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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 UNAUDITED BUSINESS UPDATE
FOR THE THREE MONTHS ENDED 31 MARCH 2023**

The board of directors (the “**Board**”) of China XLX Fertiliser Ltd. (the “**Company**”) hereby announces the unaudited business update of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2023 (“**3M2023**”).

In the first quarter of 2023, the epidemic policy was relaxed, geopolitics gradually eased, food prices remained high, agricultural rigid demand remained strong, industrial demand recovered slowly, and the supply and demand of fertilisers remained in a tight balance, steadily supporting fertiliser prices in a stable manner. The Group adhered to the development strategy of “Fertiliser as foundation, fertiliser and chemical side by side”. While strengthening the urea + compound fertiliser segment, the Group took low-cost syngas as its core competitiveness and extended the product chain to form a “Flexible adjustment between products” production model, henceforth, increasing the adjustment ability of the product structure so as to balance the cyclical effects of fertilisers and chemicals.

The Group continued to strengthen its “low-cost, differentiated” competitiveness. Relying on advanced coal gasification production technology and high-efficiency fertiliser research and development (“**R&D**”) and application strength, the Group has been awarded the honorary title of “Benchmarking Enterprise for Synthetic Ammonia Energy Efficiency Leader” for 12 consecutive years.

The unaudited consolidated revenue of the Group increased by approximately RMB893 million or 17% from approximately RMB5,386 million for the three months ended 31 March 2022 (“3M2022”) to approximately RMB6,279 million for 3M2023. The Group has increased its R&D and promotion of high-efficiency fertilisers, strengthened the construction of R&D platforms, and promoted energy conservation and consumption reduction in the production system. Its revenue accounted for more than 50% of total fertilisers, and its gross profit margin was 9 percentage points higher than that of ordinary fertilisers, ensuring stable growth in the performance of fertiliser products. Revenue and profit of fertilisers products accounted for 60% and 65% respectively of total sales. However, as the chemical products market is still in a period of high volatility, offsetting the growth rate of fertilisers, the unaudited consolidated net profit of the Group decreased by approximately RMB58 million or 11% from approximately RMB520 million for 3M2022 to approximately RMB462 million for 3M2023.

The unaudited total comprehensive income attributable to the owners of the parent decreased by approximately RMB49 million or 13% from approximately RMB382 million for 3M2022 to approximately RMB333 million for 3M2023.

UREA

Revenue derived from the sales of urea increased by approximately RMB370 million or 23% from RMB1,583 million for 3M2022 to approximately RMB1,953 million for 3M2023. The sales volume of urea in the first quarter of 2023 was approximately 768,000 tons, an increase of 19% year on year (“YoY”), of which high-efficiency urea sales accounted for 52%. Since high-efficiency urea has the characteristics of activating soil, improving quality and efficiency, and improving fertiliser efficiency utilisation, the sales price is 8% to 12% higher than that of ordinary urea. At the same time, in order to reduce the impact of price fluctuations from chemical products, the Group increased urea production by approximately 6% YoY through flexible adjustments.

Gross profit margin of urea of the Group increased by approximately 2 percentage points from approximately 28% for 3M2022 to approximately 30% for 3M2023. With its advanced coal gasification production process, the Group has increased the coal conversion rate to over 99.7%, and the power consumption per ton of urea has been reduced by over 50% compared with the traditional process, with obvious advantages in low cost. At the same time, the Group’s product differentiation strategy has increased the sales price by about 10% compared with ordinary fertilisers.

UREA SOLUTION FOR VEHICLE

Revenue derived from the sales of urea solution for vehicle decreased by approximately RMB11 million or 9% from approximately RMB116 million for 3M2022 to approximately RMB105 million for 3M2023. This was mainly due to the decrease in the sales volume of urea solution for vehicle of the Group by approximately 11% YoY. Based on the market situation of urea solution for vehicle and agricultural urea, and considering that the first quarter is the peak season for agricultural urea, the Group voluntarily gave up orders for lower-profit urea solution for vehicle and increased sales of agricultural urea.

Gross profit margin of sales of urea solution for vehicle decreased by approximately 7.7 percentage points from approximately 31.6% for 3M2022 to 23.9% for 3M2023. Mainly due to the rising cost of raw materials, the production cost of urea solution for vehicles increased 23% YoY.

COMPOUND FERTILISERS

Revenue derived from the sales of compound fertilisers increased by approximately RMB83 million or 6% from approximately RMB1,477 million for 3M2022 to approximately RMB1,560 million for 3M2023, due mainly to the increase in the sales volume by approximately 5% YoY. The sales volume of compound fertilisers increased to 530,000 tons for 3M2023. Among them, sales of high-efficiency compound fertilisers accounted for 40%. Since high-efficiency fertilisers are more in line with the needs of economic crops and have a wider demand space, the Group will continue to increase the R&D and application of high-efficiency fertilisers to enhance profitability. At the same time, the Group accelerated the expansion of compound fertilisers distribution, targeted marketing based on regional characteristics, soil properties, and crop demand, and deployed warehouses in different locations across the country to save logistics costs. The market coverage continued to increase, which led to a steady growth in sales.

Gross profit margin of compound fertilisers of the Group decreased by approximately 3.4 percentage points to 11.7% in 3M2023 from approximately 15.1% in 3M2022. Affected by the 19% YoY increase in phosphate raw material production costs, the average cost of sales of compound fertilisers increased by 4% year-on-year.

In the first quarter of 2023, although the adverse impact of the epidemic on downstream demand gradually subsided, the transmission effects to sales and selling prices of chemical products were relatively slow. The lack of strong support for chemical prices has led to a decline in the entire chemical market. The Group's methanol, melamine and pharmaceutical intermediates and other chemicals were affected. However, the Group took advantage of the flexible adjustments to minimise the adverse effects of the market.

METHANOL

Revenue derived from the sales of methanol increased by approximately RMB41 million or 9% from approximately RMB487 million for 3M2022 to approximately RMB528 million for 3M2023 due mainly to an increase of the sales volume of methanol by 13% YoY. On the premise of ensuring the maximisation of marginal benefits, the Group has increased flexible adjustments, and through the conversion of alcohol to ammonia and the extension of the methanol product chain, has minimised the production of self-produced methanol. In the first quarter, the production of self-produced methanol decreased by 4% YoY. However, in order to fulfil customers' needs during the industry downturn, the Group increased methanol trading activities to offset the decline in gross profit margin. Although the gross profit margin of methanol in the first quarter of 2023 was -1.2%, a 3.8 percentage points YoY decrease, there still remained a positive margin contribution. At the same time, the Group continues to optimise and upgrade the existing methanol system, adopting advanced multi-effect distillation technology to effectively reduce steam consumption by 40%, so as to reduce the loss of gross profit margin.

MELAMINE

Revenue derived from the sales of melamine decreased by approximately RMB75 million or 27% from RMB273 million for 3M2022 to approximately RMB198 million for 3M2023. The decrease was mainly due to a 31% YoY decrease in the average selling price of melamine. Due to the slow recovery of the downstream real estate industry and weak demand in the international market, the price of melamine has declined. The Group not only accelerated the expansion of new channels, but also expanded its presence in overseas markets in addition to that in Russia, achieving a 4% YoY increase in sales volume.

Gross profit margin of melamine of the Group decreased by approximately 21.1 percentage point to approximately 38.3% for 3M2023 from approximately 59.4% for 3M2022. However, taking advantage of the unique technological advantages and low-cost advantages of the Xinjiang base, even during industry downturn, the Group's melamine profitability still has a competitive advantage.

MEDICAL INTERMEDIATE

Revenue derived from the sales of medical intermediate increased by approximately RMB28 million or 24% from approximately RMB116 million for 3M2022 to approximately RMB144 million for 3M2023. This was mainly due to a 50% YoY increase in the sales volume of medical intermediate. With the full liberalisation of the epidemic policy, downstream demand has gradually shifted from anti-epidemic drugs to anti-hepatitis B virus and other drugs, and the demand in overseas markets has been further released, driving the Group's export volume to increase.

Gross profit margin of medical intermediate decreased by 4.4 percentage point from 19.4% for 3M2022 to 15% for 3M2023. Since the transmission process from market recovery to product prices increase takes time, in the first quarter, the average selling price of products decreased by 16% YoY, but increased by 14% quarter-on-quarter.

PROSPECTS

Entering the second quarter, the international energy supply and demand turned loose, and the price of coal dropped significantly. The support for fertiliser prices was insufficient, leading to a downward trend of fertiliser prices. However, the chemical products market experienced a gradual recovery of downstream industries, and prices were slowly recovering. Although prices of fertiliser fluctuates, but based on its rigid demand characteristics, its price stability is still better than that of chemicals. Taking advantage of the downturn in the industry, the Group's Xinxiang base will be shut down for proposed inspection, laying the foundation for efficient production.

As one of the few fertiliser companies in China that expands urea and compound fertiliser simultaneously, it takes the lead in proposing the brand positioning of "Chinese high-efficiency fertiliser advocator" among the industry, and insists on promoting a high-quality industrial park through technological innovation and development. The Group has the first national nitrogen fertiliser research center, and through its advanced scientific research platform and research and development system, jointly develop and promote high-efficiency fertiliser products such as humic acid, loss-control fertiliser and energy-gathering net with the Chinese Academy of Sciences research units. Using the advantage of advanced technology, enhanced independent research and development capabilities to increase market share of high-efficiency fertilisers, were the Group's responses to the country's call for "reducing production and increasing efficiency", and to meet the market's broader demand for green, environmentally friendly, and high-efficiency fertilisers. At the same time, the Group will also strengthen the development of technology to treat recycle waste water, waste gas, and waste residue, continuously improve the circular economy benefits in the industrial park, improve the degree of automation, build core competitiveness in R&D, and support the development goal of "low cost and differentiation".

In terms of project construction, the Group's Xinxiang Base's urea project with an annual production capacity of 700,000 tons is expected to be put into operation by the second half of this year. The first phase of Liaoning Huludao Base project is expected to be completed and put into operation in the third quarter of this year. As an enterprise that owns both urea and compound fertiliser, the Group will further release its fertiliser production capacity, and its main business advantages will become more obvious.

Note

Comparable numbers

Adopt the revised version of “Accounting Standards for Business Enterprises No. 14 – Revenue” and adjust the eligible transportation expenses to the operating costs according to the new revenue standard. For the three months ended March 31, 2022, retroactive adjustments to the gross profit margin of products are as follows:

	For the three months ended 31 March 2022	Impact of shipping cost reclassification on product gross margin	For the three months ended 31 March 2022 <i>Restated</i>
Products			
Urea	29.9%	Down by 1.9 percentage points	28%
Urea Solution for Vehicle	36.9%	Down by 5.3 percentage points	31.6%
Compound Fertilisers	18.5%	Down by 3.4 percentage points	15.1%
Methanol	3.7%	Down by 1.1 percentage points	2.6%
Melamine	63.5%	Down by 4.4 percentage points	59.4%

By Order of the Board
China XLX Fertiliser Ltd.
Liu Xingxu
Chairman of the Board

5 May 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; the independent non-executive directors of the Company are Mr. Ong Kian Guan, Mr. Li Shengxiao, Mr. Ong Wei Jin and Mr. Li Hongxing.

* *for identification purpose only*