Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2019

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 2019 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 2019

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*4,5*	**8,928,255**	9,194,676
Cost of sales		**(6,987,218)**	(6,955,245)
Gross profit	*4*	**1,941,037**	2,239,431
Other income and gains	*5*	**160,349**	112,716
Selling and distribution expenses		**(515,827)**	(508,048)
General and administrative expenses		**(661,442)**	(496,623)
Other expenses		**(16,712)**	(223,416)
Finance costs	*6*	**(374,076)**	(325,329)
Impairment losses on financial assets		**(10,007)**	(22,241)
Share of profit of associates		**2,298**	657
Profit before tax	*7*	**525,620**	777,147
Income tax expense	*8*	**(111,557)**	(121,833)
Profit for the year		**414,063**	655,314
Total comprehensive income for the year		**414,063**	655,314
Profit attributable to:			
Owners of the parent		**316,495**	624,932
Non-controlling interests		**97,568**	30,382
		414,063	655,314
Total comprehensive income attributable to:			
Owners of the parent		**316,495**	624,932
Non-controlling interests		**97,568**	30,382
		414,063	655,314
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted *(RMB cents)*	*10*	**27.01**	53.34

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

		Group	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**10,474,752**	9,000,522
Right-of-use assets		**1,079,808**	–
Other intangible assets		**46,883**	–
Prepaid land lease payments		**–**	630,606
Goodwill		**29,001**	29,001
Coal mining right		**86,180**	88,172
Equity investment at fair value through profit or loss		**6,708**	6,708
Prepayments for purchases of items of plant and equipment		**844,713**	489,348
Other assets		**100,877**	114,318
Deferred tax assets		**93,860**	83,322
Investments in associates		**16,993**	95,157
Pledged time deposits		**–**	110,289
Prepayments to related companies		**33,788**	25,635
Total non-current assets		**12,813,563**	10,673,078
Current assets			
Due from related companies		**745**	30,384
Equity investments at fair value through profit or loss		**20,903**	37,178
Inventories		**983,604**	1,066,853
Trade and bills receivables	*11*	**393,419**	331,131
Prepayments		**402,564**	552,404
Deposits and other receivables		**454,609**	431,385
Income tax recoverable		**22,865**	7,022
Derivative financial instruments		**1,358**	17,719
Pledged time deposits		**499,346**	148,550
Cash and cash equivalents		**884,448**	346,151
Other assets		**13,441**	13,441
Total current assets		**3,677,302**	2,982,218
TOTAL ASSETS		**16,490,865**	13,655,296

	Notes	Group 2019 RMB'000	2018 RMB'000
Current liabilities			
Due to related companies		**6,092**	21,052
Trade payables	*12*	**366,636**	282,825
Bills payable	*13*	**809,050**	280,105
Contract liabilities		**582,181**	689,951
Accruals and other payables		**1,091,793**	1,161,845
Income tax payable		**29,720**	20,835
Deferred grants		**7,976**	5,443
Loan from a non-controlling interest		**25,000**	50,500
Interest-bearing bank and other borrowings		**2,774,169**	2,774,452
Lease liabilities		**102,887**	–
Bonds payable		**500,000**	–
Total current liabilities		**6,295,504**	5,287,008
NET CURRENT LIABILITIES		**(2,618,202)**	(2,304,790)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,195,361**	8,368,288
Non-current liabilities			
Loan from a non-controlling interest		**23,670**	25,000
Interest-bearing bank and other borrowings		**3,739,087**	2,568,439
Deferred grants		**69,253**	90,190
Deferred tax liabilities		**52,715**	31,573
Provision for rehabilitation		**24,276**	23,836
Accruals and other payables		**107,019**	23,618
Due to related companies		**1,451**	–
Lease liabilities		**67,513**	–
Bonds payable		**388,697**	692,833
Total non-current liabilities		**4,473,681**	3,455,489
TOTAL LIABILITIES		**10,769,185**	8,742,497
NET ASSETS		**5,721,680**	4,912,799

		Group	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Equity attributable to owners of the parent			
Issued capital		**1,194,686**	1,194,686
Special reserve		**2,433**	2,433
Statutory reserve fund		**145,518**	45,753
Other reserve		**2,176,500**	2,060,422
Retained profits		**716,104**	618,520
		4,235,241	3,921,814
Non-controlling interests		**1,486,439**	990,985
TOTAL EQUITY		**5,721,680**	4,912,799
TOTAL EQUITY AND LIABILITIES		**16,490,865**	13,655,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, dimethyl ether (DME), methanol, liquid ammonia, melamine, furfuryl alcohol and ammonia solution.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) ("**SFRS(I)s**") and International Financial Reporting Standards ("**IFRSs**"). For the purpose of SFRS(I)s, financial statements that have been prepared in accordance and complied with IFRSs are deemed to have also complied with SFRS(I)s. SFRS(I)s comprise standards and interpretations that are equivalent to IFRSs.

These financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies. 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

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of IFRS 16, the adoption of these standards did not have any material effect on the financial performance or position of the Group.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	RMB'000
Assets	
Right-of-use assets	915,910
Property, plant and equipment	(293,090)
Prepaid land lease payments	(609,930)
Increase in total assets	12,890
Liabilities	
Lease liabilities	249,406
Interest-bearing bank and other borrowings	(236,516)
Increase in total liabilities	12,890

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16 Leases *(Continued)*

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16 Leases *(Continued)*

Leases previously accounted for as operating leases (Continued)

Based on the above, as at 1 January 2019:

- Right-of-use assets of RMB915,910,000 were recognised and presented separately in the statement of financial position.

- Additional lease liabilities of RMB249,406,000 were recognised and presented separately in the statement of financial position.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	RMB'000
Assets	
Operating lease commitments as at 31 December 2018	90,705
Less:	
Commitments relating to short-term leases	76,885
Commitments relating to leases of low-value assets	1,618
Weighted average incremental borrowing rate as at 1 January 2019	5.41%
Discounted operating lease commitments as at 1 January 2019	12,890
Add:	
Finance lease liabilities recognised as at 31 December 2018	236,516
Lease liabilities as at 1 January 2019	249,406

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not adopted the following standards and interpretation applicable to the Company that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
IFRS 17 Insurance Contracts	1 January 2020
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IFRS 1 and IFRS 8: Definition of Material	1 January 2020
Amendments to IFRS 10 and IFRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors expect that the adoption of the other standards and interpretation above will have no material impact on the financial statements in the period of initial application.

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

For the year ended 31 December 2019	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	3,312,620	2,851,631	991,624	657,497	407,468	707,415	–	8,928,255
Intersegment sales	517,270	364,111	285,778	2,928	–	186,843	(1,356,930)	–
Total revenue	3,829,890	3,215,742	1,277,402	660,425	407,468	894,258	(1,356,930)	8,928,255
Segment profit	930,890	449,272	47,049	233,818	62,351	217,657	–	1,941,037
Interest income								19,229
Unallocated other income and gains								143,418
Unallocated expenses, net								(1,203,988)
Finance costs								(374,076)
Profit before tax								525,620
Income tax expense								(111,557)
Profit for the year								414,063
Other segment information:								
Gain on disposal of items of property, plant and equipment *(note 5)*								(29,347)
Gain on disposal of items of right-of-use assets *(note 5)*								(5,946)
Depreciation of items of property, plant and equipment *(note 7)*								673,564
Amortisation of other intangible assets *(note 7)*								6,202
Depreciation of right of use assets *(note 7)*								48,547
Amortisation of coal mining rights *(note 7)*								1,992
Capital expenditure*								2,919,268

* Capital expenditure consists of addition to property, plant and equipment and intangible assets including assets acquired from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2018	Urea	Compound fertiliser	DME and methanol	Melamine	Furfuryl alcohol	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

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:

	2019	2018
	RMB'000	*RMB'000*
REVENUE		
Sale of goods	**8,928,255**	9,194,676
OTHER INCOME AND GAINS		
Bank interest income	**19,229**	9,188
Net profit from sales of by-products, water, electricity and steam	**60,169**	50,169
Dividend income from equity investments at fair value through profit or loss	**494**	1,107
Amortisation of deferred grants	**8,051**	6,933
Subsidy income	**19,899**	16,004
Compensation income	**9,453**	1,189
Rental income	**5,570**	3,989
Gain on disposal of property, plant and equipment	**29,347**	–
Gain on disposal of items of right-of-use assets	**5,946**	–
Loss on fair value change of financial instrument through profit and loss	**(16,275)**	–
Gain on bargain purchases	**4,543**	–
Gain on fair value change of derivative financial instruments	**1,906**	17,719
Gain on other investment	**5,868**	–
Gain on derivative financial instruments	**5**	–
Others	**6,144**	6,418
Total other income and gains	**160,349**	112,716

6. FINANCE COSTS

The Group's finance costs are analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts, other loans and bonds, wholly repayable within seven years	**357,156**	325,273
Interest on lease liabilities	**16,880**	–
Interest on government loans	**40**	56
	374,076	325,329

7. PROFIT BEFORE TAX

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

	Group	
	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**6,910,405**	6,955,245
Depreciation of items of property, plant and equipment	**673,564**	636,406
Amortisation of other intangible assets	**6,202**	14,120
Depreciation of right-of-use assets	**48,547**	–
Amortisation of coal mining rights	**1,992**	2,512
Minimum lease payments under operating leases:		
Factories	**76,813**	4,202
Land	**–**	1,990
Buildings	**1,690**	1,120
	78,503	7,312
Auditor's remuneration	**3,990**	3,773
Employee benefit expenses (including directors' remuneration):		
Salaries and bonuses	**552,619**	568,193
Pension scheme contributions (defined contribution scheme)	**92,787**	76,849
Benefits in kind	**62,495**	42,864
	707,901	687,906
Impairment of trade and other and bills receivables	**10,007**	22,241
Impairment of property, plant and equipment	**–**	188,487
Impairment of inventories	**1,443**	–
Unrealised exchange loss, net	**4,027**	27,587
Realised exchange loss/(gain), net	**1,353**	(763)
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 an income tax rate of 17% (2018: 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 rate of 25% (2018: 25%). In 2019, five of the subsidiaries were awarded the New/High Tech Enterprise Award as recognition of its 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 three years since the subsidiaries awarded the New High Tech Enterprise Award.

The major components of income tax expense for the financial years ended 31 December 2019 and 2018 are:

	Group	
	2019	2018
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**104,476**	182,752
Underprovision in prior years	**209**	7,231
Deferred charge/(credit)	**6,872**	(68,150)
Total tax charge for the year	**111,557**	121,833

9. DIVIDEND

	2019	2018
	RMB'000	*RMB'000*
Proposed final dividend – RMB8 cents (2018: RMB10 cents) per ordinary share	**93,730**	117,162

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 (2018: 1,171,621,000), 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:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**316,495**	624,932

	2019	2018
	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**	1,171,621,000

11. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**148,006**	96,899
Bills receivable	**245,413**	234,232

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.

11. TRADE AND BILLS RECEIVABLES *(Continued)*

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:

	Group	
	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**90,899**	62,991
1 to 3 months	**25,693**	21,630
3 to 6 months	**13,738**	6,120
6 to 12 months	**10,458**	2,149
Over 12 months	**7,218**	4,009
	148,006	96,899

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:

	Group	
	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**157,435**	141,879
1 to 3 months	**92,956**	58,442
3 to 6 months	**51,156**	40,331
6 to 12 months	**42,167**	22,249
Over 12 months	**22,922**	19,924
	366,636	282,825

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 180 days and are non-interest-bearing. Bills payable are denominated in RMB and are secured by time deposits of RMB378,137,000 (2018: RMB141,181,000).

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Revenue

Revenue decreased by RMB267 million or approximately 3% from RMB9,195 million in the financial year ended 31 December 2018 ("**FY2018**") to RMB8,928 million in the financial year ended 31 December 2019 ("**FY2019**"). The decrease of revenue was mainly due to lower average selling prices of dimethyl ether (DME), melamine, methanol, furfuryl alcohol and melamine, and the decrease was partially offset by the increase in sales volume of melamine and liquid ammonia.

Urea

Revenue derived from the sales of urea decreased by RMB236 million or approximately 7% year on year ("**YoY**") to approximately RMB3,313 million in FY2019 from RMB3,549 million in FY2018 due mainly to a decrease in the sales volume and average selling price of urea. Urea sales volume decreased by approximately 5% YoY to approximately 1,906,000 tons resulted from the closure of Plant I during the relocation of the Group's Xinxiang production facilities in FY2019. The average selling price of urea decreased by approximately 2% due to the increase in the supply of urea in the industry.

Compound fertiliser

Revenue derived from the sales of compound fertilisers increased by RMB45 million or approximately 2% YoY to approximately RMB2,852 million in FY2019 from RMB2,807 million in FY2018, due mainly to the increase in average selling price by approximately 3% as a result of a higher percentage of high-efficient fertilisers sold.

Methanol

Revenue derived from the sales of methanol decreased by RMB283 million or approximately 79% YoY to approximately RMB74 million in FY2019 from RMB357 million in FY2018, mainly because the Group chose to further process methanol products into dimethyl ether products which enjoyed a higher profit margin. As a result, sales volume of methanol decreased by 73% to approximately 40,000 tons in FY2019, as the Group only produced to maintain relationship with the most strategic customers. In line with the weakened international energy prices, the average selling price of methanol decreased by 23% YoY.

(I) BUSINESS REVIEW *(Continued)*

Dimethyl ether (DME)

Revenue derived from the sales of DME decreased by approximately RMB224 million or approximately 20% from approximately RMB1,142 million in FY2018 to RMB918 million in FY2019. The decrease was due mainly to a decrease in the average selling price of DME by 21.8% YoY which was in line with the weakened international energy prices. The impacts of the decrease in DME price was partially offset by an increase in the sales volume of 2% YoY to 320,000 tones for FY2019.

Melamine

Revenue derived from the sales of melamine increased by approximately RMB96 million or 17% from approximately RMB561 million in FY2018 to RMB657 million in FY2019 mainly due to the increase in sales volume by 59%. In July 2018, the Group's melamine project Phase II in Xinjiang Plant V with an annual production capacity of 60,000 tons successfully commenced operation, enabling the Group's total annual melamine production increase to 120,000 tons. The increase in sales volume was partially offset by a decrease in average selling price of melamine by approximately 26% YoY due to the weakened demand in domestic chemical products.

Furfuryl alcohol

Revenue derived from the sales of furfuryl alcohol decreased by approximately RMB115 million or 22% from approximately RMB522 million in FY2018 to RMB407 million in FY2019. The decrease was mainly due to the decrease in the average selling prices of furfuryl alcohol by approximately 28% YoY as a result of the recovery of supply in the market followed by the more flexible environment control in PRC. This was partially offset by the increase in sales volume of approximately 8% YoY to approximately 42,000 tons for FY2019.

(I) BUSINESS REVIEW *(Continued)*

Profitability

Urea

Gross profit margin of urea of the Group decreased to approximately 28.1% in FY2019 from approximately 30.8% in FY2018. The decrease was due to a combination of a 2% decrease in the average selling price and a 2% increase in the cost of goods sold. The decrease in the average selling price was the result of recovery of supply from urea industry. The increase in the cost of goods sold was mainly caused by the increase in the sales volume of high efficient urea with higher cost of goods sold.

Compound fertiliser

Gross profit margin of compound fertilisers of the Group increased marginally by 1% to approximately 15.8% in FY2019 from approximately 14.9% in FY2018. The increase was mainly due to the increase in average selling price of approximately 3% YoY, as a higher percentage of high efficient fertiliser was sold.

Methanol

Gross profit margin of methanol of the Group decreased to approximately -0.1% in FY2019 from approximately 15% in FY2018, mainly due to a 23% decline in the average selling price and reduced scale of production. The declined average selling price was in line with the weakened international energy prices.

Dimethyl ether (DME)

As a result of a 21% decrease of average selling price of DME, the gross profit margin of DME decreased from 23.5% in FY2018 to 5.1% in FY2019. As an alternate to liquid natural gas (LNG), the decline in average selling price of DME was in line with the weakened global energy prices.

(I) BUSINESS REVIEW *(Continued)*

Melamine

Gross profit margin of melamine decreased from approximately 52.3% in FY2018 to 35.6% in FY2019. This was due mainly to a 26% decrease in the average selling price resulting from the weakened demand in domestic chemical products.

Furfuryl alcohol

Gross profit margin of furfuryl alcohol increased from approximately 8.5% in FY2018 to 15.3% in FY2019. This was due mainly to (1) the decline in cost of raw materials and (2) reduction of wastage of raw materials during production through research and development.

Other income and gains

Other income and gains increased by approximately RMB48 million from approximately RMB112 million in FY2018 to RMB160 million in FY2019. The increase was mainly due to (1) the increase of RMB35 million in gains from disposal of fixed assets and right of use assets; (2) the increase of RMB10 million in gains from sales of by-products and the sale of water, steam and electricity; (3) an increase of RMB10 million of interest received from banks; and (4) an increase of RMB8 million of the penalties from suppliers for non-compliance of supply contract. The increase was partially offset by the RMB34 million fair value change of derivative financial instruments and fair value change of financial instruments through profits and loss from a gain of RMB18 million in FY2018 to a loss of RMB16 million in FY2019.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB8 million from RMB508 million in FY2018 to RMB516 million in FY2019. Such increase was mainly due to (1) RMB8 million increase in staff salaries; (2) RMB4 million increase in promotion costs; (3) RMB3 million increase in depreciation charges; and (4) RMB2 million increase in selling administrative expenses. These are largely the result of the initial set up expenses of Jiangxi production base. The increase was partially offset by the decrease in advertisement expenses by approximately RMB12 million.

General and administrative expenses

General and administrative expenses increased by approximately RMB164 million from approximately RMB497 million in FY2018 to approximately RMB661 million in FY2019. The increase was mainly due to the initial set up of new Jiangxi production base and increase in the number of employees from the acquisition of Shen Leng Energy, Heli Energy and Black Technology, of which salaries, staff welfare, staff social security provident funds, environment protection expenses, entertainment expenses, repair cost and staff education expenses increased by approximately RMB46 million, RMB23 million, RMB22 million, RMB12 million, RMB11 million, RMB11 million and RMB7 million respectively. The increase as partially offset by the decrease in rental expenses of RMB7 million.

Other expenses

Other expenses decreased by approximately RMB207 million from approximately RMB223 million in FY2018 to approximately RMB16 million in FY2019. The decrease was mainly due to the decrease in the impairment of property, plant and equipment and the foreign exchange losses of approximately RMB188 million and RMB21 million respectively.

Finance costs

Finance costs increased by approximately RMB49 million from approximately RMB325 million in FY2018 to approximately RMB374 million in FY2019 due to the increase in amount of interest-bearing borrowings and loans.

Income tax expense

Income tax expense decreased by approximately RMB10 million from approximately RMB122 million in FY2018 to approximately RMB112 million in FY2019 due to lower taxable income generated by the Group.

(I) BUSINESS REVIEW *(Continued)*

Profit for the year

The profit for the year decreased by RMB241 million or approximately 36.79% from RMB655 million in FY2018 to RMB414 million in FY2019.

The decrease in the Group's net profit in FY2019 was mainly due to:

(1) the decrease in the sales volume and profit margin of urea. The decrease in sales volume of urea was resulted from the closure of Plant I during the relocation of the Group's Xinxiang production facilities in 2019.

(2) the decrease in average selling prices of melamine and dimethyl ether (DME) of 26% and 21% respectively YoY. In 2019, international economic environments have been rapidly changing, China domestic consumption remained weak, while export of petrol chemical products declined. These factors have negatively impacted petrol chemical products market, lowering average selling prices and profit margin of melamine, DME and methanol.

(3) the increase in general administrative expenses of approximately RMB164 million YoY, which comprised mainly increase in salaries, staff welfare, staff social security provident providence funds, environment protection expenses, entertainment expenses, repair cost and staff education expenses by approximately RMB46 million, RMB23 million, RMB22 million, RMB12 million, RMB11 million, RMB11 million and RMB7 million respectively. The increase was partially offset by the decrease in rental expenses of RMB7 million. The increase in salaries and staff welfare was mainly due to the set up of new Jiangxi production base and increase in the number of employees from the acquisition of Shen Leng Energy, Heli Energy and Black Technology.

(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%.

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**366,636**	282,825
Bills payable	**809,050**	280,105
Contract liabilities	**582,181**	689,951
Accruals and other payables	**1,198,812**	1,185,463
Due to related companies	**7,543**	21,052
Loans from a non-controlling interest	**48,670**	75,500
Interest-bearing bank and other borrowings	**6,513,256**	5,342,891
Bonds payable	**888,697**	692,833
Lease liabilities	**170,400**	–
Less: Cash and cash equivalents	**(884,448)**	(346,151)
Pledged time deposits	**(499,346)**	(258,839)
Net debt	**9,201,451**	7,965,630
Equity attributable to owners of the parent	**4,235,241**	3,921,814
Less: Statutory reserve fund	**(145,518)**	(45,753)
Adjusted capital	**4,089,723**	3,876,061
Capital and net debt	**13,291,174**	11,841,691
Gearing ratio	**69.23%**	67.27%

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

(II) FINANCIAL REVIEW *(Continued)*

Loans

	Group	
	2019	2018
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**2,590,784**	2,682,225
In the second year	**2,486,204**	1,852,543
In the third to fifth years, inclusive	**896,784**	569,788
Beyond five years	**41,000**	–
	6,014,772	5,104,556
Loan from the government:		
Within one year or on demand	**909**	–
In the second year	**–**	1,818
	909	1,818
Loans from leasing company finance lease payables:		
Within one year or on demand	**182,476**	92,227
In the second year	**119,355**	99,782
In the third to fifth years, inclusive	**195,744**	44,508
	497,575	236,517
	6,513,256	5,342,891

(III) PROSPECTS

Since the outbreak of the novel coronavirus in January 2020, with the strengthening of domestic epidemic prevention and control measures, the markets and demands for fertilizer and chemical products in the PRC have been adversely affected to certain extent, leading to a decline in the prices of the Company's fertilizer and chemical products. As the epidemic is continuously under control, it is expected that the market demand and selling prices of the Company's products will gradually recover. The international epidemic situation is expected to affect and reduce exports of fertilizers and imports of grains, and then affect the changes in the demand in the domestic fertilizer market. This also brings challenges and opportunities to the Group's production and operation.

The relocation of our Xinjiang production facilities will complete and commence production in the 2^{nd} half of 2020, while the Jiangxi production base will complete in the 4^{th} quarter of 2020 and commence production in 2021. The commencement of the new projects will further increase the scale of the Group, and improve the profitability and production flexibility of the Group.

Despite the challenging macro-economic environment, the Group will continue to steadfastly implement low cost and product differentiation strategies to further increase sale of high-efficient fertilisers, hence elevating the Group's competitiveness in the market. Furthermore, the Group will leverage on its coal gasification production competitive advantage to further increase its product offerings. The Group is able to flexibly adjust the fertiliser and chemical product mix according to changing market conditions, hence improving overall profitability and its ability to withstand market volatility.

(IV) PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB8 cents per share for the year ended 31 December 2019 (the "**Proposed Final Dividend**") (2018: RMB10 cents per share), subject to the shareholders' approval at the forthcoming annual general meeting of the Company. The Company will further announce details of the Proposed Final Dividend, the annual general meeting and the period of closure of the Company's register of members for determining the entitlement to the Proposed Final Dividend in due course.

(V) SUPPLEMENTARY INFORMATION

1. 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 2.9% in the year ended 31 December 2019 as compared with an increase of approximately 2.1% in 2018. Such inflation in the PRC did not have a significant effect on the Group's operating results.

(V) SUPPLEMENTARY INFORMATION *(Continued)*

1. Operational and Financial Risks *(Continued)*

(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 2019, approximately RMB2,774 million (31 December 2018: RMB2,774 million), or approximately 42.59% (31 December 2018: 46.23%) 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 2019 and 2018. The gearing ratio of the Group (calculated as net debt divided by the aggregate of total capital and net debt) increased from approximately 67.27% as at 31 December 2018 to approximately 69.23% as at 31 December 2019.

2. Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities (2018: Nil).

3. Material Litigation and Arbitration

As at 31 December 2019, the Group was not involved in any material litigation or arbitration (2018: Nil).

4. Scope of work of Ernst & Young

The figures in respect of preliminary announcement of group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, Ernst & Young LLP, to the amount set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young LLP 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 International Accounting Standards Board and consequently no assurance has been expressed by Ernst & Young LLP on the preliminary announcement.

5. 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 2019 have been reviewed by the Audit Committee.

6. 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 2019.

7. 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 2019.

(V) SUPPLEMENTARY INFORMATION *(Continued)*

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

For the year ended 31 December 2019, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the securities of the Company.

9. Employees and Remuneration Policy

As at 31 December 2019, there were 7,036 (2018: 6,485) 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.

10. Disclosure on the Websites 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

Hong Kong, 30 March 2020

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

** for identification purpose only*