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 2020

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 2020 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 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	4,5	**10,444,722**	8,928,255
Cost of sales		**(8,230,163)**	(6,987,218)
Gross profit	4	**2,214,559**	1,941,037
Other income and gains	5	**198,730**	160,349
Selling and distribution expenses		**(620,599)**	(515,827)
General and administrative expenses		**(624,260)**	(661,442)
Other expenses		**(129,755)**	(16,712)
Finance costs	6	**(401,379)**	(374,076)
Impairment losses on financial assets		**(5,640)**	(10,007)
Share of (losses)/profits of associates		**(582)**	2,298
Profit before tax	7	**631,074**	525,620
Income tax expense	8	**(106,926)**	(111,557)
Profit for the year		**524,148**	414,063
Profit attributable to:			
Owners of the parent		**347,662**	316,495
Non-controlling interests		**176,486**	97,568
Total comprehensive income for the year		**524,148**	414,063
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted *(RMB cents per share)*	10	**29.67**	27.01

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		Group	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**15,000,465**	10,474,752
Right-of-use assets		**1,140,330**	1,079,808
Intangible assets		**63,385**	46,883
Goodwill		**63,022**	29,001
Coal mining rights		**84,643**	86,180
Equity investments at fair value through profit or loss		**6,708**	6,708
Prepayments for purchases of property, plant and equipment		**120,060**	844,713
Other assets		**101,115**	100,877
Deferred tax assets		**100,430**	93,860
Investments in associates		**94,411**	16,993
Pledged time deposits		**1,400**	–
Due from related companies		**–**	33,788
Total non-current assets		**16,775,969**	12,813,563
Current assets			
Due from related companies		**1,804**	745
Equity investments at fair value through profit or loss		**16,092**	20,903
Inventories		**992,149**	983,604
Trade and bills receivables	*11*	**743,392**	393,419
Prepayments		**514,181**	402,564
Deposits and other receivables		**509,988**	454,609
Income tax recoverable		**–**	22,865
Derivative financial instruments		**–**	1,358
Pledged time deposits		**706,035**	499,346
Cash and cash equivalents		**682,041**	884,448
Other assets		**13,441**	13,441
Total current assets		**4,179,123**	3,677,302
TOTAL ASSETS		**20,955,092**	16,490,865

		Group	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Current liabilities			
Due to related companies		**12,239**	6,092
Trade payables	*12*	**508,978**	366,636
Bills payable	*13*	**1,110,814**	809,050
Contract liabilities		**818,149**	582,181
Accruals and other payables		**1,847,288**	1,091,793
Income tax payable		**42,709**	29,720
Deferred grants		**9,317**	7,976
Loans from non-controlling interests		**24,870**	25,000
Interest-bearing bank and other borrowings		**4,137,660**	2,774,169
Lease liabilities		**45,343**	102,887
Bonds payable		**–**	500,000
Total current liabilities		**8,557,367**	6,295,504
NET CURRENT LIABILITIES		**(4,378,244)**	(2,618,202)
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,397,725**	10,195,361
Non-current liabilities			
Loans from non-controlling interests		**–**	23,670
Interest-bearing bank and other borrowings		**5,210,059**	3,739,087
Deferred grants		**82,105**	69,253
Deferred tax liabilities		**50,143**	52,715
Provision for rehabilitation		**24,723**	24,276
Accruals and other payables		**89,117**	107,019
Due to a related company		**114**	1,451
Lease liabilities		**27,198**	67,513
Bonds payable		**489,892**	388,697
Total non-current liabilities		**5,973,351**	4,473,681
TOTAL LIABILITIES		**14,530,718**	10,769,185
NET ASSETS		**6,424,374**	5,721,680

		Group	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Equity attributable to owners of the parent			
Share capital		**1,194,686**	1,194,686
Special reserve		**4,599**	2,433
Statutory reserve fund		**200,307**	145,518
Other reserve		**2,217,760**	2,176,500
Retained profits		**913,081**	716,104
		4,530,433	4,235,241
Non-controlling interests		**1,893,941**	1,486,439
TOTAL EQUITY		**6,424,374**	5,721,680
TOTAL EQUITY AND LIABILITIES		**20,955,092**	16,490,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Group's headquarters and principal places of business are located in Xinxiang Economic Development Zone, Henan Province; Taxihe Industrial Park, Baojiadian Town, Manas County, Changji Prefecture, Xinjiang Province; and Jishan Industrial Zone, Jiujiang City, Jiangxi Province in 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 the development, manufacturing, and trading of related differentiated products such as urea, compound fertiliser, methanol, dimethyl ether (DME), melamine, furfuryl alcohol furfural, 2-methylfuran and medical intermediates.

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 that in the current financial year, the Group has adopted all the new and amended standards which are relevant to the Company and are effective for annual financial periods beginning on or after 1 January 2020. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

Description	**Effective for annual periods beginning on or after**
Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions	1 June 2020
Amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts*, IFRS 16 *Leases*: Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 16 *Property, Plant and Equipment:* Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018-2020	1 January 2022
Amendments to IAS 1 *Presentation of Financial Statements:* Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures:* Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date 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

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

For the year ended 31 December 2020	Urea	Urea Solution for vehicle	Compound fertiliser	DME and methanol	Melamine	Furfuryl alcohol	Medical intermediate	Others	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'00*	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers	3,080,023	573,792	3,157,583	1,262,441	621,350	524,189	231,511	993,833	–	10,444,722
Intersegment sales	661,588	145,525	342,832	261,446	101,124	41	–	257,466	(1,770,022)	–
Total revenue	3,741,611	719,317	3,500,415	1,523,887	722,474	524,230	231,511	1,251,299	(1,770,022)	10,444,722
Segment profit	841,763	188,245	541,515	56,455	201,316	72,739	39,287	273,239	–	2,214,559
Interest income										18,711
Unallocated other income and gains										180,019
Unallocated expenses, net										(1,380,836)
Finance costs										(401,379)
Profit before tax										631,074
Income tax expense										(106,926)
Profit for the year										524,148
Other segment information:										
Gain on disposal of property, plant and equipment *(note 5)*										(27,280)
Depreciation of property, plant and equipment *(note 7)*										723,266
Amortisation of intangible assets *(note 7)*										7,409
Depreciation of right-of-use assets *(note 7)*										53,618
Amortisation of coal mining rights *(note 7)*										1,537
Capital expenditure*										5,813,391

* 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 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 property, plant and equipment *(note 5)*								(29,347)
Gain on disposal of right-of-use assets *(note 5)*								(5,946)
Depreciation of property, plant and equipment *(note 7)*								673,564
Amortisation of 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.

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:

	2020	2019
	RMB'000	*RMB'000*
REVENUE		
Sale of goods	**10,444,722**	8,928,255
OTHER INCOME AND GAINS		
Bank interest income	**18,711**	19,229
Net profit from sales of by-products, water, electricity and steam	**74,809**	60,169
Dividend income from equity investments at fair value through profit or loss	**–**	494
Amortisation of deferred grants	**12,670**	8,051
Subsidy income	**33,282**	19,899
Compensation income	**7,016**	9,453
Rental income	**2,190**	5,570
Gain on disposal of property, plant and equipment	**27,280**	29,347
Gain on disposal of right-of-use assets	**–**	5,946
Loss on fair value change of financial instruments through profit and loss	**–**	(16,275)
Gain on bargain purchases	**–**	4,543
Gain on fair value change of derivative financial instruments	**–**	1,906
Gain on other investments	**2,706**	5,868
(Loss)/gain on derivative financial instruments	**(2,194)**	5
Exchange gains	**15,691**	–
Others	**6,569**	6,144
Total other income and gains	**198,730**	160,349

6. FINANCE COSTS

The Group's finance costs are analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts, other loans and bonds, wholly repayable within seven years	**394,261**	357,156
Interest on lease liabilities	**7,107**	16,880
Interest on government loans	**11**	40
	401,379	374,076

7. PROFIT BEFORE TAX

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

	Group	
	2020	2019
	RMB'000	*RMB'000*
Cost of inventories	**8,230,163**	6,910,405
Depreciation of property, plant and equipment	**723,266**	673,564
Amortisation of intangible assets	**7,409**	6,202
Depreciation of right-of-use assets	**53,618**	48,547
Amortisation of coal mining rights	**1,537**	1,992
Minimum lease payments under operating leases:		
Factories	**8,678**	76,813
Land	**114**	–
Buildings	**225**	1,690
	9,017	78,503
Auditor's remuneration	**4,138**	3,990
Employee benefit expenses (including directors' remuneration):		
Salaries and bonuses	**706,921**	552,619
Pension scheme contributions (defined contribution scheme)	**85,674**	92,787
Benefits in kind	**74,253**	62,495
	866,848	707,901
Impairment losses on financial assets	**5,640**	10,007
Impairment of property, plant and equipment	**113,109**	–
Impairment of inventories	**1,727**	1,443
Unrealised exchange (gains)/losses, net	**(5,941)**	4,027
Realised exchange (gains)/losses, net	**(9,750)**	1,353
Loss on fair value changes of financial instruments through profit or loss	**4,811**	16,275

8. INCOME TAX

The Company is incorporated in Singapore and is subject to an income tax rate of 17% (2019: 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% (2019: 25%). In 2020, nine 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 2020 and 2019 are:

	Group	
	2020	2019
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**133,510**	104,476
(Over)/underprovision in respect of prior years	**(9,146)**	209
Deferred (credit)/charge	**(17,438)**	6,872
Total tax charge for the year	**106,926**	111,557

9. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
Proposed final dividend – RMB10 cents (2019: RMB8 cents) per ordinary share	**117,162**	93,730

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 (2019: 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:

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**347,662**	316,495

	2020	2019
	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

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**204,032**	148,006
Bills receivable	**539,360**	245,413

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	
	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**119,892**	90,899
1 to 3 months	**31,829**	25,693
3 to 6 months	**37,092**	13,738
6 to 12 months	**9,314**	10,458
Over 12 months	**5,905**	7,218
	204,032	148,006

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	
	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**169,569**	157,435
1 to 3 months	**109,120**	92,956
3 to 6 months	**65,384**	51,156
6 to 12 months	**121,958**	42,167
Over 12 months	**42,947**	22,922
	508,978	366,636

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 RMB601,501,000 (2019: RMB378,137,000).

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Revenue

Revenue increased by RMB1,517 million or approximately 17% from RMB8,928 million in the financial year ended 31 December 2019 ("**FY2019**") to RMB10,445 million in the financial year ended 31 December 2020 ("**FY2020**"). The increase of revenue was mainly due to increased sales in compound fertiliser, urea solution for vehicle, methanol, furfuryl alcohol and medical intermediate, while such increases were partially offset by the decrease in sales in urea, dimethyl ether (DME) and melamine.

Urea

Finished urea products

The Group adheres to the idea of market-oriented, adjusted its product structure to strengthen product flexibility adjustment and converted part of the production capacity of finished urea products capacity into urea solution for vehicle, which has a larger market. Therefore, affected by the adjustment of our products structure and the impact of market environment, revenue derived from the sales of urea decreased by RMB233 million or approximately 7% year on year ("**YoY**") to approximately RMB3,080 million in FY2020 from RMB3,313 million in FY2019 due mainly to a decrease in average selling price of urea. The average selling price of urea decreased by approximately 9% due to the impact of market environment. The decrease was partially offset by the increase of urea sales volume by approximately 2% YoY to approximately 1,947,000 tons.

Urea solution for vehicle

Revenue derived from the sales of urea solution for vehicle increased by RMB403 million or approximately 236% YoY to approximately RMB574 million in FY2020 from RMB171 million in FY2019.

(I) BUSINESS REVIEW *(Continued)*

Revenue *(Continued)*

Urea solution for vehicle *(Continued)*

The sales volume of urea solution for vehicle was approximately 415,000 tons, representing an increase of approximately 230% YoY. This is mainly due to the country's increasing emphasis on environmental protection. In May 2020, the Announcement on Relevant Requirements for Adjustments to the Implementation of the China VI Emission Standard for Light-duty Vehicles was issued, which raised the emission standard for motor vehicles and required strict control limits. Leveraging on this favorable national policy, the Group expanded its marketing network and developed distribution channels, which resulted in a significant increase in sales of urea solution for vehicle. Market prospects for urea solution for vehicle will continue to be positive with high development potential.

Compound fertiliser

Revenue derived from the sales of compound fertilisers increased by RMB306 million or approximately 11% YoY to approximately RMB3,158 million in FY2020 from RMB2,852 million in FY2019, due mainly to the increase in sales volume by approximately 17% due to expansion of sales network. The sales volume of compound fertilisers increased to 1,610,000 tons for FY2020. The increase in sales volume was partially offset by a decrease in average selling price of compound fertilisers of approximately 6%.

Methanol

Revenue derived from the sales of methanol increased by RMB440 million or approximately 595% YoY to approximately RMB514 million in FY2020 from RMB74 million in FY2019. The increase in sales of methanol mainly derived from the new capacity from Xinjiang Production Base after production calibration and newly-developed methanol trading business.

Dimethyl ether (DME)

Revenue derived from the sales of DME decreased by approximately RMB170 million or approximately 19% from approximately RMB918 million in FY2019 to RMB748 million in FY2020. The decrease was mainly due to the continued weak international energy prices, causing the average selling price and sales volume of DME to drop by 15% and 4% YoY respectively, which in turn affected the sales revenue of DME.

(I) BUSINESS REVIEW *(Continued)*

Revenue *(Continued)*

Melamine

Revenue derived from the sales of melamine decreased by approximately RMB36 million or 5% from approximately RMB657 million in FY2019 to RMB621 million in FY2020. The decrease was due mainly to a drop in the average selling price of melamine by 11% YoY which was largely the result of the weakened demand in domestic chemical products and the negative impact from the outbreak of COVID-19. The decrease of the average selling price of melamine was partially offset by the increase in sales volume by 6% YoY. Due to the impact of the epidemic, consolidation in the melamine industry has accelerated. As a result of cost advantage of Xinjiang base, the Group managed to further increase its market share.

Furfuryl alcohol

Revenue derived from the sales of furfuryl alcohol increased by approximately RMB117 million or 29% from approximately RMB407 million in FY2019 to RMB524 million in FY2020. The increase was mainly due to the increase in sales volume of approximately 32% YoY to 55,900 tons for FY2020, which was partially offset by a drop in the average selling price of furfuryl alcohol products by approximately 3% YoY.

Medical intermediate

Revenue derived from the sales of medical intermediate was approximately RMB232 million in the 2nd half of 2020.

Profitability

Urea

Gross profit margin of urea of the Group decreased to approximately 27.3% in FY2020 from approximately 28.1% in FY2019. The decrease was due to a combination of a 9% decrease in the average selling price and an 8% decrease in the cost of goods sold due to the impact of the market environment.

Urea solution for vehicle

Gross profit margin of urea solution for vehicle increased from approximately 25.8% in FY2019 to 32.8% in FY2020. This was due mainly to a combination of an increase in the average selling price by 1% YoY and a reduction in the average production cost by 8% YoY. The increase in the average selling price was due to an increase in the demand as a result of stricter emission regulations, while the reduction in the average production cost was the result of market impact from the pandemic.

(I) BUSINESS REVIEW *(Continued)*

Profitability *(Continued)*

Compound fertiliser

Gross profit margin of compound fertilisers of the Group increased by 1.3% to approximately 17.1% in FY2020 from approximately 15.8% in FY2019. The increase was mainly due to the decrease in average cost of raw material, such as phosphate fertilizer and potash fertilizer, by approximately 4% and 12% respectively, and the increase in the sales of high-efficiency fertilisers which enjoyed a higher gross profit margin.

Methanol

Gross profit margin of methanol of the Group increased to approximately 2.5% in FY2020 from approximately -0.1% in FY2019. Due to the weakened international energy prices, the average selling price and the average production cost (purchase price of coal) of methanol dropped by approximately 22% and 24% YoY respectively. After considering market conditions, the Group reduced the production of methanol and profit margin has been therefore affected. Instead, the Group has developed profitable methanol trading business to reduce the negative impacts from the market downturn.

Dimethyl ether (DME)

Gross profit margin of DME of the Group increased to approximately 5.8% in FY2020 from approximately 5.1% in FY2019. Due to the weakened international energy prices, the average selling price and the average production cost DME dropped by approximately 15% and 16% YoY respectively.

Melamine

Gross profit margin of melamine decreased from approximately 35.6% in FY2019 to 32.4% in FY2020. This was due mainly to a 11% YoY decrease in the average selling price resulting from the weakened demand in domestic chemical products. Under the context that the melamine producers in the PRC have generally recorded losses in FY2020, the Group leveraged on its technology and cost advantages and managed to maintain the group profit margin of melamine products above 30%.

(I) BUSINESS REVIEW *(Continued)*

Profitability *(Continued)*

Furfuryl alcohol

Gross profit margin of furfuryl alcohol decreased from approximately 15.3% in FY2019 to 13.9% in FY2020. This was due mainly to decline in the average selling price by 3% YoY.

Medical intermediate

Gross profit margin of medical intermediate was approximately 17.0% in the 2nd half of 2020.

Other income and gains

Other income and gains increased by approximately RMB39 million from approximately RMB160 million in FY2019 to approximately RMB199 million in FY2020. The increase was mainly due to (1) loss on fair value change of financial instruments through profit and loss of RMB16 million in FY2019; (2) an increase of net profit from sales of by-products, water, electricity and steam by RMB15 million; (3) an exchange gain of RMB16 million; and (4) an increase in subsidy income by 13 million. The increase was partially offset by the one-time gain of RMB6 million from on disposal of right-of-use assets and RMB5 million gain on bargain purchases in FY2019.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB105 million from RMB516 million in FY2019 to RMB621 million in FY2020. Such increase was partly due to the increased proportion of operations during the epidemic, and the adjustment of settlement methods of transportation expenses has also increased transportation costs by approximately RMB36 million. The addition of new sales staff resulting from our active expanding in export trade has also increased sales staff salaries by approximately RMB54 million.

(I) BUSINESS REVIEW *(Continued)*

General and administrative expenses

General and administrative expenses decreased by approximately RMB37 million from approximately RMB661 million in FY2019 to approximately RMB624 million in FY2020, which due mainly to the reduction in employee insurance in order to support the development of the Company during the pandemic. At the same time, our administrative staff reduced the number of site inspections during this period.

Other expenses

Other expenses increased by approximately RMB113 million from approximately RMB17 million in FY2019 to approximately RMB130 million in FY2020. The increase was mainly due to increase in the impairment of property, plant and equipment of approximately RMB113 million.

Finance costs

Finance costs increased by approximately RMB27 million from approximately RMB374 million in FY2019 to approximately RMB401 million in FY2020 due to the increase in amount of interest-bearing borrowings and loans.

Income tax expense

Income tax expense decreased by approximately RMB5 million from approximately RMB112 million in FY2019 to approximately RMB107 million in FY2020.

Profit for the year

The profit for the year increased by RMB110 million or approximately 26.6% from RMB414 million in FY2019 to RMB524 million in FY2020.

(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%.

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**508,978**	366,636
Bills payable	**1,110,814**	809,050
Contract liabilities	**818,149**	582,181
Accruals and other payables	**1,936,405**	1,198,812
Due to related companies	**12,353**	7,543
Loans from non-controlling interests	**24,870**	48,670
Interest-bearing bank and other borrowings	**9,347,719**	6,513,256
Bonds payable	**489,892**	888,697
Lease liabilities	**72,541**	170,400
Less: Cash and cash equivalents	**(682,041)**	(884,448)
Pledged time deposits	**(707,435)**	(499,346)
Net debt	**12,932,245**	9,201,451
Equity attributable to owners of the parent	**4,530,433**	4,235,241
Less: Statutory reserve fund	**(200,307)**	(145,518)
Adjusted capital	**4,330,126**	4,089,723
Capital and net debt	**17,262,371**	13,291,174
Gearing ratio	**74.92%**	69.23%

(II) FINANCIAL REVIEW *(Continued)*

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

Loans

	Group	
	2020	2019
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**3,810,227**	2,590,784
In the second year	**2,101,962**	2,486,204
In the third to fifth years, inclusive	**2,298,963**	896,784
Beyond five years	**255,000**	41,000
	8,466,152	6,014,772
Loan from the government:		
Within one year or on demand	–	909
Loans from leasing company/ finance lease payables:		
Within one year or on demand	**327,433**	182,476
In the second year	**385,306**	119,355
In the third to fifth years, inclusive	**168,828**	195,744
	881,567	497,575
	9,347,719	6,513,256

(III) PROSPECTS

Since the outbreak of the novel coronavirus in 2020, various countries have limited exports of food products, causing food prices to rise globally, and food prices also rose in tandem domestically. Concurrently, in terms of agriculture, collectivized development of land has been gathering pace in the PRC, this bode well for the Group's promotion in product differentiation, which further drives the prices and sales volume of the Group's fertiliser products.

Following further tightening of the environment protection policies in China, the prices of urea and other chemical products will continue to rise. Furthermore, increasing export quantities led to the increase in demand of fertilizers, overall urea products markets will see continued growth in the PRC.

In order to meet market demand, increase fertiliser's sales coverage and market share, the Group has steadfastly implemented low cost and product differentiation strategy, further solidifying geographical coverage, forming Central, Northwest and Southeast three strategic production bases in the PRC. Third production base in Jiangxi Jiujiang has been successfully commissioned in February 2021. After the commissioning of the Jiujiang base, the Group will fully utilize its advantages in water transportation, technology and product quality, and strengthen the markets for fertiliser and chemical products in the southern regions of the Yangtze River, while actively expanding the export trade of urea solution for vehicle, and further raising the Group's status in the industry.

(IV) PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB10 cents per share for the year ended 31 December 2020 (the "**Proposed Final Dividend**") (2019: RMB8 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 2.5% in the year ended 31 December 2020 as compared with an increase of approximately 2.9% in 2019. Such inflation in the PRC did not have a significant effect on the Group's operating results.

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 2020, approximately RMB4,138 million (31 December 2019: approximately RMB2,774 million), or approximately 44.26% (31 December 2019: 42.59%) 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 2020 and 2019. The gearing ratio of the Group (calculated as net debt divided by the aggregate of total capital and net debt) increased from approximately 69.23% as at 31 December 2019 to approximately 74.92% as at 31 December 2020.

2. Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities (2019: Nil).

3. Material Litigation and Arbitration

As at 31 December 2020, the Group was not involved in any material litigation or arbitration (2019: 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 2020 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 2020 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 2020.

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 2020.

(V) SUPPLEMENTARY INFORMATION *(Continued)*

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

For the year ended 31 December 2020, 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 2020, there were 8,257 (2019: 7,036) 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, 19 March 2021

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