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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 2022**

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 2022 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 2022

| | <i>Notes</i> | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> Restated |
|---|--------------|-------------------------------|------------------------------------|
| Revenue | 4, 5 | 23,071,897 | 16,977,281 |
| Cost of sales | | (18,723,015) | (12,873,163) |
| Gross profit | 4 | 4,348,882 | 4,104,118 |
| Other income and gains | 5 | 187,293 | 169,368 |
| Selling and distribution expenses | | (529,379) | (475,975) |
| General and administrative expenses | | (1,071,615) | (934,618) |
| Other expenses | | (87,200) | (88,589) |
| Finance costs | 6 | (662,193) | (583,370) |
| Impairment losses on financial assets | | (9,806) | (14,570) |
| Share of profits of associates | | 4,675 | 1,232 |
| Profit before tax | 7 | 2,180,657 | 2,177,596 |
| Income tax expense | 8 | (372,482) | (406,514) |
| Profit for the year | | 1,808,175 | 1,771,082 |
| Profit attributable to: | | | |
| Owners of the parent | | 1,326,211 | 1,295,445 |
| Non-controlling interests | | 481,964 | 475,637 |
| Total comprehensive income for the year | | 1,808,175 | 1,771,082 |
| Earnings per share attributable to ordinary equity holders of the parent | | | |
| Basic and diluted (<i>RMB cents per share</i>) | 10 | 109.67 | 110.57 |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

| | | Group | |
|---|--------------|-------------------|----------------|
| | | 2022 | 2021 |
| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | | Restated |
| Non-current assets | | | |
| Property, plant and equipment | | 19,457,875 | 18,058,005 |
| Right-of-use assets | | 1,386,660 | 980,046 |
| Intangible assets | | 59,219 | 65,965 |
| Goodwill | | 63,022 | 63,022 |
| Coal mining rights | | 233,434 | 236,961 |
| Equity investments at fair value through profit or loss | | 6,708 | 6,708 |
| Prepayments for purchases of property, plant and equipment | | 117,923 | 81,892 |
| Other assets | | 92,038 | 36,883 |
| Deferred tax assets | | 84,737 | 102,523 |
| Investments in associates | | 107,318 | 95,643 |
| Pledged time deposits | | 23,833 | 9,700 |
| Due from a related company | | 3,522 | – |
| | | <hr/> | <hr/> |
| Total non-current assets | | 21,636,289 | 19,737,348 |
| | | <hr/> | <hr/> |
| Current assets | | | |
| Due from related companies | | 4,087 | 8,890 |
| Derivative financial instruments | | 9,827 | 28 |
| Equity investments at fair value through profit or loss | | 11,817 | 13,076 |
| Inventories | | 1,699,459 | 1,607,385 |
| Trade and bills receivables | <i>11</i> | 1,019,675 | 1,004,578 |
| Prepayments | | 1,230,583 | 1,027,737 |
| Deposits and other receivables | | 194,128 | 472,664 |
| Pledged time deposits | | 571,663 | 743,845 |
| Cash and cash equivalents | | 1,469,765 | 893,116 |
| Contract assets | | 6,084 | – |
| Other assets | | 13,799 | – |
| | | <hr/> | <hr/> |
| Total current assets | | 6,230,887 | 5,771,319 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS | | 27,867,176 | 25,508,667 |
| | | <hr/> | <hr/> |

| | | Group | |
|--|--------------|--------------------|--------------------|
| | | 2022 | 2021 |
| | <i>Notes</i> | RMB'000 | <i>RMB'000</i> |
| | | | Restated |
| Current liabilities | | | |
| Due to related companies | | 71,632 | 81,166 |
| Trade payables | 12 | 645,698 | 774,423 |
| Bills payable | 13 | 496,618 | 850,474 |
| Contract liabilities | | 1,514,349 | 1,079,227 |
| Accruals and other payables | | 1,936,448 | 1,815,284 |
| Income tax payable | | – | 167,337 |
| Deferred grants | | 10,426 | 9,619 |
| Interest-bearing bank and other borrowings | | 5,556,085 | 6,402,213 |
| Lease liabilities | | 3,738 | 2,541 |
| Bonds payable | | 299,481 | 198,222 |
| Other liabilities | | 6,280 | 5,983 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 10,540,755 | 11,386,489 |
| | | <hr/> | <hr/> |
| NET CURRENT LIABILITIES | | (4,309,868) | (5,615,170) |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 17,326,421 | 14,122,178 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Non-current liabilities | | | |
| Loan from non-controlling interests | | 48,800 | 47,800 |
| Interest-bearing bank and other borrowings | | 6,779,442 | 4,966,562 |
| Deferred grants | | 72,068 | 71,881 |
| Deferred tax liabilities | | 118,062 | 68,520 |
| Provision for rehabilitation | | 25,748 | 25,342 |
| Accruals and other payables | | 589,384 | 549,896 |
| Lease liabilities | | 19,513 | 20,717 |
| Bonds payable | | – | 296,482 |
| Other liabilities | | 105,576 | 111,884 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 7,758,593 | 6,159,084 |
| | | <hr/> | <hr/> |
| TOTAL LIABILITIES | | 18,299,348 | 17,545,573 |
| | | <hr/> | <hr/> |
| NET ASSETS | | 9,567,828 | 7,963,094 |
| | | <hr/> <hr/> | <hr/> <hr/> |

| | Group | |
|--|-----------------------|----------------|
| | 2022 | 2021 |
| <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | Restated |
| Equity attributable to owners of the parent | | |
| Share capital | 1,251,186 | 1,194,686 |
| Special reserve | 4,127 | 4,127 |
| Statutory reserve fund | 665,869 | 511,091 |
| Other reserve | 2,255,016 | 2,202,942 |
| Retained profits | 2,710,005 | 1,782,010 |
| | <hr/> | <hr/> |
| Equity attributable to the parent | 6,886,203 | 5,694,856 |
| Non-controlling interests | 2,681,625 | 2,268,238 |
| | <hr/> | <hr/> |
| TOTAL EQUITY | 9,567,828 | 7,963,094 |
| | <hr/> <hr/> | <hr/> <hr/> |
| TOTAL EQUITY AND LIABILITIES | 27,867,176 | 25,508,667 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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, urea solution for vehicle and medical intermediate.

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 AND DISCLOSURES

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 2022. Except for the impact arising from the amendments to IAS16, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

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 |
|---|---|
| Amendments to IAS 1: <i>Classification of Liabilities as Current or Non-current</i> | 1/1/2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2: <i>Disclosure of Accounting Policies</i> | 1/1/2023 |
| Amendments to IAS 8: <i>Definition of Accounting Estimates</i> | 1/1/2023 |
| Amendments to IAS 12: <i>Deferred tax related to Assets and Liabilities arising from Single Transaction</i> | 1/1/2023 |
| Amendments to IFRS 16: <i>Lease Liability in a Sale and Leaseback</i> | 1/1/2024 |
| Amendments to IAS 1: <i>Non-current Liabilities with Covenants</i> | 1/1/2024 |
| Amendments to IFRS 10 and IAS 28: <i>Sales or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | 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 2022 | Urea | | | | | | | | Elimination | Total |
|--|-----------|-------------------------|------------------------|---------------------|-----------|---------------------|-------------------------|-----------|-------------|-------------|
| | Urea | Solution for vehicle | Compound fertiliser | DME and methanol | Melamine | Furfuryl alcohol | Medical intermediate | Others | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | |
| Sales to external customers | 6,830,143 | 542,651 | 6,115,851 | 3,528,297 | 966,514 | 611,098 | 440,448 | 4,036,895 | - | 23,071,897 |
| Intersegment sales | 1,423,172 | 178,155 | 454,788 | 739,255 | 219,570 | 11,454 | - | 737,819 | (3,764,213) | - |
| Total revenue | 8,253,315 | 720,806 | 6,570,639 | 4,267,552 | 1,186,084 | 622,552 | 440,448 | 4,774,714 | (3,764,213) | 23,071,897 |
| Segment profit | 1,909,460 | 120,534 | 785,398 | 9,784 | 475,456 | (17,358) | 57,611 | 1,007,997 | - | 4,348,882 |
| Interest income | | | | | | | | | | 36,692 |
| Unallocated other income and gains | | | | | | | | | | 150,601 |
| Unallocated expenses, net | | | | | | | | | | (1,693,325) |
| Finance costs | | | | | | | | | | (662,193) |
| Profit before tax | | | | | | | | | | 2,180,657 |
| Income tax expense | | | | | | | | | | (372,482) |
| Profit for the year | | | | | | | | | | 1,808,175 |
| Other segment information: | | | | | | | | | | |
| Loss on disposed of items of property, plant and equipment (note 7) | | | | | | | | | | 38,070 |
| Depreciation of property, plant and equipment (note 7) | | | | | | | | | | 1,374,785 |
| Amortisation of intangible assets (note 7) | | | | | | | | | | 9,199 |
| Depreciation of right-of-use assets (note 7) | | | | | | | | | | 33,353 |
| Amortisation of coal mining rights (note 7) | | | | | | | | | | 3,527 |
| Capital expenditure* | | | | | | | | | | 3,321,921 |

* Capital expenditure consists of addition to property, plant and equipment, right-of-use assets and intangible assets.

4. OPERATING SEGMENT INFORMATION *(Continued)*

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

| For the year ended 31 December 2021 | Urea | | | | | | | Others | Elimination | Total |
|--|-----------|-------------------------|------------------------|---------------------|-----------|---------------------|-------------------------|-----------|-------------|-------------|
| | Urea | Solution for vehicle | Compound fertiliser | DME and methanol | Melamine | Furfuryl alcohol | Medical intermediate | | | |
| Restated | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Sales to external customers | 5,012,665 | 555,748 | 3,753,686 | 3,213,434 | 1,205,808 | 834,896 | 507,841 | 1,893,203 | – | 16,977,281 |
| Intersegment sales | 809,226 | 153,198 | 654,642 | 198,887 | 243,713 | 17 | 1,584 | 531,293 | (2,592,560) | – |
| Total revenue | 5,821,891 | 708,946 | 4,408,328 | 3,412,321 | 1,449,521 | 834,913 | 509,425 | 2,424,496 | (2,592,560) | 16,977,281 |
| Segment profit | 1,571,351 | 150,688 | 477,695 | 373,652 | 734,595 | 116,241 | 105,847 | 574,049 | – | 4,104,118 |
| Interest income | | | | | | | | | | 21,859 |
| Unallocated other income and gains | | | | | | | | | | 147,509 |
| Unallocated expenses, net | | | | | | | | | | (1,512,520) |
| Finance costs | | | | | | | | | | (583,370) |
| Profit before tax | | | | | | | | | | 2,177,596 |
| Income tax expense | | | | | | | | | | (406,514) |
| Profit for the year | | | | | | | | | | 1,771,082 |
| Other segment information: Loss | | | | | | | | | | |
| on disposed of items of property, plant and equipment <i>(note 7)</i> | | | | | | | | | | 46,610 |
| Depreciation of property, plant and equipment <i>(note 7)</i> | | | | | | | | | | 1,013,436 |
| Amortisation of intangible assets <i>(note 7)</i> | | | | | | | | | | 7,824 |
| Depreciation of right-of-use assets <i>(note 7)</i> | | | | | | | | | | 43,759 |
| Amortisation of coal mining rights <i>(note 7)</i> | | | | | | | | | | 3,486 |
| Capital expenditure* | | | | | | | | | | 4,116,710 |

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and intangible assets.

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:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> Restated |
|---|------------------------|------------------------------------|
| REVENUE (RESTATED) | | |
| Sale of goods (Restated) | 23,071,897 | 16,977,281 |
| OTHER INCOME AND GAINS | | |
| Bank interest income | 36,692 | 21,859 |
| Net profit from sales of by-products, water, electricity and steam | 75,470 | 89,987 |
| Amortisation of deferred grants | 9,672 | 10,152 |
| Subsidy income | 34,744 | 25,343 |
| Compensation income | 9,716 | 2,481 |
| Rental income | 3,221 | 4,550 |
| Gain on other investments | 551 | 204 |
| Gain on derivative financial instruments | 317 | 550 |
| Exchange gains | 5,543 | 235 |
| Others | 11,367 | 14,007 |
| Total other income and gains | 187,293 | 169,368 |

6. FINANCE COSTS

The Group's finance costs are analysed as follows:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Interest on bank loans, other loans and bonds | 660,887 | 581,439 |
| Interest on lease liabilities | 1,306 | 1,931 |
| | 662,193 | 583,370 |

7. PROFIT BEFORE TAX

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

| | Group | |
|--|-------------------|------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | | Restated |
| Cost of inventories sold (Restated) | 18,723,015 | 12,873,163 |
| Depreciation of property, plant and equipment | 1,374,785 | 1,013,436 |
| Amortisation of intangible assets | 9,199 | 7,824 |
| Depreciation of right-of-use assets | 33,353 | 43,759 |
| Amortisation of coal mining rights | 3,527 | 3,486 |
| Minimum lease payments under operating leases: | | |
| Factories | 6,061 | 5,627 |
| Buildings | 30 | 93 |
| Land | 495 | 83 |
| | 6,586 | 5,803 |
| Auditor's remuneration | 4,550 | 4,188 |
| Employee benefit expenses (including directors' remuneration): | | |
| Salaries and bonuses | 1,335,709 | 959,925 |
| Pension scheme contributions (defined contribution scheme) | 148,658 | 119,461 |
| Benefits in kind | 102,758 | 88,516 |
| Share-based payment expense | 7,613 | 11,419 |
| | 1,594,738 | 1,179,321 |
| Impairment losses on financial assets | 9,806 | 14,570 |
| Impairment of property, plant and equipment | – | 5,856 |
| Impairment of inventories | 27,537 | 10,650 |
| Unrealised exchange (gains)/losses, net | (6,281) | 750 |
| Realised exchange losses/(gains), net | 737 | (985) |
| Loss on fair value changes of financial instruments through profit or loss, net | 1,413 | 2,988 |
| Loss on disposal of property, plant and equipment | 38,070 | 46,610 |
| Donations | 6,458 | 11,867 |

8. INCOME TAX

The Company is incorporated in Singapore and is subject to an income tax rate of 17% (2021: 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% (2021: 25%). In 2022, thirteen 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 2022 and 2021 are:

| | Group | |
|--|-----------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Current – PRC | | |
| Charge for the year | 300,184 | 413,135 |
| Under/(over) provision in respect of prior years | 4,970 | (22,905) |
| Deferred charge | 67,328 | 16,284 |
| | <hr/> | <hr/> |
| Total tax charge for the year | <u>372,482</u> | <u>406,514</u> |

9. DIVIDENDS

| | 2022 | 2021 |
|---|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Proposed final dividend – RMB25 cents (2021: RMB19 cents) per ordinary share | <u>307,030</u> | <u>222,608</u> |

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 1,209,288,000 (2021: 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:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> Restated |
|---|--|---|
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation | 1,326,211 | 1,295,445 |
| | 2022 <i>Number of</i> <i>shares</i> | 2021 <i>Number of</i> <i>shares</i> |
| Shares | | |
| Weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued) for the purpose of calculating basic and diluted earnings per share | 1,209,288,000 | 1,171,621,000 |

11. TRADE AND BILLS RECEIVABLES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------|-------------------------------|------------------------|
| Trade receivables | 470,624 | 341,551 |
| Bills receivable | 549,051 | 663,027 |

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 180 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 | |
|----------------|-----------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 month | 276,885 | 155,707 |
| 1 to 3 months | 68,152 | 106,227 |
| 3 to 6 months | 56,754 | 39,066 |
| 6 to 12 months | 68,833 | 40,551 |
| | <u>470,624</u> | <u>341,551</u> |

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 | |
|----------------|-----------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 month | 469,717 | 498,667 |
| 1 to 3 months | 86,675 | 179,668 |
| 3 to 6 months | 37,820 | 48,715 |
| 6 to 12 months | 25,666 | 19,789 |
| Over 12 months | 25,820 | 27,584 |
| | <u>645,698</u> | <u>774,423</u> |

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 RMB217,687,000 (2021: RMB325,668,000).

14. COMPARATIVE FIGURES

Certain comparative figures have been restated due to (i) adoption of amendments to IAS 16 disclosed in Note 3 to the financial statements and (ii) reclassification to conform with the current financial year's presentation to better reflect the nature of the expenses.

| | 31-Dec-21 | Amendments to IAS 16 adjustments | Reclassifications | 31-Dec-21 |
|--|-------------------|--|-------------------|-------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | Restated |
| Statement of profit or loss | | | | |
| Revenue | 16,815,321 | 161,960 | – | 16,977,281 |
| Cost of sales | (12,426,464) | (159,966) | (286,733) | (12,873,163) |
| Gross profit | 4,388,857 | (284,739) | – | 4,104,118 |
| Selling and distribution expenses | (762,708) | – | 286,733 | (475,975) |
| Profit before tax | 2,175,602 | 1,994 | – | 2,177,596 |
| Income tax expense | (406,232) | (282) | – | (406,514) |
| Profit for the year | 1,769,370 | 1,712 | – | 1,771,082 |
| Profit attributable to non-controlling interests | 475,231 | 406 | – | 475,637 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Statement of financial position | | | | |
| Property, plant and equipment | 18,056,011 | 1,994 | – | 18,058,005 |
| Income tax payable | (167,055) | (282) | – | (167,337) |
| Retained profits | 1,780,875 | 1,135 | – | 1,782,010 |
| Non-controlling interests | 2,267,832 | 406 | – | 2,268,238 |
| Statutory reserve fund | 510,920 | 171 | – | 511,091 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Affected by the continuous impact of geopolitics, environmental protection policies and the resurgence of pandemic during 2022, the prices of food have been rising across the globe, which resulted in the prices of fertilisers and coal chemical-related products being driven up.

With the successively commissioning of the renovation and upgrading projects of the Group's second and third plants in Xinxiang Base and the reconstruction and extension projects of the Tinanxin Coal Mine in Xinjiang Base, high-quality production capacity has been further released, transformation and upgrading of industrial chain has accelerated, thus promoting the diversified development of coal chemical-related products. In the financial year ended 31 December 2022 ("FY2022"), the Group has continued to grow its production capacity, geographical reach and products offerings, hence achieved new of record of revenue and profitability.

Revenue

Revenue increased by approximately RMB6,095 million or approximately 36% from RMB16,977 million in the financial year ended 31 December 2021 ("FY2021") to RMB23,072 million in FY2022, mainly due to the fact that sales volume increased in urea and compound fertiliser products, propelling higher turnover.

Urea

Finished urea products

Revenue derived from the sales of urea increased by approximately RMB1,817 million or approximately 36% from approximately RMB5,013 million for FY2021 to approximately RMB6,830 million for FY2022. This was mainly due to the increase in sales volume and the average selling price of urea products of the Group by approximately 18% and 15% year on year ("YoY"), respectively. The successful commissioning of the green manufacturing project at the Xinxiang Base of the Group and the release of high-quality flexible production capacity resulted in an increase in urea sales volume to approximately 2,713,000 tons.

(I) BUSINESS REVIEW *(Continued)*

Revenue *(Continued)*

Urea *(Continued)*

Urea solution for vehicle

Revenue derived from the sales of urea solution for vehicle decreased by approximately RMB13 million or approximately 2% from approximately RMB556 million for FY2021 to approximately RMB543 million for FY2022. This was mainly due to a decrease in sales volume by 6% YoY to 373,000 tons for FY2022. By enhancing marketing transformation and upgrading, the Group further optimized the product structure through flexible adjustments to products. Coupled with market profitability, urea gradually transformed into products with strong profitability.

Compound fertiliser

Revenue derived from the sales of compound fertilisers increased by approximately RMB2,362 million or approximately 63% from approximately RMB3,754 million for FY2021 to approximately RMB6,116 million for FY2022, mainly due to the increase in average selling price and sales volume of the Group by approximately 28% and 27% YoY, respectively. The increase in sales volume was mainly due to continued release of quality compound fertiliser production capacity, accelerated expansion of marketing network and increased channel coverage, while the increase in average selling price was largely due to an increase in percentage of high-efficiency fertilisers sold.

Methanol

Revenue derived from the sales of methanol increased by approximately RMB508 million or approximately 29% from approximately RMB1,775 million for FY2021 to approximately RMB2,283 million for FY2022. The increased sales of methanol were a result of the increase in average selling price and sales volume of the Group by 6% and 21% YoY, respectively. The Group continues to increase flexible production adjustments, minimizes self-produced methanol and offsets the losses caused by self-produced methanol through the development of methanol trade.

(I) BUSINESS REVIEW *(Continued)*

Revenue *(Continued)*

Dimethyl ether (DME)

Revenue derived from the sales of DME decreased by approximately RMB193 million or approximately 13% from approximately RMB1,438 million for FY2021 to approximately RMB1,245 million for FY2022, mainly due to the decrease in sales volume by approximately 20% YoY. The decline in sales was due mainly to the resurgence of the pandemic, leading to weakening demand, hence lowering the Group's sales volume in DME YoY. This was partly offset by an increase in average selling price by approximately 8%.

Melamine

Revenue derived from the sales of melamine decreased by approximately RMB239 million or approximately 20% from approximately RMB1,206 million for FY2021 to approximately RMB967 million for FY2022. This was mainly due to the decrease in sales volume and the average selling price of the Group by approximately 10% and 11% YoY, respectively. On one hand, affected by the war between Russia and Ukraine, exports to Russia were restricted, resulting in a decrease in export volume. On the other hand, in order to ensure production safety and steady operations, the Group has carried out scheduled shutdown for maintenance in the third quarter, decreasing overall production volume.

Furfuryl alcohol

Revenue derived from the sales of furfuryl alcohol products decreased by approximately RMB224 million or 27% from approximately RMB835 million for FY2021 to approximately RMB611 million for FY2022. Due to the continuous impact of the pandemic, the operating rate of downstream industries has declined with the weak demand and insufficient raw material support, leading to a decrease in the average selling price and sales volume of furfuryl alcohol of the Group by approximately 22% and 6% YoY respectively.

Medical intermediate

Revenue derived from the sales of medical intermediate decreased by approximately RMB68 million or approximately 13% from approximately RMB508 million for FY2021 to approximately RMB440 million for FY2022. This was due mainly to the decrease of average price and sales volume of medical intermediate of Group by approximately 12% and 2% YoY respectively, as a result of the decline of downstream industries affected by pandemic, weakened domestic and foreign demands.

(I) BUSINESS REVIEW *(Continued)*

Revenue *(Continued)*

Profitability

Urea

Gross profit margin of urea of the Group decreased by approximately 3.3 percentage points to approximately 28% for FY2022 from approximately 31.3% for FY2021. The decrease was due mainly to a higher increase in the cost of goods sold of 21% of urea, the impact of higher cost was partially offset by the 15% increase in the average selling price. The increase in the cost of goods sold was largely due to epidemic and environmental protection policies, coal market demand and supply mismatches, causing continuous high price of raw coal.

Urea solution for vehicle

Gross profit margin of sales of urea solution for vehicle decreased by approximately 4.9 percentage points from approximately 27.1% for FY2021 to 22.2% for FY2022. The decrease was due mainly to an 11% increase in the cost of goods sold as a result of the increase in price of urea which is a new material.

Compound fertiliser

Gross profit margin of compound fertilisers of the Group marginally increased by approximately 0.1 percentage point to approximately 12.8% for FY2022 from approximately 12.7% for FY2021.

Methanol

Gross profit margin of methanol of the Group decreased by approximately 11.8 percentage points to approximately negative 0.4% for FY2022 from approximately 11.4% for FY2021. Affected by the rise of international energy prices, methanol cost of goods sold increased approximately 20% YoY. In this regard, in order to maximise marginal benefits, the Group has compressed the output of self-produced methanol to the greatest extent, and minimised its adverse effects.

(I) BUSINESS REVIEW *(Continued)*

Profitability *(Continued)*

Dimethyl ether (DME)

Gross profit margin of DME of the Group decreased by approximately 10.4 percentage points to approximately 1.5% for FY2022 from approximately 11.9% for FY2021. Impacted by low demand and high cost of raw material, DME cost of goods sold increased by approximately 21% YoY.

Melamine

Gross profit margin of melamine of the Group decreased by approximately 11.7 percentage points to approximately 49.2% for FY2022 from approximately 60.9% for FY2021. Russia-Ukraine conflict sparked energy shortages, energy prices soared and demand slumped, resulting an approximately 16% YoY increase in the cost of goods sold for melamine.

Furfuryl alcohol

Gross profit margin of furfuryl alcohol products of the Group decreased by approximately 16.7 percentage point from approximately 13.9% for FY2021 to negative 2.8% for FY2022. This was due mainly to weak demand from the downstream industries affected by the epidemic. As a result, the average selling price of furfuryl alcohol fell by 22% YoY.

Medical intermediate

Gross profit margin of medical intermediate of the Group decreased by approximately 7.7 percentage point from approximately 20.8% for FY2021 to approximately 13.1% for FY2022 mainly due to an approximately 12% decrease in the average selling price of medical intermediate.

Other income and gains

Other income and gains increased by approximately RMB18 million from approximately RMB169 million in FY2021 to approximately RMB187 million in FY2022. The increase was mainly due to (1) an increase in bank interest income of RMB15 million in FY2022; (2) an increase in subsidy income of RMB9 million in FY2022; and (3) an increase in exchange gain by RMB5 million in FY2022. Such increase was partially offset by a decrease in net profit from sales of by-product, water, electricity and steam amounting RMB15 million .

(I) BUSINESS REVIEW *(Continued)*

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB53 million from RMB476 million in FY2021 to RMB529 million in FY2022. The increase was mainly due to: (1) an increase of approximately RMB48 million staff expenses from recruiting sales staff and implementing staff incentive policies to support the Group's production capacity and business volume increase and (2) an increase of approximately RMB5 million in storage rental fees as a result of continued expansion of warehouse and storage network in order to building a nationwide sales network.

General and administrative expenses

General and administrative expenses increased by approximately RMB137 million from approximately RMB935 million in FY2021 to approximately RMB1,072 million in FY2022. The increase was mainly due to: (1) the impact on salaries of approximately RMB108 million due to factors such as ramping up the training and incentives of core technical talents, and at the same time, the introduction of a talent tank in order to promote the layout of new bases and the construction of large projects; (2) an increase in expenses such as various taxes, labor union funds and disability insurance of approximately RMB24 million as the Group's large-scale development project continued to grow; and (3) an increase of approximately RMB5 million in professional service fees for digitalisation and upgrading of the information and business intelligence system of the Group.

Finance costs

Finance costs increased by approximately RMB79 million from approximately RMB583 million in FY2021 to approximately RMB662 million in FY2022 due to the increase in amount of interest-bearing borrowings and loans.

Income tax expense

Income tax expense decreased by approximately RMB35 million from approximately RMB407 million in FY2021 to approximately RMB372 million in FY2022.

(I) BUSINESS REVIEW *(Continued)*

Profit for the year

The profit for the year increased by RMB37 million or approximately 2% from approximately RMB1,771 million in FY2021 to approximately RMB1,808 million in FY2022.

(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.

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> Restated |
|---|------------------------|------------------------------------|
| Trade payables | 645,698 | 774,423 |
| Bills payable | 496,618 | 850,474 |
| Contract liabilities | 1,514,349 | 1,079,227 |
| Accruals and other payables | 2,525,832 | 2,365,180 |
| Other liabilities | 111,856 | 117,867 |
| Due to related companies | 71,632 | 81,166 |
| Loans from non-controlling interests | 48,800 | 47,800 |
| Interest-bearing bank and other borrowings | 12,335,527 | 11,368,775 |
| Bonds payable | 299,481 | 494,704 |
| Lease liabilities | 23,251 | 23,258 |
| Less: Cash and cash equivalents | (1,469,765) | (893,116) |
| Pledged time deposits | (595,496) | (753,545) |
| Net debt | 16,007,783 | 15,556,213 |
| Equity attributable to owners of the parent | 6,886,203 | 5,694,856 |
| Less: Statutory reserve fund | (665,869) | (511,091) |
| Adjusted capital | 6,220,334 | 5,183,765 |
| Capital and net debt | 22,228,117 | 20,739,978 |
| Gearing ratio | 72.02% | 75.01% |

(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, other liabilities, 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 | |
|--|-------------------------------|------------------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 4,966,043 | 5,834,004 |
| In the second year | 3,634,656 | 2,080,704 |
| In the third to fifth years, inclusive | 2,680,099 | 2,241,039 |
| Beyond five years | – | 170,000 |
| | <hr/> 11,280,798 <hr/> | <hr/> 10,325,747 <hr/> |
| Loans from leasing company/finance lease payables: | | |
| Within one year or on demand | 590,042 | 568,209 |
| In the second year | 362,120 | 332,883 |
| In the third to fifth years, inclusive | 102,567 | 141,936 |
| | <hr/> 1,054,729 <hr/> | <hr/> 1,043,028 <hr/> |
| | <hr/> 12,335,527 <hr/> | <hr/> 11,368,775 <hr/> |

(III) PROSPECTS

In 2022, affected by the recurring pandemic and geopolitical tensions, rising food prices and energy shortages encouraged high and volatile price of fertilisers. Meanwhile, due to the rising concern of food safety issue, the demand for high efficiency fertilisers were favorable, driving up the performance of leading enterprises in the industry.

In 2023, while international energy prices rebound, the supply and demand of fertiliser will continue to be in tight balance. At the same time, the 2023 central document clearly stated that China shall endeavor to ensure the stable production and supply of grain across the country. Therefore, this will continue to increase demand for chemical fertilizers. Fertilizer prices are expected to remain stable, but prices may fluctuate and are subject to seasonal factors. In terms of chemical products, with the further optimization of epidemic control and favorable policies to promote the recovery of downstream demands, it will stabilize and help the recovery of chemical products prices.

Facing a new round of transformation and upgrading of the coal chemical industry, the Group has always adhered to the principle of “taking fertilizer as the foundation and developing fertilizer simultaneously”. On one hand, consolidate the main business of fertilizers, focus on strengthening differentiated urea and compound fertilisers, and continue to strengthen R&D and promote high efficiency fertilizers. On the other hand, strengthening “One Head and Multiple Tails” flexible production to improve efficiency, taking full advantage of low syngas production cost competitive advantage, extending downstream chemical products, increasing efficient use of energy resources, and strengthens the competitive advantage of products chain, thereby promotes the transformation and upgrading of the industrial chain.

As for the project construction, a million-ton ecological fertiliser project for Liaoning Huludao base of the Group is under construction in an orderly manner according to plans. In addition, the green urea project with an annual capacity of 700,000 tons at Xinxiang base is expected to be completed and put into operation this year. By then, the advantages of the Group’s principal business will be further enhanced with sustainable development capability, supporting the high-quality continuous development of the Group.

(IV) PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB25 cents per share for the year ended 31 December 2022 (the “**Proposed Final Dividend**”) (2021: RMB19 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) SUPPLEMENTARY INFORMATION *(Continued)*

1. Operational and Financial Risks *(Continued)*

(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% in the year ended 31 December 2022 as compared with an increase of approximately 0.9% in 2021. 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 2022, approximately RMB5,556 million (31 December 2021: approximately RMB6,402 million), or approximately 45.04% (31 December 2021: 56.31%) 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 2022 and 2021. The gearing ratio of the Group (calculated as net debt divided by the aggregate of total capital and net debt) decreased from approximately 75.01% as at 31 December 2021 to approximately 72.02% as at 31 December 2022.

(V) SUPPLEMENTARY INFORMATION *(Continued)*

2. Contingent Liabilities

As at 31 December 2022, the Group had no material contingent liabilities (2021: Nil).

3. Material Litigation and Arbitration

As at 31 December 2022, the Group was not involved in any material litigation or arbitration (2021: Nil).

4. Scope of work of Ernst & Young

The figures in respect of preliminary announcement of Group results for the year ended 31 December 2022 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 2022 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 2022.

(V) **SUPPLEMENTARY INFORMATION** *(Continued)*

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 2022.

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

For the year ended 31 December 2022, 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 2022, there were 9,313 (2021: 8,698) 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, 24 March 2023

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*