for each share in Henan XLX. According to the Management, such price was arrived at after arm's length negotiations between the Company, Henan XLX and the Investors and took into account, among others, (i) an agreed price to earnings multiple of approximately 11 times

LETTER FROM INDEPENDENT FINANCIAL ADVISER

with reference to the unaudited net profit attributable to the owners of Henan XLX in 2018 of approximately RMB665,671,000; and (ii) the financial performance of Henan XLX in 2018, in particular, its profitability.

We noted that the subscription price per share of Henan XLX of RMB4.00 representing a premium of approximately 33.3% to the subscription price per share of Henan XLX of RMB3.00 under the Previous Investment. Such increase in subscription price was partly attributable to the continuous improvement in the profitability of Henan XLX Group from approximately RMB440 million for the year ended 31 December 2017 to approximately RMB701 million for the year ended 31 December 2018, a year-on-year growth of approximately 59.4%.

We noted that, by reference to the closing price of the Shares for the trading day immediately prior to the date of the Investment Agreements, the Company was trading at a price to earnings multiple of approximately 3.7 times with reference to the net profit attributable to its owners for the year ended 31 December 2018.

To assess the fairness and reasonableness of the subscription price per share of Henan XLX, we have conducted a comparable analysis through identifying listed companies on the Stock Exchange and on the Shanghai Stock Exchange/Shenzhen Stock Exchange, being the domestic securities exchanges in the PRC, where Henan XLX is located and operating. In selecting the comparable companies, we have set out certain selection criteria by reference to the financial performance of Henan XLX Group for the year ended 31 December 2018, the details of which are set out in the below:

- (1) the comparable company should be primarily engaged in the manufacturing, sales and trading of urea, fertilisers, methanol, dimethyl ether, melamine and/or related products;
- (2) the comparable company has a market capitalisation on the date of the Investment Agreements exceeding RMB1.0 billion (equivalent to HK\$1.13 billion);
- (3) the comparable company has the latest audited net profit attributable to owners during the financial year immediately before the date of the Investment Agreements exceeding RMB100.0 million (equivalent to HK\$113.0 million); and
- (4) the comparable company has the latest audited net asset value attributable to owners during the financial year immediately before the date of the Investment Agreements exceeding RMB1.0 billion (equivalent to HK\$1.13 billion).

Based on the abovementioned selection criteria, we have identified four comparable companies listed on the Stock Exchange and five comparable companies listed on the Shenzhen/Shanghai Stock Exchange. Since Henan XLX is a major operating subsidiary of the Group, contributing over 90% of the Group's revenue and profit, we have also included the Company for comparison. These nine companies together with the Company comprise the group of comparables (the "**Comparables**"). We believe the identified Comparables listed below to be exhaustive and is sufficient for us to form a view on the reasonableness of the consideration.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As the subscription price per share of Henan XLX was determined by reference to the price to earnings ratio based on the net profit attributable to the owners in 2018 (“PE”), we have calculated the PE of the Comparables. Since manufacturing operation tends to have substantial amount of assets, we have also calculated the price to net asset value (“PB”) of the Comparables for comparison purpose. Set out below are the PEs and PBs of the Comparables compared with Henan XLX based on the current subscription price of RMB4.00 per Henan XLX share:

Company name (stock code)	Market capitalisation (HK\$' billion)	PE	PB
<i>Comparable companies listed on the Stock Exchange</i>			
Sinofert Holdings Limited (00297)	6.3	12.1	0.8
China BlueChemical Ltd. (03983)	10.9	7.0	0.6
Dongguang Chemical Ltd (01702)	1.2	10.7	1.0
Century Sunshine Group (0509)	1.1	4.6	0.3
The Company (1866)	2.2	4.1	0.5
<i>Comparable companies listed on Shanghai Stock Exchange/Shenzhen Stock Exchange</i>			
Xinyangfeng Agricultural Technology Co Ltd (000902.SZ)*	16.1	17.4	2.2
Shangdong Hualu Hengsheng Chemical Co Ltd (600426.SH)*	24.9	7.3	1.8
Hubei Yihua Chemical Industry Co Ltd (000422.SZ)*	3.1	10.2	1.4
Stanley Agricultural Group Co Ltd (002588.SZ)*	6.0	27.7	1.2
Anhui Sierte Fertilizer Industry Ltd (002538.SZ)*	4.0	11.7	1.0
Henan XLX immediately following completion of the Investment Agreements	8.6	11.3	1.6
High	24.9	27.7	2.2
Low	1.1	4.1	0.3
Median	5.0	10.5	1.0

* For the market capitalisation of Comparables companies listed on Shanghai Stock Exchange/Shenzhen Stock Exchange had been converted to Hong Kong dollars for illustration purpose.

As shown in the table above, the PE of the Comparables range from approximately 4.1 times to approximately 27.7 times, and the PB of such Comparables range from approximately 0.3 time to approximately 2.2 times.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Since the current PE and PB of Henan XLX (i) fall within the range and above median of PEs and PBs of the Comparables; and (ii) substantially higher than the current trading PE and PB of the Company; we are of the view that the consideration determined for the Henan XLX shares under the Transaction is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

4.4 Shareholding impact of the Investments on Henan XLX

Prior to completion of the Investment Agreements, the share capital of and the number of shares in Henan XLX is RMB1,646,355,000 (approximately HK\$1,860,381,150) and 1,646,355,000 shares, respectively. Upon completion of the Investment Agreements, Henan XLX will raise up to RMB1,000 million and its share capital of and number of shares will increase to RMB1,896,355,000 (approximately HK\$2,142,881,000) and 1,896,355,000 shares, respectively.

The shareholding structure of Henan XLX as at the Latest Practicable Date, immediately upon completion of the Investment Agreements is set out in the table below:

Shareholder	Percentage shareholding in Henan XLX as at the Latest Practicable Date		Percentage shareholding in Henan XLX immediately after completion of the Investment Agreements	
	<i>No of shares</i>	<i>%</i>	<i>No of shares</i>	<i>%</i>
	<i>('000)</i>		<i>('000)</i>	
The Company	1,446,355	87.86	1,446,355	76.27
Ningbo Yuannian	40,450	2.46	58,380	3.10
Tonglingshi Lingtong	–	0	40,000	2.11
Xiamen Baodarun	–	0	25,000	1.32
Shanghai Jinpu Town Development	–	0	50,000	2.64
Shanghai Jinpu Guotiao	–	0	25,000	1.32
Shanghai Xinchí	–	0	7,910	0.42
Shanghai Xinyuan	–	0	5,410	0.28
Shanghai Xinzheng	–	0	16,300	0.86
Shanghai Xinzú	–	0	9,500	0.50
Zhuhai Hengqin	–	0	2,500	0.13
CCB	–	0	50,000	2.64
The other existing shareholders of Henan XLX (other than the Company and Ningbo Yuannian)	159,550	9.68	159,550	8.41
Total	1,646,355	100.00	1,896,355	100.00

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the aggregated dilution impact of the Investment Agreements to the Company will be approximately 11.59%, which will not affect the Company's status of being the holding company of Henan XLX.

In light of the background of the Investors as set out in the paragraph headed "5.1 Information of the Investors" below and the benefits which may bring to the Group as set out in the paragraph headed "3. Reasons for and benefits of the Transaction" above, we consider that the dilution impact is acceptable as far as the Independent Shareholders are concerned and that the benefits of the potential operational and financial improvement of Henan XLX Group outweighs the shareholding dilution impact to the Group.

5. INFORMATION ON THE INVESTORS

5.1 Information of the Investors

Ningbo Yuannian, Xiamen Baodarun, Shanghai Jinpu Town Development, Shanghai Jinpu Guotiao and Zhuhai Hengqin are primarily engaged in equity investment, investment management, investment consultancy and asset management. Tonglingshi Lingtong is mainly engaged in the wholesale and retail of diesel and liquid natural gas and is a long term customer of Henan XLX.

CCB is a wholly-owned subsidiary of China Construction Bank Corporation and is a fellow subsidiary of a 11.9% shareholder of a subsidiary of the Company. It mainly engaged in the business of debt for equity swap, related fund raising and issue of financial instruments for debt for equity swap purposes. Therefore, CCB is an associate of a connected person of the Company at subsidiary level. As such, the Investment Agreement with CCB constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Having said that, the transaction contemplated under such Investment Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 because the Board has approved such transactions and the Independent Board Committee has confirmed as set out below that the terms of the Investment Agreement with CCB are fair and reasonable, the transaction contemplated thereunder is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole.

Of the 11 Investors, the ultimate owners/controllers of seven Investors, namely Ningbo Yuannian, Tonglingshi Lingtong, Xiamen Baodarun, Shanghai Jinpu Town Development, Shanghai Jinpu Guotiao, Zhuhai Hengqin and CCB, are Independent Third Parties that do not include members of management or employees of the Group. Xiamen Baodarun is a partnership managed and wholly-owned by Xiamen ITG Group Corp., Ltd. (a company listed on the Shanghai Stock Exchange). CCB is a wholly-owned subsidiary of China Construction Bank Corporation (a company listed both on the Shanghai Stock Exchange and in Hong Kong), Shanghai Jinpu Town Development is ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Shanghai Municipal Government. Shanghai Jinpu Guotiao is a partnership managed by GP Innovation Capital Co., Ltd.* (上海金浦創新股權投資管理有限公司, a company controlled by the State-owned Assets Supervision and Administration Commission of the Shanghai Municipal Government) and Shanghai Duotian Enterprises Management Centre (Limited Partnership*) (上海堃田企業管理中心(有限合夥)) and the single largest equity owner, China Structural Reform Fund Corporation Limited* (中國國有企業結構調整基金股份有限公司),

LETTER FROM INDEPENDENT FINANCIAL ADVISER

holds 21.67%. Ningbo Yuannian is a partnership managed by Xu Zhenhua and the single largest equity owner, Huang Yu, holds 31.15%. Zhuhai Hengqin is a partnership managed by Shenzhen Qianhai Renhe Fund Management Co., Ltd* (深圳市前海仁禾基金管理有限公司) and the single largest equity owner, Liu Lanying, holds 58%. Tonglingshi Lingtong is ultimately owned by Xie Tongbao. Each of the Investor is an Independent Third Party.

The remaining four Investors are Shanghai Xinzu, Shanghai Xinch, Shanghai Xinyuan and Shanghai Xinzheng, all of whom are relatively new partnerships set up in connection with the Investments and the ultimate equity owners of these Investors as at the Latest Practicable Date include directors and other employees of the Group and in the case of:

- Shanghai Xinzu, Mr. Liu, Ms. Yan and Mr. Zhang, all of whom are directors of the Company, holds approximately 10.53%, 6.32% and 5.26% of the equity interests in Shanghai Xinzu, respectively, eight directors of the subsidiaries of the Company hold in aggregate approximately 58.32% of the equity interests in Shanghai Xinzu and the remaining 19.58% is held by five senior management of the Group. The single largest equity owner of Shanghai Xinzu holds approximately 15.79% equity interests;
- Shanghai Xinch, four directors of the subsidiaries of the Company hold in aggregate approximately 9.73% of the equity interests in Shanghai Xinch and the remaining 90.27% is held by 32 employees of the Group. The single largest equity owner of Shanghai Xinch holds approximately 6.70% equity interests;
- Shanghai Xinyuan, two directors of the subsidiaries of the Company hold in aggregate approximately 9.24% of the equity interest in Shanghai Xinyuan and the remaining 90.76% is held by 24 employees of the Group. The single largest equity owner of Shanghai Xinyuan holds approximately 14.79% equity interests; and
- Shanghai Xinzheng, four directors of the subsidiaries of the Company hold in aggregate approximately 15.83% of the equity interest in Shanghai Xinzheng and the remaining 84.17% is held by 45 employees of the Group. The single largest equity owner of Shanghai Xinzheng holds approximately 12.33% equity interests.

According to the Management, the main business that may be carried out by such four Investors in the future cover management and business consultancy, market research, information technology development and services as well as e-commerce.

Save for Mr. Liu who holds 600,000 shares in the Company directly and 413,007,999 shares through Pioneer Top and Ms. Yan who holds 300,000 shares in the Company directly and 276,465,000 shares through Go Power, as at the Latest Practicable Date, none of the equity owners of these four Investors (i) individually hold 30% or more of such Investors; or (ii) hold any shares in the Company directly or through their respective close associates.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

5.2 Section summary

According to the Management that, seven of the Investors other than Tonglingshi Lingtong are experienced in financial industry and possess profound knowledge of equity investment and extensive network of peer financial institutions.

On the other hand, according to the Management, Tonglingshi Lingtong is a downstream customer of Henan XLX, and has established long-term business relationship with Henan XLX. The Transaction may be able to improve the business relationship between Tonglingshi Lingtong and Henan XLX and enable the Group to further explore the potential downstream market opportunities.

Taking into account the above, the Management believes and we concur that the Group (including the Henan XLX Group) may benefit from the expanding and more diversified funding channels brought in by such Investors, which will support the development of the business of the Group (including the Henan XLX Group).

As to the remaining four Investors that include the management and employees of the Group (the “**Management Investors**”), their Investments reflect their confidence in the future prospects of the Group (including the Henan XLX Group). The Management believes and we concur that the execution of the Investments will further align the interests between the Management Investors and the Group (including the Henan XLX Group), which will motivate those Management Investors to strive for the long-term growth of the business and profitability of the Group (including the Henan XLX Group).

CCB is an operating unit of China Construction Bank, the largest commercial bank in the PRC with a market capitalisation of approximately HK\$1,490.6 billion as at the Latest Practicable Date. Through the Investment made by CCB, the shareholder base of Henan XLX will be further solidified and enhanced with such institutional shareholder together with the strategic investors such as Haitong Innovation Securities Investment Co., Ltd. and Ningbo Yuannian under the Previous Investment.

In view of the above, the Management believes and we concur that the Investments are in the interests of the Company and the Shareholders as a whole.

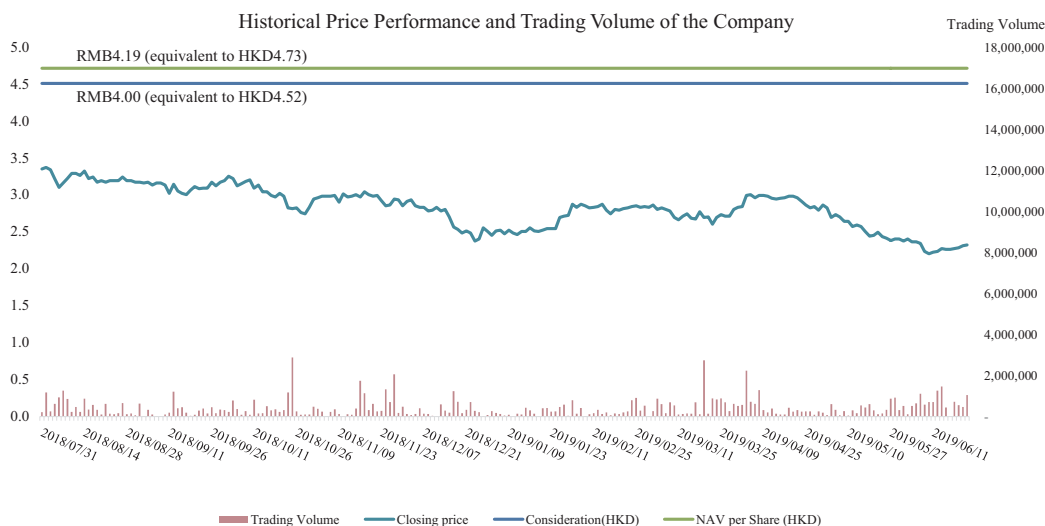
6. HISTORICAL PRICE PERFORMANCE AND TRADING VOLUME OF THE SHARES

6.1 Historical Share price vs the consideration for each Henan XLX share

As Henan XLX is not listed, and the Company is its holding company, we have compared the consideration for each Henan XLX share under the Investments with the closing price per share in order to assess the fairness and reasonableness of the consideration for each Henan XLX share.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

We have taken into account the closing price of shares from 31 July 2018 (being the date of entering into the subscription agreement for the Previous Investment) up to and including the last trading day prior to the date of entering into the Investment Agreements (the “**Review Period**”). The chart below illustrates the daily closing price per share for the Review Period.



Source: HKEx website

During the Review Period, the shares have been traded between HK\$2.21 (the lowest closing price per share recorded on 10 June 2019) and HK\$3.01 (the highest closing price per share recorded on 17 September 2019). During the same period under review, the average trading volume was approximately 409,664 shares, representing approximately 0.03% of the total number of shares in issue.

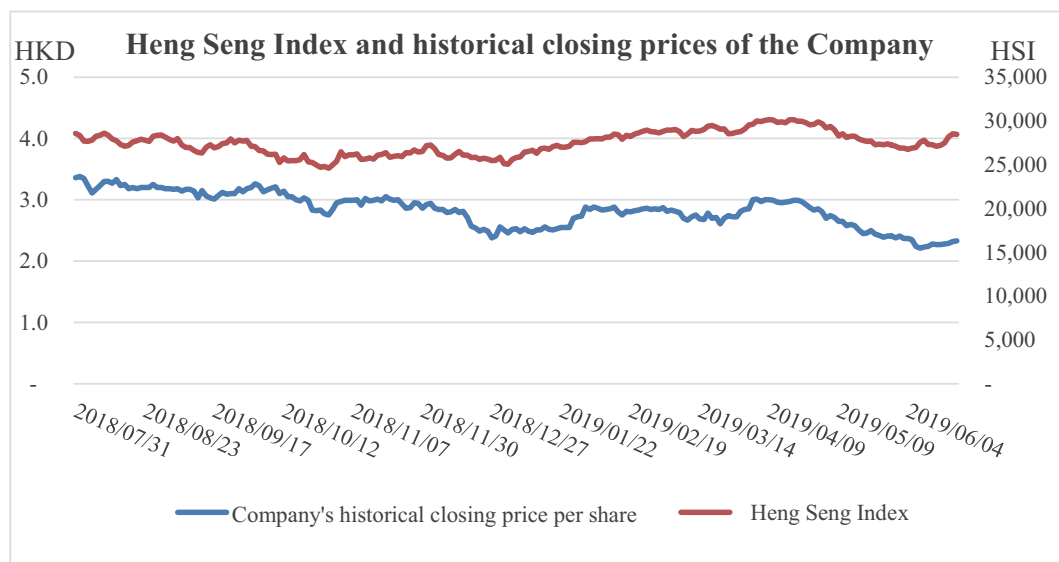
It is also noted that the shares were trading below:

- (i) the audited net asset value per Share of approximately RMB4.19 (approximately HK\$4.73) as at 31 December 2018; and
- (ii) the consideration per Henan XLX share of RMB4.00 (approximately HK\$4.52) under the Transaction.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

6.2 Historical Share price performance vs Hang Seng Index

The following chart illustrates the closing price performance of the shares against Hang Seng Index during the Review Period:



Source: HKEx website

As shown on the chart above, we noted that the price movement of the shares during the Review Period generally echoed that of the Hang Seng Index. The Hang Seng Index continued its declining trend with continuous fluctuations in the second half of 2018 and recorded a rebound in early 2019 due to the reaction towards stabilised US interest rates as well as the developments of the US-China trade talks. It recorded its lowest level of the year at 25,064.36 on 3 January 2019 and highest level at 30,157.49 on 9 April 2019.

It is also noted the Hong Kong stock market has turned sluggish amidst the ongoing Sino-US trade dispute and the increasing geo-political challenges, which in turn, exerts pressure on the share prices of the Company.

Having considered the above factors, we are of the view that (a) the consideration for each Henan XLX share of RMB4.00 (approximately HK\$4.52) under the Transaction (i) is higher than the historical closing share price of the Company during the Review Period; and (ii) is close to the Group's audited net asset value per share of approximately RMB4.19 (approximately HK\$4.73) as at 31 December 2018; (b) other financing methods, such as placing, open offer, rights issue, have not been considered in light of (i) the continuous volatility in stock markets; (ii) relatively low trading volume of the Company; and (iii) is not attractive and not in the interest of the Company if issue below net asset value per share and; (c) debt financing is not practicable on the grounds that (i) the Group's policy is to contain its

LETTER FROM INDEPENDENT FINANCIAL ADVISER

gearing ratio below 90%; gearing ratio of the Group was at approximately 67.3% and 71.3% respectively as at 31 December 2018 and 2017; and (ii) under the current financial position of the Group, the terms and/or interest rate of secured borrowing(s) if available may not be favorable and/or affordable to the Group. Hence, the Management is of the view, and we concur that equity fund raising through Henan XLX as compared to the Company is the most appropriate method.

7. POSSIBLE FINANCIAL EFFECTS OF THE TRANSACTION ON HENAN XLX AND THE GROUP

Cash position

As at 31 December 2018, the Group's cash and cash equivalent position was approximately RMB0.3 billion. Upon completion of the Investment Agreements, Henan XLX will be able to raise RMB1,000 million. Based on the estimation of the Management, assuming completion of the Investment Agreements took place on 31 December 2018, the cash and cash equivalent position of the Group would be approximately RMB1.3 billion, representing an increase of approximately 288.9% from approximately RMB0.3 billion.

Gain or loss as a result of the deemed disposal

Following completion of the Investment Agreements, the Company's shareholding interest in Henan XLX will be diluted to 76.27%. Hence, Henan XLX will continue to be a subsidiary of the Company upon the completion of the Investment Agreements. No gain or loss is expected to be accrued to the Group as a result of the Transaction.

Working capital

As stated in the paragraph headed "2. Working capital" in Appendix I to the Circular, it is noted that after due and careful consideration, the Directors are of the opinion that, after taking into account the financial resources presently available to the Group, including the internally generated funds, presently available banking facilities granted to the Group, the Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of the Circular.

It should be noted that the above financial effects are for illustrative purpose only and do not purport to represent the financial position of the Group upon Completion.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

8. RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the transaction contemplated under the Investment Agreement with CCB is on normal commercial terms or better; and (ii) terms of the Investment Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the Investment Agreements and the Transaction contemplated thereunder.

Yours faithfully
For and on behalf of
Altus Capital Limited

Jeanny Leung
Executive Director

Ms. Jeanny Leung (“Ms. Leung”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has about 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial advisor or independent financial advisor in various corporate finance transactions.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 are disclosed in the annual reports of the Company for the years ended 31 December 2016, 2017 and 2018 respectively. These annual reports are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.chinaxlx.com.hk>).

2. WORKING CAPITAL

After taking into account the financial resources available to the Group, including the proceeds from the Investments and the internally generated funds, the Directors, after due and careful enquiry, are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

3. INDEBTEDNESS

As at the close of business on 31 May 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has outstanding indebtedness as summarised below:

Banking borrowings:

- (i) Bank borrowings of approximately RMB370 million were secured by fixed deposits and guaranteed by the Group or related parties of the Group.
- (ii) Bank borrowings of approximately RMB703 million were secured by the plant and machinery of the Group under a finance lease arrangement and were unguaranteed.
- (iii) Bank borrowings of approximately RMB129 million were guaranteed by the Group or related parties of the Group and unsecured.
- (iv) Bank borrowings of approximately RMB4,890 million were unsecured and unguaranteed.

Borrowings from a connected person at subsidiary level:

Borrowings of approximately RMB115 million were from a connected person at subsidiary level which were unsecured and unguaranteed.

Corporate bonds:

Corporate bonds of approximately RMB700 million were unsecured and unguaranteed.

Contingent liabilities

Save for the guarantee as disclosed above, the Group has no other material contingent liabilities.

Saved as aforesaid, and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, bank overdrafts, term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments or other material contingent liabilities outstanding at the close of business on 31 May 2019.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Due to the increasingly stringent environmental protection policies in the PRC, enterprises with obsolete technologies, higher costs and which are unable to comply with the relevant environmental protection standards are being eliminated. With less players in the market, the supply and demand of urea in the PRC is gradually achieving equilibrium and thereby stabilizing the price for urea. Given that national environmental protection policies are expected to be as stringent, if not more stringent, the Group expects that more obsolete production capacity will be driven out of the industry in the future, and the urea industry will be further concentrated.

In view of such factors in the industry, the Group has therefore adopted a lower cost and product differentiation strategy with the aim of also optimising and diversifying its production lines to provide a greater product mix at a lower cost. This is all done with the aim of enhancing the Group's profitability, strengthening risk management and becoming more resilient to industrial changes. Under the context of industry consolidation as set out above and as a result of the Group's efforts on increasing the sales of high efficiency fertilisers and enhancing the Group's ability to adjust its product mix according to the profitability of its products, the Group recorded an increase of approximately 54.7% in its consolidated net profit in 2018 as compared to that in 2017.

For the melamine, coal and compound fertiliser businesses, the Group's success can be demonstrated in the establishment and the smooth operation of the newly-commissioned melamine Phase II production line and coal mine in Xinjiang, and the Group's Jiangxi Phase I compound fertiliser project. These projects not only enhanced the profitability of the Group but also expanded the Group's production footprint, which provides a better foundation from which to improve its operational efficiencies.

For the furfuryl alcohol business, the Group established Henan Hydrogenpower Energy Co., Ltd. whose main business includes the production and sale of furfuryl alcohol, in the fourth quarter of 2018. Such business had been carried out by the furfuryl alcohol business unit of Henan XLX. During the same period, the Company acquired the majority equity interest in Henan Heli Energy Co., Ltd. whose main business includes furfural and biomass power generation. Following completion of such acquisition, the Group established a vertically-integrated value chain for furfural, furfuryl alcohol and biomass power generation, which creates competitiveness for the Group in the new markets.

Apart from product diversification, the Group remains committed to technical innovation and product innovation, and will continue to allocate resources in product research and development, so as to further improve the profitability and market competitiveness of fertiliser products and chemical products. In order to utilize its advanced coal gasification technology, the Group plans to establish a new advanced coal gasification production line for the production of urea in its chemical park in Henan after the closure of its obsolete urea production line in the end of 2018. Further, following completion of the Previous Investment in November 2018, Henan XLX has started to construct 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 and with a total estimated investment of approximately RMB4.2 billion. Henan XLX will leverage its production advantage in coal gasification to further expand the offering of its coal chemical products, which enables Henan XLX to adjust its product mix in a flexible manner according to the profit margin of its fertiliser and chemical products and further enhance its profitability and ability to withstand risks.

As can be seen from the analysis shown in the sections headed “Financial effect of the deemed disposal on the Group. The application of the proceeds from the Investments” and “Reasons for and benefits of entering into the Investment Agreements” in the letter from the Board, it is expected that no gain or loss will be accrued to the Group as a result of the Investments. The Investments can bring additional capital into the Group which may be deployed to further develop, strengthen the existing business of the Group and would also provide good opportunities for the Group to broaden its capital raising channels by introducing new investors into the Group as strategic investors.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executive's interests in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 164 of the Companies Act and Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Position

Name of Directors/chief executive	Number of ordinary shares interested			Approximate percentage of the Company's issued share capital*
	Personal interests	Corporate interests	Total interests	
Mr. Liu	600,000	413,007,999 ⁽¹⁾	413,607,999	35.30%
Ms. Yan	300,000	276,465,000 ⁽²⁾	276,765,000	23.62%
Mr. Ong Kian Guan	100,000	–	100,000	0.01%
Mr. Ma Tongsheng	8,000	–	8,000	0.00%

* The percentage represents the number of issued ordinary shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

(1) These shares were held by Pioneer Top.

(2) These shares were held by Go Power.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Interests of substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, Shareholders who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or had otherwise notified to the Company and the Stock Exchange were as follows:

Name of substantial shareholder	Capacity and nature of interest	Number of ordinary shares and underlying shares interested	Approximate percentage of issued share capital of the Company*
Pioneer Top	Beneficial owner	413,007,999	35.25%
Go Power	Beneficial owner	276,465,000	23.60%
Nitro ⁽¹⁾	Beneficial owner	112,640,000	9.61%
Primavera Capital (Cayman) Fund I L.P.	Interest of controlled corporation	112,640,000	9.61%

* The percentage represents the number of issued ordinary shares interested divided by the number of the Company's issued shares as at the Latest Practicable Date.

(1) Nitro is an investment holding company established in the Cayman Islands and is a wholly-owned subsidiary of Primavera Capital (Cayman) Fund I L.P.

So far as is known to the Directors, as at the Latest Practicable Date, the Company had not been notified by any person who had an interest in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange.

3. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors were not aware that any of them had interests in any business which competed or may compete, either directly or indirectly, with the business of the Group under the Listing Rules.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up).

6. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

Except for the interests of Mr. Liu, Ms. Yan and Mr. Zhang in the Investment Agreement entered into by the Company and Henan XLX with Shanghai Xinzu as disclosed in the section headed "Letter from the Board", none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up) up to the Latest Practicable Date.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding and including the Latest Practicable Date and were or might be material:

- (i) the Investment Agreements;
- (ii) the MOU;
- (iii) the investment agreements for the Previous Investment.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there was no litigation, arbitration or claim of material importance in which the Group is engaged or pending or threatened against the Group.

9. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, save for the interests of Mr. Liu, Ms. Yan and Mr. Zhang in the Investment Agreement entered into by the Company and Henan XLX with Shanghai Xinzu as disclosed in the section headed "Letter from the Board", none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

10. EXPERT AND CONSENT

The following is the qualification of the expert who have given opinion or advice which is contained or referred to in this circular:

Altus Capital	a licensed corporation which is licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) regulated activities under the SFO
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Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Altus Capital was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, Altus Capital did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong for a period of 14 days from the date of this circular:

- (a) the articles of association of the Company;
- (b) the material contracts referred to under the paragraph headed “Material Contracts” in this appendix;
- (c) the written consent as referred to in the paragraph headed “Expert and Consent” in this appendix;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 20 of this circular;
- (e) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 43 of this circular;
- (f) the annual reports of the Company for the two years ended 31 December 2017 and 2018; and
- (g) this circular.

12. MISCELLANEOUS

- (i) The joint secretary of the Company is Ms. Leung Kwan Wai and Ms. Cheok Hui Yee. Ms. Leung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Cheok is a Practising Chartered Secretary and an Associate of The Chartered Secretaries Institute of Singapore.
- (ii) The registered office of the Company is situated at 80 Robinson Road, #02-00, Singapore 068898.
- (iii) The principal place of business of the Company in Hong Kong is situated at 20/F, Alexandra House, 18 Chater Road, Central, Hong Kong.
- (iv) The Company’s Hong Kong Share Transfer Agent and Branch Share Registrar is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (v) In the event of inconsistency, the English text of this circular and the accompanying proxy form shall prevail over their respective Chinese texts.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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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)

(Company Registration No. 200610384G)

(Hong Kong Stock Code: 1866)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of China XLX Fertiliser Ltd. (the “Company”) will be held at the Library, Mezzanine Floor, Grand Hyatt, 1 Harbour Road, Wanchai, Hong Kong on 21 August 2019 at 9:00 a.m., to transact the following businesses:

AS ORDINARY RESOLUTIONS

- (1) “**THAT** the investment agreement entered into by the Company, Henan Xinlianxin Chemicals Group Co., Ltd, (“**Henan XLX**”) and Ningbo Yuannian Hejin Investment Partnership (Limited Partnership) dated 11 June 2019 (the “**Ningbo Yuannian Agreement**”) and a copy of which is marked “A” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one director of the Company (the “**Director**”) be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Ningbo Yuannian Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (2) “**THAT** the investment agreement entered into by the Company, Henan XLX and Tonglingshi Lingtong Trading Company Limited dated 11 June 2019 (the “**Tonglingshi Lingtong Agreement**”) and a copy of which is marked “B” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Tonglingshi Lingtong Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;

** for identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (3) “**THAT** the investment agreement entered into by the Company, Henan XLX and Xiamen Baodarun Investment Partnership (Limited Partnership) dated 11 June 2019 (the “**Xiamen Baodarun Agreement**”) and a copy of which is marked “C” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Xiamen Baodarun Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (4) “**THAT** the investment agreement entered into by the Company, Henan XLX and Shanghai Jinpu Town Development Shares Investment Fund Management Company Limited dated 11 June 2019 (the “**Shanghai Jinpu Town Development Agreement**”) and a copy of which is marked “D” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Shanghai Jinpu Town Development Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (5) “**THAT** the investment agreement entered into by the Company, Henan XLX and Shanghai Jinpu Guotiao Merger Share Investment Fund Partnership (Limited Partnership) dated 11 June 2019 (the “**Shanghai Jinpu Guotiao Agreement**”) and a copy of which is marked “E” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Shanghai Jinpu Guotiao Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (6) “**THAT** the investment agreement entered into by the Company, Henan XLX and Shanghai Xinchu Corporate Management Consultant Partnership (Limited Partnership) dated 11 June 2019 (the “**Shanghai Xinchu Agreement**”) and a copy of which is marked “F” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Shanghai Xinchu Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (7) “**THAT** the investment agreement entered into by the Company, Henan XLX and Shanghai Xinyuan Corporate Management Consultant Partnership (Limited Partnership) dated 11 June 2019 (the “**Shanghai Xinyuan Agreement**”) and a copy of which is marked “G” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Shanghai Xinyuan Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (8) “**THAT** the investment agreement entered into by the Company, Henan XLX and Shanghai Xinzhen Corporate Management Consultant Partnership (Limited Partnership) dated 11 June 2019 (the “**Shanghai Xinzhen Agreement**”) and a copy of which is marked “H” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Shanghai Xinzhen Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (9) “**THAT** the investment agreement entered into by the Company, Henan XLX and Shanghai Xinzu Corporate Management Consultant Partnership (Limited Partnership) dated 11 June 2019 (the “**Shanghai Xinzu Agreement**”) and a copy of which is marked “I” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Shanghai Xinzu Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (10) “**THAT** the investment agreement entered into by the Company, Henan XLX and Zhuhai Hengqin Renhe Tianji Share Investment Fund Partnership (Limited Partnership) dated 11 June 2019 (the “**Zhuhai Hengqin Agreement**”) and a copy of which is marked “J” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the Zhuhai Hengqin Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder”;
- (11) “**THAT** the investment agreement entered into by the Company, Henan XLX and CCB Financial Asset Investment Company Limited dated 22 July 2019 (the “**CCB Agreement**”) and a copy of which is marked “K” and initialized by the chairman of the meeting for the purpose of identification, and the terms and the transactions contemplated thereunder be and are hereby approved and confirmed; and every one Director be and is hereby authorised to take all actions and execute all documents which he or she may deem necessary, desirable or appropriate in order to implement or give effect to the CCB Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements and/or waiver of any terms thereunder.”

By order of the Board
Liu Xingxu
Chairman

Hong Kong, 31 July 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- a. A member entitled to attend and vote at the EGM is entitled to appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- b. The proxy form must be deposited at the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time scheduled for holding the EGM (i.e., not later than 9:00 a.m. on 19 August 2019) or any adjournment thereof.
- c. If the member is a corporation, the instrument appointing a proxy must be executed under its common seal or signed on its behalf by an attorney duly authorised in writing or a duly authorised officer of the corporation.
- d. To ascertain Shareholders' eligibility to attend and vote at the EGM, the Register of Members of the Company will be closed from 16 August 2019 to 21 August 2019 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the EGM, unregistered holders of Shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited (at its address shown in Note b above), for registration no later than 4:30 p.m. on 15 August 2019.
- e. All times and dates referred to in this notice refer to Hong Kong local times and dates.