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CHINA XLX FERTILISER LTD.
中國心連心化肥有限公司*

(Incorporated in Singapore with limited liability)

(Hong Kong Stock Code: 1866)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the "**Board**") of China XLX Fertiliser Ltd. (the "**Company**") is pleased to announce its consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	4,5	**9,194,676**	7,561,547
Cost of sales		**(6,955,245)**	(5,974,597)
Gross profit	4	**2,239,431**	1,586,950
Other income and gains	5	**113,373**	87,594
Selling and distribution expenses		**(508,048)**	(482,909)
General and administrative expenses		**(496,623)**	(415,467)
Other expenses		**(245,657)**	(5,600)
Finance costs	6	**(325,329)**	(285,851)
Profit before tax	7	**777,147**	484,717
Income tax expense	8	**(121,833)**	(61,185)
Profit for the year		**655,314**	423,532
Other comprehensive income			
Available-for-sale investment:			
Change in fair value		**–**	(1,507)
Other comprehensive income for the year		**–**	(1,507)
Total comprehensive income for the year		**655,314**	422,025
Profit attributable to:			
Owners of the parent		**624,932**	397,778
Non-controlling interests*		**30,382**	25,754
		655,314	423,532
Total comprehensive income attributable to:			
Owners of the parent		**624,932**	396,271
Non-controlling interests*		**30,382**	25,754
		655,314	422,025
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted *(RMB cents per share)*	10	**53.34**	33.95

Details of the dividend proposed for the year are disclosed in note 9 to the financial statements.

* According to the announcement of the Company dated November 30, 2018, Henan Xinlianxin Fertilizer Co., Ltd., ("Henan XLX") a subsidiary of the Company, completed the Investment Agreements with Haitong Innovation Securities, Ningbo Yuannian, Vision Avenue Limited and other parties, etc. Henan XLX ceased to be a wholly-owned subsidiary of the Company and became a 87.86% owned subsidiary of the Company. Thus, the total comprehensive income attributable to the non-controlling interests relating to the Company's subsidiary, Henan XLX are for the period from December 1, 2018 to December 31, 2018.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	Group 2018 RMB'000	Group 2017 RMB'000
Non-current assets			
Property, plant and equipment		**9,000,522**	8,607,583
Prepaid land lease payments		**630,606**	381,708
Goodwill		**29,001**	25,361
Coal mining rights		**88,172**	90,684
Available-for-sale investments		**–**	6,708
Equity investment at fair value through profit or loss		**6,708**	–
Prepayments for purchases of items of plant and equipment		**489,348**	135,493
Other assets		**114,318**	–
Deferred tax assets		**83,322**	23,126
Investments in an associate		**95,157**	–
Pledged time deposits		**110,289**	5,388
Prepayments to related companies		**25,635**	13,272
Total non-current assets		**10,673,078**	9,289,323
Current assets			
Due from related companies		**30,384**	2,603
Available-for-sale investments		**–**	37,178
Equity investments at fair value through profit or loss		**37,178**	–
Inventories		**1,066,853**	715,038
Trade and bills receivables	*11*	**331,131**	160,829
Prepayments		**552,404**	457,318
Deposits and other receivables		**431,385**	721,112
Income tax recoverable		**7,022**	14
Derivative financial instruments		**17,719**	–
Pledged time deposits		**148,550**	181,077
Cash and cash equivalents		**346,151**	341,270
Other assets		**13,441**	–
Total current assets		**2,982,218**	2,616,439
TOTAL ASSETS		**13,655,296**	11,905,762
Current liabilities			
Due to related companies		**21,052**	45
Trade payables	*12*	**282,825**	246,701
Bills payable	*13*	**280,105**	423,915
Contract liabilities		**689,951**	795,448
Accruals and other payables		**1,161,845**	723,888
Income tax payable		**20,835**	31,595
Deferred grants		**5,443**	5,943
Loan from a non-controlling interest		**50,500**	24,750
Interest-bearing bank and other borrowings		**2,774,452**	1,646,112
Bond payable		**–**	600,000
Total current liabilities		**5,287,008**	4,498,397
NET CURRENT ASSETS		**(2,304,790)**	(1,881,958)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,368,288**	7,407,365

	Group	
	2018	2017
	RMB'000	*RMB'000*
Non-current liabilities		
Loan from a non-controlling interest	**25,000**	50,500
Interest-bearing bank and other borrowings	**2,568,439**	2,965,015
Deferred grants	**90,190**	93,987
Deferred tax liabilities	**31,573**	36,939
Provision for rehabilitation	**23,836**	–
Accruals and other payables	**23,618**	110,970
Bonds payable	**692,833**	500,000
Total non-current liabilities	**3,455,489**	3,757,411
TOTAL LIABILITIES	**8,742,497**	8,255,808
NET ASSETS	**4,912,799**	3,649,954
Equity attributable to owners of the parent		
Share capital	**1,194,686**	872,579
Convertible bonds	**–**	322,436
Special reserve	**2,433**	–
Statutory reserve fund	**45,753**	327,793
Fair value adjustment reserve	**–**	(1,002)
Other reserve	**2,060,422**	–
Retained profits	**618,520**	1,844,869
	3,921,814	3,366,675
Non-controlling interests	**990,985**	283,279
TOTAL EQUITY	**4,912,799**	3,649,954
TOTAL EQUITY AND LIABILITIES	**13,655,296**	11,905,762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATION INFORMATION

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are primary-listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**"). The registered office of the Company is located at 80 Robinson Road, #02-00, Singapore, 068898. The principal place of business of the Group is located at Xinxiang High Technology Development Zone (Xiaoji Town), Henan Province, the People's Republic of China (the "**PRC**"). The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are mainly manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia, melamine, furfuryl alcohol and ammonia solution.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value, and equity investment at fair value through profit or loss. These financial statements are presented in Renminbi ("**RMB**") and all values in the tables are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2018. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

The nature and the impact of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments are described below:

IFRS 9 Financial Instruments

On 1 January 2018, the Group adopted IFRS 9 Financial Instruments, which is effective for annual periods beginning on or after 1 January 2018.

The Group has applied the changes in accounting policies on a modified retrospective approach. The impact arising from IFRS 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018. The comparative information was prepared in accordance with the requirements of IAS 39.

Classification and measurement

IFRS 9 requires debt instruments requires debt instruments to be measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they do not meet the criteria of FVOCI or amortised cost.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2018.

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. The Group has a mixed business model. Debt instruments that were measured at amortised cost previously are held to collect contractual cash flows, and accordingly measured at amortised cost under IFRS 9 except for bills receivable. The Group elects to measure the bills receivable at FVOCI. For debt instruments that were measured at FVOCI previously, the Group's business model is to hold the debt instrument to collect contractual cash flows and sell, and accordingly measured at FVOCI when it applies IFRS 9. There is no significant impact arising from measurement of these instruments under IFRS 9.

IFRS 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses on initial recognition, to present fair value changes in other comprehensive income.

For equity securities, the Group elects to measure its currently held AFS quoted equity securities at FVPL. As a result of the change in measurement of the Group's quoted equity securities previously measured at FVOCI to FVPL, the fair value adjustment reserve of RMB1,002,000 related to the AFS investment that was previously presented under the fair value adjustment reserve was transferred to retained earnings as at 1 January 2018.

In addition, upon adoption of IFRS 9, the unquoted equity securities previously classified as AFS and recognised at cost less impairment losses were measured at FVPL. There is no significant impact arising from measurement of these instruments under IFRS 9.

Impairment

IFRS 9 requires the Group to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

Upon adoption of IFRS 9, the Group recognised additional impairment on the Group's trade and other receivables of RMB21,365,000 and amount due from related companies carried at amortised cost of RMB876,000 respectively. The additional impairment recognised arising from adoption of IFRS 9 above resulted in a corresponding decrease in retained earnings of RMB5,944,000 as at 1 January 2018.

Tax adjustments

The corresponding tax impact to the Group arising from the adoption of IFRS 9 resulted in an increase in deferred tax assets of RMB3,336,000 and income tax of RMB3,336,000 as at 31 December 2018 and an increase in deferred tax assets of RMB891,000 and retained earnings of RMB891,000 as at 1 January 2018.

The Group has assessed which business model apply to the financial assets held by the Group at 1 January 2018 and has classified its financial instruments into the appropriate categories in accordance with IFRS 9. The effects, before tax impact are as follows:

Financial assets:			**Group**			
Measurement category	**IAS 39 carrying amount on 31 December 2017**	**Re-classifications**	**Re-measurements**	**IFRS 9 carrying amount on 1 January 2018**	**Retained earnings effect on 1 January 2018**	**Fair value reserves effect on 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
FVPL reclassified from FVOCI — quoted equity investments	—	37,178	—	37,178	(1,002)	1,002
Reclassified from AFS unquoted equity investment carried at cost	—	6,708	—	6,708	—	—
FVPL balances, reclassifications and remeasurements at 1 January 2018	—	43,886	—	43,886	(1,002)	1,002
FVOCI — quoted equity investments	37,178	(37,178)	—	—	—	—
FVOCI balances, reclassifications and remeasurements at 1 January 2018	37,178	(37,178)	—	—	—	—

The Company has assessed which business model apply to the financial assets held by the Company at 1 January 2018 and has classified its financial instruments into the appropriate categories in accordance with IFRS 9. The effects, before tax impact are as follows:

Financial assets:			**Company**			
Measurement category	**IAS 39 carrying amount on 31 December 2017**	**Re-classifications**	**Re-measurements**	**IFRS 9 carrying amount on 1 January 2018**	**Retained earnings effect on 1 January 2018**	**Fair value reserves effect on 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
FVPL reclassified from FVOCI — quoted equity investments	—	37,178	—	37,178	(1,002)	1,002
FVPL balances, reclassifications and remeasurements at 1 January 2018	—	37,178	—	37,178	(1,002)	1,002
FVOCI — quoted equity investments	37,178	(37,178)	—	—	—	—
FVOCI balances, reclassifications and remeasurements at 1 January 2018	37,178	(37,178)	—	—	—	—

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 which is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces a new contract cost guidance. Under IFRS 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has applied the changes in accounting policies on a modified retrospective approach.

The Group is in the business of manufacture and trading of urea, compound fertilizer, dimethyl ether melamine, furfuryl alcohol and related products. The key impact of adopting IFRS 15 is detailed as follows:

Variable consideration

The Group provides retrospective rebates to some of its customers if the customers reach a certain threshold of purchase. Such provisions give rise to variable consideration under IFRS 15. The Group previously recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of volume rebates. Under IFRS 15, variable consideration is estimated and is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is subsequently resolved. To estimate the variable consideration to which it will be entitled, the Group applied the "most likely amount method".

Timing of revenue recognition

Sales of urea, compound fertilizer, dimethyl ether I, melamine, furfuryl alcohol and related products are recognised at a point in time when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location and all criteria for acceptance have been satisfied.

The adoption of IFRS 15 does not have a material impact on the revenue recognition.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products, and has five reportable operating segments as follows:

– Manufacturing and sale of urea

– Manufacturing and sale of compound fertiliser

– Manufacturing and sale of Dimethyl ether (DME) and methanol

– Manufacturing and sale of melamine

– Manufacturing and sale of furfuryl alcohol

An analysis by principal activity of contribution to the results is as follows:

For the year ended 31 December 2018	**Urea** *RMB'000*	**Compound fertiliser** *RMB'000*	**DME and methanol** *RMB'000*	**Melamine** *RMB'000*	**Furfuryl alcohol** *RMB'000*	**Others** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Sales to external customers	3,548,835	2,807,396	1,498,798	560,558	522,313	256,776	–	9,194,676
Intersegment sales	562,179	383,783	1,219	–	–	7,423	(954,604)	–
Total revenue	4,111,014	3,191,179	1,500,017	560,558	522,313	264,199	(954,604)	9,194,676
Segment profit	1,091,246	417,691	322,975	293,079	44,183	70,257	–	2,239,431
Interest income								9,188
Unallocated other income and gains								104,185
Unallocated expenses, net								(1,250,328)
Finance costs								(325,329)
Profit before tax								777,147
Income tax expense								(121,833)
Profit for the year								655,314
Other segment information:								
Loss on disposal of items of property, plant and equipment *(note 7)*								3,509
Depreciation of items of property, plant and equipment *(note 7)*								636,406
Amortisation of prepaid land lease payments *(note 7)*								14,120
Amortisation of coal mining rights *(note 7)*								2,512
Capital expenditure*								1,666,977

Year ended 31 December 2017	Urea	Compound fertiliser	Methanol	Melamine	Furfuryl alcohol	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE								
Sales to external customers	2,852,270	2,271,824	684,597	382,546	462,094	908,216	–	7,561,547
Intersegment sales	1,341,358	43,196	3,069	–	–	93,103	(1,480,726)	–
Total revenue	4,193,628	2,315,020	687,666	382,546	462,094	1,001,319	(1,480,726)	7,561,547
Segment result	654,770	314,507	128,807	215,234	43,812	229,820	–	1,586,950
Reconciliation:								
Interest income								10,962
Unallocated other income and gains								76,632
Unallocated expenses								(903,976)
Finance costs								(285,851)
Profit before tax								484,717
Income tax expense								(61,185)
Profit for the year								423,532
Other segment information:								
Gain on disposal of items of property, plant and equipment *(note 5)*								3,216
Depreciation of items of property, plant and equipment *(note 7)*								606,984
Amortisation of prepaid land lease payments *(note 7)*								9,605
Amortisation of coal mining rights *(note 7)*								4,415
Capital expenditure*								1,384,113

* Capital expenditure consists of additions to investment in associates, property, plant and equipment and intangible assets during assets acquired from the acquisition of subsidiaries.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. An analysis of the Group's revenue, other income and gains is as follows:

	2018	2017
	RMB'000	*RMB'000*
REVENUE		
Sale of goods	**9,194,676**	7,561,547
OTHER INCOME AND GAINS		
Bank interest income	**9,188**	10,962
Net income from sales of by-products	**16,292**	25,304
Net income on sale of water and electricity	**33,877**	1,422
Exchange gains	**–**	6,797
Amortisation of deferred grants	**6,933**	7,774
Subsidy income	**16,004**	27,660
Compensation income	**1,189**	4,083
Net rental income	**3,989**	–
Gain on disposal of items of property plant and equipment	**–**	3,216
Others	**6,418**	376
Gain on fair value change of derivative financial instrument	**17,719**	–
Dividends income from equity investments at fair value through profit or loss	**1,107**	–
Share of profits and losses of an associate	**657**	–
Total other income and gains	**113,373**	87,594

6. FINANCE COSTS

The Group's finance costs are analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts, other loans and bonds, wholly repayable within five years	**325,273**	285,766
Interest on government loans	**56**	85
	325,329	285,851

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**6,955,245**	5,974,597
Depreciation of items of property, plant and equipment	**636,406**	606,984
Amortisation of prepaid land lease payments	**14,120**	9,605
Amortisation of coal mining rights	**2,512**	4,415
Minimum lease payments under operating leases:		
Land	**1,990**	1,276
Buildings	**1,120**	2,239
Factories	**4,202**	1,858
	7,312	5,373
Auditors' remuneration	**3,773**	2,666
Employee benefit expenses (including directors' remuneration):		
Salaries and bonuses	**568,193**	523,467
Pension scheme contributions (defined contribution scheme)	**76,849**	73,343
Welfare expenses	**42,864**	29,019
	687,906	625,829
Impairment of trade and other receivables	**22,241**	3,254
Impairment of property, plant and equipment	**188,487**	–
Unrealised exchange (gain)/loss	**27,587**	(6,008)
Realised exchange gain, net	**(763)**	(789)
Loss on disposal of items of property, plant and equipment	**3,509**	–

8. INCOME TAX

The Company is incorporated in Singapore and is subject to income tax at the rate of 17% (2017: 17%) for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The Company's subsidiaries in Mainland China are subject to income tax at the rate of 25% (2017: 25%). In year 2018, three of the subsidiaries were given the New/High Tech Enterprise Award as recognition of their innovation and use of state-of-the-art equipment. This award brought these subsidiaries a tax concession of a lower income tax rate (i.e. 15%) for the year ended 31 December 2018.

The major components of income tax expense for the financial years ended 31 December 2018 and 2017 are:

	2018 ***RMB'000***	2017 *RMB'000*
Current – PRC		
Charge for the year	**182,752**	77,294
Under provision in respect of prior years	**7,231**	3,068
Deferred	**(68,150)**	(19,177)
Total tax charge for the year	**121,833**	61,185

9. DIVIDEND

	2018 ***RMB'000***	2017 *RMB'000*
Proposed final dividend – RMB10.00 cents (2017: RMB8.49 cents) per ordinary share	**117,162**	85,500

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued) of 1,171,621,000 (2017: 1,171,736,000) in issue during the year, as adjusted to reflect the convertible bonds issued in 2011.

The calculations of basic and diluted earnings per share are based on the following data:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**624,932**	397,778

	2018	2017
	Number of shares	*Number of shares*
Shares		
Weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued) for the purpose of calculating basic and diluted earnings per share	**1,171,621,000**	1,171,736,000

11. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**96,899**	127,763
Bills receivable	**234,232**	33,066

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values on initial recognition. The Group's bills receivable are non-interest-bearing and are normally settled on terms of 90 to 180 days. Trade and bills receivables are denominated in RMB.

The Group's trading terms with its customers are mainly payment in advance or on credit for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**62,991**	98,220
1 to 3 months	**21,630**	8,058
3 to 6 months	**6,120**	6,835
6 to 12 months	**2,149**	10,969
Over 12 months	**4,009**	3,681
	96,899	127,763

12. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**141,879**	128,832
1 to 3 months	**58,442**	50,374
3 to 6 months	**40,331**	38,120
6 to 12 months	**22,249**	12,985
Over 12 months	**19,924**	16,390
	282,825	246,701

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. Trade payables are denominated in RMB.

13. BILLS PAYABLE

The Group's bills payable have an average maturity period of 90 to 180 days and are interest-free. Bills payable are denominated in RMB and are secured by time deposits of RMB141,181,000 (2017:RMB181,077,000).

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Revenue

Revenue increased by approximately RMB1,633 million or 22% from approximately RMB7,562 million in the financial year ended 31 December 2017 ("**FY2017**") to approximately RMB9,195 million in the financial year ended 31 December 2018 ("**FY2018**"). The increase of revenue was mainly due to the increase of sales volume of compound fertiliser, dimethyl ether (DME) and melamine, and higher average selling prices of urea, compound fertiliser and melamine.

Urea

Revenue derived from the sales of urea increased by approximately RMB697 million or approximately 24% from approximately RMB2,852 million in FY2017 to approximately RMB3,549 million in FY2018. The increase was mainly due to the increase in average selling prices of urea by approximately 26% as a result of the increased sales of high efficiency urea, and the tightening supply through industry consolidation and the growing environment pressure in China.

Compound fertiliser

Revenue derived from the sales of compound fertiliser increased by approximately RMB535 million or approximately 24% from approximately RMB2,272 million in FY2017 to approximately RMB2,807 million in FY2018. Such increase was mainly due to the increase in sales volume of compound fertiliser by approximately 12% from approximately 1,244,000 tons in FY2017 to approximately 1,396,000 tons in FY2018 as a result of the expansion of sales network and increase in production capacity and the increase in average selling prices by approximately 10%.

Methanol

Revenue derived from the sales of methanol decreased by approximately RMB328 million or approximately 48% from approximately RMB685 million in FY2017 to approximately RMB357 million in FY2018. The decrease was mainly due to the decrease in sales volume by approximately 55% from approximately 327,000 tons in FY2017 to approximately 149,000 tons in FY2018. The reduction in sales volume of methanol was due to the increase of internal consumption by the Group as feedstock for production of dimethyl ether (DME). The decrease was offset by the increase in average selling price of methanol by approximately 15%.

Dimethyl ether (DME)

Revenue derived from the sales of DME increased by approximately RMB874 million or approximately 326% from approximately RMB268 million in FY2017 to approximately RMB1,142 million in FY2018. The increase was mainly due to the increase in sales volume by approximately 349% from approximately 70,000 tons in FY2017 to approximately 314,000 tons in FY2018. In June 2018, the Group's DME Project phase II in Henan has successfully commenced operation. The Group's DME annual production capacity increased from 200,000 tons to 400,000 tons in FY2018. The increase in the Group's annual DME production capacity will further enhance the flexibility of adjustment between production lines according to the profitability of different products.

Melamine

Revenue derived from the sales of melamine increased by approximately RMB178 million or approximately 47% from approximately RMB383 million in FY2017 to approximately RMB561 million in FY2018. The increase was mainly due to the increase in sales volume by approximately 30% from approximately 63,000 tons in FY2017 to approximately 82,000 tons in FY2018. In July 2018, the Group's melamine project Phase II in Xinjiang has successfully commenced operation, and the Group's annual melamine production capacity increased from 60,000 tons to 120,000 tons.

Furfuryl alcohol

Revenue derived from the sales of furfuryl alcohol increased by approximately RMB60 million or 13% from approximately RMB462 million in FY2017 to approximately RMB522 million in FY2018. The increase was mainly due to the increase in sales volume by approximately 7,000 tons from approximately 32,000 tons in FY2017 to approximately 39,000 tons in FY2018. The increase was offset by the reduction in the average selling price of furfuryl alcohol by approximately 7%.

Profitability

Overall gross profit margin increased from approximately 21% in FY2017 to approximately 24% in FY2018 mainly 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 DME products.

Urea

Gross profit margin for urea sales increased from approximately 23% in FY2017 to approximately 31% in FY2018. This was mainly due to the increase in average selling price of urea by approximately 26% on the account of the tightening supply due to growing environmental protection pressure in China and industry consolidation as well as the increased sales of high-efficiency urea and vehicle urea. In the FY2018, the sale volume of vehicle urea was approximately 242,000 tons, which was approximately 59% higher than the sales volume of approximately 152,000 tons in FY2017. The gross profit margin for vehicle urea was approximately 40% in FY2018. The increase was partially offset by the increase in average cost of sales by approximately 13% due to the higher average coal purchased price.

Compound fertiliser

Gross profit margin for compound fertiliser is approximately 15% in FY2018, which remained stable as compared to FY2017. Due to the sales team's effort, the Group continued to record an increase in sales volume of compound fertiliser in the increasingly competitive market condition.

Methanol

Gross profit margin for methanol decreased from approximately 19% in FY2017 to approximately 15% in FY2018. This was mainly due to the increase in average cost of sales by approximately 20% as compared to FY2017. The increase in average cost of sales was mainly resulted from the higher coal purchased prices in FY2018, which was partially offset by the increase in average selling prices by approximately 15% as compared to FY2017.

Dimethyl ether (DME)

Gross profit margin from DME decreased from approximately 31% in FY2017 to approximately 24% in FY2018. This was mainly due to the decrease in average selling prices of DME by approximately 5% and the increase in average cost of sales by approximately 6%. The average cost of sales increased mainly because the Group had not only consumed the methanol product internally, but also purchased methanol from external third parties so as to maximise the utilisation of DME's production capacity.

Melamine

Gross profit margin for melamine decreased from approximately 56% in FY2017 to approximately 52% in FY2018. This was mainly due to the increase in average cost of sales by approximately 24% due to higher raw material prices and the ramp-up of melamine production line Phase II. However, the Group's melamine products still managed to achieve an attractive margin of above 50% mainly because of the cost competitive advantage of the Group's urea production cost in Xinjiang and the advanced melamine production technology, which enable the product outputs with higher grade quality and can sell for better price premium and have more export sales.

Furfuryl alcohol

Gross profit margin for furfuryl alcohol decreased from 9% in FY2017 to approximately 8% in FY2018. This was mainly due to the decrease in average selling price of furfuryl alcohol by approximately 7%. The decrease in average selling price of furfuryl alcohol was offset by the decrease in average cost of sales by approximately 6 % as compared to FY2017.

Other income and gains

Other income and gains increased by approximately RMB25 million from approximately RMB88 million in FY2017 to approximately RMB113 million in FY2018. The increase was mainly due to the increase in net income on sale of water and electricity and gain from fair value change of derivative financial instrument by approximately RMB32 million and RMB18 million respectively. The increase was partially offset by the decrease of subsidy income, exchange gains and net income from sales of by-products of approximately 12 million, 7 million and 9 million respectively.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB25 million from approximately RMB483 million in FY2017 to approximately RMB508 million in FY2018. Such increase was mainly due to the increase of transportation charges and promotion costs of approximately RMB41 million and RMB9 million respectively. The increase in transportation charges and promotion costs are resulted from the rapid expansion of the Group's sales networks and the growth in sales volumes of compound fertiliser in FY2018. The increase was partially offset by the decrease in advertisement expenses, travelling expenses and office expenses by approximately RMB10 million, RMB8 million and RMB3 million respectively.

General and administrative expenses

General and administrative expenses increased by approximately RMB82 million from approximately RMB415 million in FY2017 to approximately RMB497 million in FY2018. The increase was mainly due to the increase in depreciation and amortisation costs, salaries, consultation fees, staff welfare, education fee and rental expense by approximately RMB23 million, RMB26 million, RMB16 million, RMB14 million, RMB9 million and RMB9 million respectively. The increase was partially offset by the decrease in transaction fees in relation to bank loans of approximately RMB13 million.

Other expenses

Other expenses increased by approximately RMB240 million from approximately RMB6 million in FY2017 to approximately RMB246 million in FY2018 mainly due to the increase in impairment loss, exchange losses and loss on disposal of items of property, plant and equipment by approximately RMB207 million, RMB27 million and RMB4 million respectively. The increase in impairment loss was mainly related to the closure of the Group's first urea production line in Henan.

Finance costs

Finance costs increased by approximately RMB39 million from approximately RMB286 million in FY2017 to approximately RMB325 million in FY2018, mainly due to the increase in amount of interest bearing borrowings and loans.

Income tax expense

Income tax expense increased by approximately RMB61 million from approximately RMB61 million in FY2017 to approximately RMB122 million in FY2018 due to higher taxable profits generated by the Group.

Profit for the year

The profit for the year increased by approximately RMB231 million or 54% from approximately RMB424 million in FY2017 to approximately RMB655 million in FY2018. This was mainly due to the increase in gross profit and other income and gains by approximately RMB652 million and RMB25 million respectively. 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 million, RMB82 million, RMB39 million and RMB61 million respectively.

(II) FINANCIAL REVIEW

Gearing

The Group monitors capital using a gearing ratio, which is net debt divided by the aggregate of total capital and net debt. The Group's policy is to keep the gearing ratio below 90%.

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**282,825**	246,701
Bills payable	**280,105**	423,915
Contract liabilities	**689,951**	795,448
Accruals and other payables	**1,185,463**	834,858
Amounts due to related companies	**21,052**	45
Loan from a non-controlling interest	**75,500**	75,250
Interest-bearing bank and other borrowings	**5,342,891**	4,611,127
Bonds payable	**692,833**	1,100,000
Less: Cash and cash equivalents	**(346,151)**	(341,270)
Less: Pledged time deposits	**(258,839)**	(181,077)
Net debt	**7,965,630**	7,564,997
Equity attributable to owners of the parent	**3,921,814**	3,366,675
Less: Statutory reserve fund	**(45,753)**	(327,793)
Total capital	**3,876,061**	3,038,882
Capital and net debt	**11,841,691**	10,603,879
Gearing ratio	**67.27%**	71.34%

Net debt includes interest-bearing bank and other borrowings, loan from a non-controlling interest, bonds payable, trade and bills payables, amounts due to related companies, accruals and other payables, contract liabilities, less cash and cash equivalents and pledged time deposits. Capital includes equity attributable to the owners of the parent less the above-mentioned statutory reserve fund.

Loans

Amounts payable in one year or less, or on demand

	As at 31 December 2018		As at 31 December 2017	
	Secured	**Unsecured**	Secured	Unsecured
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Bank loans	**200,428**	**2,481,797**	–	1,646,112
RMB bond	**–**	**–**	–	600,000
Finance lease payables	**92,227**	–	–	–
	292,655	**2,481,797**	–	2,246,112

Amounts payable after one year

	As at 31 December 2018		As at 31 December 2017	
	Secured	**Unsecured**	Secured	Unsecured
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Bank loans	**–**	**2,422,331**	176,000	2,786,288
Loan from government	**–**	**1,818**	–	2,727
RMB bond	**–**	**692,833**	–	500,000
Finance lease payables	**144,290**	–	–	–
	144,290	**3,116,982**	176,000	3,289,015

Details of collateral

As at 31 December 2018, the Group had a short-term loan of approximately RMB97 million secured by pledged fixed deposits (2017: Nil).

(III) PROSPECTS

Despite that the grain price continued to remain at a low level and the demand for urea declined for three consecutive years as a result of the reduction of corn planting areas, the consolidation and integration in the urea industry has accelerated due to the increasing pressure of environmental protection policies in the PRC. Those enterprises with obsolete technologies and high costs and unable to comply with the relevant environmental protection standard are being squeezed out of the market, leading to a subtle balance in the supply and demand of urea in the PRC and creating support for the urea price. At present, half of the production capacity of coal-based urea in China is still using the traditional process of fixed-facility. With the continuous implementation of domestic environmental protection measures, we expect that more obsolete production capacity will be driven out in the future, and the industrial concentration of the urea industry will be further enhanced.

The Group will continue 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 can further enhance the profitability and risk resistance of the Xinjiang base of the Group. With the smooth operation 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 for Qingli Energy, whose main business includes the production and sale of furfuryl alcohol and dimethyl furan etc. Meanwhile, Heli Energy has been acquired through capital injection, and its 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. In November 2018, the Group's subsidiary, Henan Xinlianxin Fertiliser Co., Ltd., raised RMB600 million through equity fund raising, and brought in strategic shareholders such as Haitong Innovation Securities Investment Co., Ltd. and NingboYuannian Alloy Investment Partnership (Limited Partnership). This improved the capital structure and reduced the financial risks of the Group.

(IV) PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB10 cents per share for the year ended 31 December 2018 (the "**Proposed Final Dividend**") (2017: RMB8.49 cents per share), subject to the shareholders' approval at the forthcoming annual general meeting of the Company (the "**AGM**"). The final dividend, if approved, is expected to be paid on 25 July 2019. The Company will further announce details of the AGM and the relevant period of closure of the Company's register of members for determining the entitlement to attend and vote at the AGM in due course.

The translation of RMB into Hong Kong Dollars ("**HKD**") for the purpose of dividend payment in HKD is made at the rate of approximately RMB1.00 = HKD1.1556, which is the official exchange rate of HKD against RMB as quoted on 25 March 2019 by The Hongkong and Shanghai Banking Corporation Limited. Therefore, based on the above translation of the exchange rate, the dividend to be paid in HKD will be HKD0.11556 per ordinary share.

(V) CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from 11 June 2019 to 13 June 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified for the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates are lodged with the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 10 June 2019.

(VI) SUPPLEMENTARY INFORMATION

1. Reconciliation between SFRSs and International Financial Reporting Standards ("IFRSs")

For the year ended 31 December 2018, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs (which include all IFRS, International Accounting Standards and Interpretations).

2. Operational and Financial Risks

(i) Market Risk

The major market risks of the Group include changes in the average selling prices of key products, changes in the costs of raw materials (mainly coal) and fluctuations in interest and exchange rates.

(ii) Commodity Price Risk

The Group is also exposed to commodity price risk arising from fluctuations in product sale prices and costs of raw materials.

(iii) Interest Rate Risk

The major market interest rate risk that the Group is exposed to includes the Group's long-term debt obligations which are subject to floating interest rates.

(iv) Foreign Exchange Risk

The Group's revenue and costs are primarily denominated in RMB. Some costs may be denominated in Hong Kong dollars, United States dollars or Singapore dollars.

(v) Inflation and Currency Risk

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by approximately 2.1% in the year ended 31 December 2018 as compared with an increase of approximately 1.6% in 2017. Such inflation in the PRC did not have a significant effect on the Group's operating results.

(vi) Liquidity Risk

The Group monitors its risk exposure to shortage of funds. The Group regularly reviews the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projects cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2018, approximately RMB2,774 million (31 December 2017: RMB2,246 million), or approximately 46.0% (31 December 2017: 39.3%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

(vii) Gearing Risk

The Group monitors its capital ratios in order to support its business and maximise shareholders value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017. The gearing ratio of the Group (calculated as net debt divided by the aggregate of total capital and net debt) decreased from approximately 71.34% as at 31 December 2017 to approximately 67.27% as at 31 December 2018.

3. Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: Nil).

4. Material Litigation and Arbitration

As at 31 December 2018, the Group was not involved in any material litigation or arbitration.

5. Scope of work of Ernst & Young

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Accounting Standards Board and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

6. Audit Committee

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

7. Compliance with the Corporate Governance Code

The Company devotes to best practice on corporate governance, and has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") during the year ended 31 December 2018.

8. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuer

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transactions by the directors of the Company. The Board confirms that, having made specific enquiries with all directors of the Company, all directors have complied with the required standards of the Model Code during the year ended 31 December 2018.

9. Purchase, Sales or Redemption of the Company's Securities

During the year ended 31 December 2018, the Company repurchased, on 5 January 2018, on the SEHK a total of 115,000 shares of the Company at a total consideration of HKD395,420 (with the highest repurchase price per share of HK$3.47 and the lowest repurchase price per share of HKD3.40). Such repurchased shares of the Company were cancelled on 2 February 2018.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018. The repurchase of the Company's shares was made for the benefit of the Company's shareholders with a view to enhancing the net asset value per share and earnings per share of the Company.

10. Employees and Remuneration Policy

As at 31 December 2018, there were 6,485 (2017: 6,119) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

11. Disclosure on the Website of the SEHK and the Company

This announcement is published on the website of the SEHK (http://www.hkexnews.hk) and on the website of the Company (http://www.chinaxlx.com.hk).

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

25 March 2019

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

* *for identification purpose only*