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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)

**CLARIFICATION ANNOUNCEMENT
REVISED ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

China XLX Fertiliser Ltd. (the “**Company**”) has noted in the announcement of its final results (the “**Results Announcement**”) for the year ended 31 December 2017 (“**FY2017**”) that, although the Company’s profit for the year, total comprehensive income for the year and net assets have been correctly stated, there has been an inadvertent mistake by which the amounts of “profit attributable to non-controlling interest” and “total comprehensive income attributable to non-controlling interest” for FY2017 in the consolidated statement of profit or loss and other comprehensive income for FY2017 (the “**Income Statement**”) were shown as RMB(25,754,000) instead of RMB25,754,000, which should be the correct number. As that led to consequential mistakes in the Results Announcement, the Company wishes to clarify the following figures for FY2017:

- In the Income Statement and note 10 to the consolidated financial statements, “profit attributable to owners of the parent” and “Earnings – profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation” should be RMB397,778,000 instead of RMB449,286,000.
- In the Income Statement, “total comprehensive income attributable to owners of the parent” should be RMB396,271,000 instead of RMB447,779,000.
- In the Income Statement, “Earnings per share attributable to ordinary equity holders of the parent basic and diluted” should be RMB33.95 cents instead of RMB38.34 cents.
- In the consolidated statement of financial position of the Company as at 31 December 2017 (the “**Balance Sheet**”), “retained profits” and “non-controlling interest” should be RMB1,844,869,000 and RMB283,279,000, instead of RMB1,896,376,000 and RMB231,772,000 respectively.
- In “(II) Financial Review – Gearing” and “(VI) Supplementary Information – (vii) Gearing Risk”, the “equity attributable to owners of the parent”, “total capital”, “capital and net debt” and “gearing ratio” should be, RMB3,366,675,000, RMB3,038,882,000, RMB10,603,879,000 and 71.34%, instead of RMB3,418,182,000, RMB3,090,389,000, RMB10,655,386,000 and 71.00% respectively. As a result of the correction of gearing ratio, the gearing ratio of the Group as at 31 December 2017 of 71.34% had increased, instead of decreased as stated in the Results Announcement, from its gearing ratio as at 31 December 2016 of 71.16%.

The Company also clarifies that (a) in “(II) Financial Review – Loans”, the “secured bank loans” and its aggregate amount should be zero instead of RMB300,062,000 and the “unsecured bank loans” and the aggregate amount of “unsecured bank loans” and “unsecured RMB bond” should be RMB1,646,112,000 and RMB2,246,112,000 instead of RMB1,346,050,000 and RMB1,946,050,000, respectively; and (b) in “(VI) Supplementary Information – (vi) Liquidity Risk”, as at 31 December 2017, approximately 39.3% (instead of 38.9%) 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.

The final results of the Company for FY2017 are updated accordingly and set out in the revised final results announcement as shown in the Appendix to this announcement. Save as those corrected above, the rest of the Results Announcement remains unchanged.

Trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the “SEHK”) has been halted with effect from 2:45 p.m. on 20 March 2018 pending the release of this announcement. Application has been made for the resumption of trading in the shares of the Company on the SEHK with effect from 9:00 a.m. on 21 March 2018.

By Order of the Board
Liu Xingxu
Chairman of the Board

21 March 2018

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 and Mr. Ong Wei Jin; and the non-executive director of the Company is Mr. Lian Jie.

** for identification purpose only*

APPENDIX

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REVISED ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the “**Board**”) of China XLX Fertiliser Ltd. (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2017 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 2017

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	4,5	7,561,547	5,710,698
Cost of sales		<u>(5,974,597)</u>	<u>(4,687,090)</u>
Gross profit	4	1,586,950	1,023,608
Other income and gains	5	87,594	69,985
Selling and distribution expenses		(482,909)	(435,334)
General and administrative expenses		(415,467)	(318,612)
Other expenses		(5,600)	(33,192)
Finance costs	6	(285,851)	(266,366)
Profit before tax	7	484,717	40,089
Income tax expense	8	(61,185)	(11,054)
Profit for the year		<u>423,532</u>	<u>29,035</u>
Other comprehensive income			
Available-for-sale investment:			
Change in fair value		<u>(1,507)</u>	505
Other comprehensive income for the year, net of tax		<u>(1,507)</u>	505
Total comprehensive income for the year		<u>422,025</u>	<u>29,540</u>
Profit attributable to:			
Owners of the parent		397,778	30,120
Non-controlling interest		<u>25,754</u>	<u>(1,085)</u>
		<u>423,532</u>	<u>29,035</u>
Total comprehensive income attributable to:			
Owners of the parent		396,271	30,625
Non-controlling interest		<u>25,754</u>	<u>(1,085)</u>
		<u>422,025</u>	<u>29,540</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB cents)	10	<u>33.95</u>	<u>2.56</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		8,607,583	8,201,521
Prepaid land lease payments		381,708	374,414
Goodwill		25,361	25,361
Coal mining right		90,684	95,099
Available-for-sale investment		6,708	6,708
Prepayments		135,493	126,416
Deferred tax assets		23,126	23,801
Pledged deposits		5,388	–
Prepayments to a related company		13,272	–
Total non-current assets		9,289,323	8,853,320
Current assets			
Due from related companies		2,603	9,146
Available-for-sale investment		37,178	4,185
Inventories		715,038	449,505
Trade receivables	<i>11</i>	127,763	73,514
Bills receivable	<i>11</i>	33,066	1,603
Prepayments		457,318	355,913
Deposits and other receivables		721,112	432,578
Income tax recoverable		14	1,076
Pledged deposits		181,077	226,349
Cash and cash equivalents		341,270	512,806
Total current assets		2,616,439	2,066,675
TOTAL ASSETS		11,905,762	10,919,995
Current liabilities			
Due to related companies		45	4,391
Trade payables	<i>12</i>	246,701	185,577
Bills payable	<i>13</i>	423,915	655,020
Accruals and other payables		1,519,336	1,195,987
Income tax payable		31,595	191
Deferred grants		5,943	5,979
Loan from a non-controlling interest		24,750	24,750
Interest-bearing bank and other borrowings		1,646,112	756,156
Short-term bond payable		600,000	200,000
Total current liabilities		4,498,397	3,028,051
NET CURRENT LIABILITIES		(1,881,958)	(961,376)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,407,365	7,891,944

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current liabilities		
Loan from a non-controlling interest	50,500	75,250
Interest-bearing bank and other borrowings	2,965,015	3,601,386
Deferred grants	93,987	48,804
Deferred tax liabilities	36,939	56,791
Accruals and other payables	110,970	226,752
Long-term bond payable	500,000	600,000
	<hr/>	<hr/>
Total non-current liabilities	3,757,411	4,608,983
	<hr/>	<hr/>
TOTAL LIABILITIES	8,255,808	7,637,034
	<hr/>	<hr/>
NET ASSETS	3,649,954	3,282,961
	<hr/> <hr/>	<hr/> <hr/>
Equity attributable to owners of the parent		
Issued capital	872,579	881,124
Convertible bonds	322,436	322,436
Statutory reserve fund	327,793	285,412
Revaluation reserve	(1,002)	505
Retained profits	1,844,869	1,546,310
	<hr/>	<hr/>
	3,366,675	3,035,787
	<hr/>	<hr/>
Non-controlling interest	283,279	247,174
	<hr/>	<hr/>
TOTAL EQUITY	3,649,954	3,282,961
	<hr/> <hr/>	<hr/> <hr/>
TOTAL EQUITY AND LIABILITIES	11,905,762	10,919,995
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. CORPORATION INFORMATION

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

2. BASIS OF PREPARATION

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

These financial statements have been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. 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

3.1 Changes in accounting policies and disclosures

The Group has adopted the following revised IFRSs for the first time for the current year’s financial statements.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements</i>	Amendments to a number of IFRSs
<i>Cycle 2014-2016</i>	

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group adopted the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group adopted the amendments from 1 January 2017.

3.2 Standards issued but not yet effective

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts¹</i>
IFRS 9	<i>Financial Instruments¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
IFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers¹</i>
IFRS 16	<i>Leases²</i>
Amendments to IAS 40	<i>Transfers of Investment Property¹</i>
IFRIC Interpretation 22	<i>Foreign Currency Transaction and Advance Consideration¹</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

Except for IFRS 9, IFRS 15 and IFRS 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of IFRS 15, IFRS 9 and IFRS 16 are described below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary assessment of adopting IFRS 15 based on currently available information and expects the financial impact to be immaterial.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model.

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The Group has performed a preliminary impact assessment of adopting IFRS 9 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts IFRS 9 in 2018.

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised. In addition, the Group currently measures one of its investments in unquoted equity security at cost of RMB 7,500,000 less impairment of RMB 792,000. Under IFRS 9, the Group will be required to measure the investment at fair value.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group does not expect a significant impact due to its historical experience and customers' profile, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

IFRS 16 Leases

IFRS 16 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects that the adoption of IFRS 16 will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

The Group plans to adopt the new standard on the required effective date by applying IFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of the retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to IFRS 16 and assessing the possible impact of adoption.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products, and has five reportable operating segments (2016: three) as follows:

- Manufacturing and sale of urea
- Manufacturing and sale of compound fertiliser
- Manufacturing and sale of methanol
- Manufacturing and sale of melamine
- Manufacturing and sale of furfuryl alcohol

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

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

For the year ended 31 December 2016	Urea <i>RMB'000</i>	Compound fertiliser <i>RMB'000</i>	Methanol <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers	2,939,765	1,657,994	532,401	580,538	–	5,710,698
Intersegment sales	273,336	11,230	2,266	6,366	(293,198)	–
Total revenue	3,213,101	1,669,224	534,667	586,904	(293,198)	5,710,698
Segment profit	558,767	277,821	79,720	107,300	–	1,023,608
Interest income						15,705
Unallocated other income and gains						54,280
Unallocated expenses, net						(787,138)
Finance costs						(266,366)
Profit before tax						40,089
Income tax expense						(11,054)
Profit for the year						29,035
Other segment information:						
Loss on disposal of items of property, plant and equipment						2,424
Depreciation of items of property, plant and equipment						522,118
Amortisation of prepaid land lease payments						8,610
Amortisation of coal mining right						4,415
Capital expenditure						824,580

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:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
REVENUE		
Sale of goods	7,561,547	5,710,698
OTHER INCOME AND GAINS		
Bank interest income	10,962	15,705
Sale of by-products	25,304	7,474
Net income on sale of electricity and water	1,422	–
Exchange gains	6,797	–
Amortisation of deferred grants	7,774	5,943
Subsidy income	27,660	25,681
Compensation income	4,083	10,373
Rental income	–	2,787
Gain on disposal of items of property, plant and equipment	3,216	–
Others	376	2,022
Total other income and gains	87,594	69,985

6. FINANCE COSTS

The Group's finance costs are analysed as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on bank loans, overdrafts, other loans and bonds, wholly repayable within five years	285,851	278,081
Less: Interest capitalised	–	(11,715)
	285,851	266,366

8. INCOME TAX

The Company is incorporated in Singapore and is subject to an income tax rate of 17% (2016: 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% (2016: 25%). In year 2017, two of the subsidiaries were awarded the New/High Tech Enterprise Award as recognition of their innovation and use of state-of-the-art equipment. This award brought these subsidiaries a tax concession of a lower income tax rate (i.e., 15%) for the year ended 31 December 2017, and the years ending 31 December 2018 and 2019.

The major components of income tax expense for the financial years ended 31 December 2017 and 2016 are:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current – PRC		
Charge for the year	77,294	18,504
Underprovision in respect of prior years	3,068	3,011
Deferred	<u>(19,177)</u>	<u>(10,461)</u>
Total tax charge for the year	<u>61,185</u>	<u>11,054</u>

9. DIVIDEND

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Proposed final dividend – RMB8.49 cents (2016: RMB4.00 cents) per ordinary share	<u>85,500</u>	<u>40,000</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 1,171,736,000 (2016: 1,176,000,000) in issue during the year, as adjusted to reflect the convertible bonds issued in 2011.

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>397,778</u>	<u>30,120</u>
	2017 <i>Number of shares</i>	2016 <i>Number of 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	<u>1,171,736,000</u>	<u>1,176,000,000</u>

11. TRADE AND BILLS RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables	<u>127,763</u>	<u>73,514</u>
Bills receivable	<u>33,066</u>	<u>1,603</u>

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

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

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

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	98,220	39,452
1 to 3 months	8,058	10,289
3 to 6 months	6,835	14,617
6 to 12 months	10,969	5,974
Over 12 months	3,681	3,182
	127,763	73,514

12. TRADE PAYABLES

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

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	128,832	88,652
1 to 3 months	50,374	52,215
3 to 6 months	38,120	13,375
6 to 12 months	12,985	16,680
Over 12 months	16,390	14,655
	246,701	185,577

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

13. BILLS PAYABLE

The Group's bills payable have an average maturity period of 90 to 180 days and are interest-free. Bills payable are denominated in RMB and are secured by time deposits of RMB181,077,000 (2016: RMB226,349,000).

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Revenue

Revenue increased by approximately RMB1,851 million or approximately 32% from approximately RMB5,711 million in the financial year ended 31 December 2016 (“FY2016”) to approximately RMB7,562 million in the financial year ended 31 December 2017 (“FY2017”). The increase of revenue was mainly due to the increase of sales volume of compound fertiliser and melamine, and the higher average selling prices of methanol, urea and furfuryl alcohol.

Urea

Revenue derived from the sales of urea decreased by approximately RMB88 million or approximately 3% from approximately RMB2,940 million in FY2016 to approximately RMB2,852 million in FY2017. The decrease was mainly due to the decrease in sales volume by approximately 574,000 tons from approximately 2,589,000 tons in FY2016 to approximately 2,015,000 tons in FY2017. The reduction in sales of urea are mainly because the Group chose to produce and sell more melamine and liquid ammonia instead of urea based on profitability of the three products to maximise the overall return of the Group. The decrease in sales volume of urea was offset by the increase in average selling price of urea by approximately 25% due to the tightening supply through industry consolidation and growing pressure on environmental protection in China.

Methanol

Revenue derived from the sales of methanol increased by approximately RMB153 million or approximately 29% from approximately RMB532 million in FY2016 to approximately RMB685 million in FY2017. The increase was mainly due to the increase in average selling price of methanol by approximately 32%. The increase in average selling price of methanol was offset by the decrease in sales volume by approximately 3% from approximately 337,000 tons in FY2016 to approximately 327,000 tons in FY2017. The reduction in sales volume of methanol was due to the internal consumption by the Group for the production of dimethyl ether (DME) as feedstock. The Group’s DME production line commenced production in September 2017 with 200,000 tons of designed annual production capacity.

Compound fertiliser

Revenue derived from the sales of compound fertiliser increased by approximately RMB614 million or approximately 37% from approximately RMB1,658 million in FY2016 to approximately RMB2,272 million in FY2017. Such increase was mainly due to the increase in sales volume of compound fertiliser by approximately 31% from approximately 948,000 tons in FY2016 to approximately 1,244,000 tons in FY2017 as a result of the expansion of sales network and increase in production capacity.

Melamine

Revenue derived from the sales of melamine was approximately RMB383 million with sales volume of approximately 63,000 tons in FY2017. In September 2016, the Group's melamine project phase I in Xinjiang Plant V with an annual production capacity of 60,000 tons has successfully commenced operation and has become a new driver for the Group's profit growth.

Furfuryl alcohol

Revenue derived from the sales of furfuryl alcohol increased by approximately RMB202 million or 78% from approximately RMB260 million in FY2016 to approximately RMB462 million in FY2017. The increase was mainly due to the increase in average selling price of furfuryl alcohol by approximately 109%. The increase was offset by the decrease in sales volume by approximately 6,000 tons from approximately 38,000 tons in FY2016 to approximately 32,000 tons in FY2017.

Profitability

Overall gross profit margin of the Group increased from approximately 18% in FY2016 to 21% in FY2017 mainly due to the increase in the gross profit margins for urea and methanol, and the improvement of products mix in a more flexible manner after the commencement of production of melamine and DME products.

Urea

Gross profit margin for urea increased from approximately 19% in FY2016 to 23% in FY2017. This was mainly due to the increase in average selling price of urea by approximately 25% affected by the tightening supply resulted from growing pressure on environmental protection and industry consolidation in China. The increase was partially offset by the increase in average cost of sales by approximately 19% due to the higher average purchase price for coal.

Methanol

Gross profit margin for methanol increased from approximately 15% in FY2016 to 19% in FY2017. This was mainly due to the increase in average selling price of methanol by approximately 33%, while the increase in average cost of sales by approximately 27% as compared to FY2016.

Compound fertiliser

Gross profit margin for compound fertiliser decreased from approximately 17% in FY2016 to approximately 14% in FY2017. This was mainly due to the increase in average cost of sales by approximately 9% resulted from the higher raw material prices.

Melamine

Gross profit margin for melamine was approximately 56% in FY2017. The Group's melamine products achieved a satisfactory margin in FY2017 mainly due to the cost competitive advantage of Xinjiang Plant V and advanced melamine production technology which has enhanced the quality of the products in order to gain price premium and export.

Furfuryl alcohol

Gross profit margin for furfuryl alcohol increased from approximately 8% in FY2016 to approximately 9% in FY2017. This was mainly due to the increase in average selling price of furfuryl alcohol by approximately 109% as highly polluting production enterprises were shut down given the growing pressure on environmental protection in China. The increase in average selling price of furfuryl alcohol was partially offset by the increase in average cost of sales by approximately 105% as compared to FY2016.

Other income and gains

Other income and gains increased by approximately RMB18 million from approximately RMB70 million in FY2016 to approximately RMB88 million in FY2017. Such increase was mainly due to the increase in net income on sale of by-products, exchange gains, net gain on disposal of items of property, plant and equipment and subsidy income by approximately RMB18 million, RMB7 million, RMB3 million and RMB2 million respectively. The increase was partially offset by the decrease in bank interest for deposits of approximately RMB5 million.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB48 million from approximately RMB435 million in FY2016 to approximately RMB483 million in FY2017. Such increase was mainly due to the increase in transportation charges and salaries of approximately RMB50 million and RMB16 million respectively. The increase in selling and distribution expenses is mainly due to the rapid expansion of the Group's sales networks and the growth of sales volumes of compound fertiliser resulted from its enhanced capacity in FY2017. The increase was partially offset by the decrease in advertisement expenses by approximately RMB20 million.

General and administrative expenses

General and administrative expenses increased by approximately RMB97 million from approximately RMB319 million in FY2016 to approximately RMB416 million in FY2017. Such increase was mainly due to the increase in salaries and director remuneration, transaction fee, research and laboratory expenses, depreciation and amortisation costs and environmental expenses of approximately RMB64 million, RMB9 million, RMB9 million, RMB6 million and RMB5 million respectively. The increase was partially offset by the decrease in land use right tax by approximately RMB1 million.

Other expenses

Other expenses decreased by approximately RMB28 million from approximately RMB33 million in FY2016 to approximately RMB6 million in FY2017. Such decrease was mainly due to the decrease in exchange losses and loss on disposal of items of property, plant and equipment by approximately RMB28 million and RMB2 million respectively. The decrease was partially offset by the increase in impairment loss by approximately RMB3 million.

Finance costs

Finance costs increased by approximately RMB20 million from approximately RMB266 million in FY2016 to approximately RMB286 million in FY2017 mainly due to the increase in amount of interest-bearing borrowings and loans.

Income tax expense

Income tax expense increased by approximately RMB50 million from approximately RMB11 million in FY2016 to approximately RMB61 million in FY2017 due to higher taxable profits generated by the Group.

Profit for the year

The profit for the year increased by approximately RMB395 million or 1,359% from approximately RMB29 million in FY2016 to approximately RMB424 million in FY2017. This was mainly due to the increase in gross profit and other income and gains of approximately RMB563 million and RMB18 million respectively and decrease in other expenses by approximately RMB28 million. The increase was partially offset by the increase in selling and distribution expenses, general and administrative expenses, finance costs and income tax expenses by approximately RMB48 million, RMB97 million, RMB20 million and RMB50 million respectively.

(II) FINANCIAL REVIEW

Gearing

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables	246,701	185,577
Bills payable	423,915	655,020
Accruals and other payables	1,630,306	1,422,739
Due to related companies	45	4,391
Loan from a non-controlling interest	75,250	100,000
Interest-bearing bank and other borrowings	4,611,127	4,357,542
Bonds payable	1,100,000	800,000
Less: Cash and cash equivalents	(341,270)	(512,806)
Less: Pledged deposits	(181,077)	(226,349)
Net debt	<u>7,564,997</u>	<u>6,786,114</u>
Equity attributable to owners of the parent	3,366,675	3,035,787
Less: Statutory reserve fund	(327,793)	(285,412)
Total capital	<u>3,038,882</u>	<u>2,750,375</u>
Capital and net debt	<u>10,603,879</u>	<u>9,536,489</u>
Gearing ratio	<u>71.34%</u>	<u>71.16%</u>

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

Loans

Amounts payable in one year or less, or on demand

	As at 31 December 2017		As at 31 December 2016	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	–	1,646,112	261,150	495,006
RMB bond	–	600,000	–	200,000
	<u>–</u>	<u>2,246,112</u>	<u>261,150</u>	<u>695,006</u>

Amounts payable after one year

	As at 31 December 2017		As at 31 December 2016	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	176,000	2,786,288	176,000	3,421,750
Loan from government	–	2,727	–	3,636
RMB bond	–	500,000	–	600,000
	<u>176,000</u>	<u>3,289,015</u>	<u>176,000</u>	<u>4,025,386</u>

Details of collateral

As at 31 December 2017, there was no short-term loan secured by pledged deposits (2016: RMB259 million).

(III) PROSPECTS

In 2017, despite the domestic selling price of corn remained at a low level and the agricultural demand for urea was declining, the average price of urea still increased by 25% compared to 2016. This is mainly due to the increasingly harsh environmental protection policies in the PRC and the supply side reform with respect to coal enterprise, leading small-scale and high-cost enterprises to close down in an accelerated manner, hence resulting in the consolidation of the domestic urea industry. The Company expects that the domestic environmental pressure will remain in 2018, and the overall utilisation rate in the urea industry will maintain at a low level; meanwhile, as the domestic selling price of corn becomes stabilized, it may be less likely that the agricultural demand for urea will further decrease, which to a certain extent, can support the domestic selling price of urea in 2018.

The Company will continue to uphold its differentiation production strategy, in order to continue to increase the percentage of sales portion of high-efficiency fertiliser, further enhancing the profitability and market competitiveness of chemical fertiliser products. Besides, the Company has gradually increased the flexibility of its production lines following the commencement of operation of the new projects for melamine, dimethyl ether and methanol etc, being capable to adjust the production structure in accordance with the profitability of chemical fertiliser and chemical products, with an aim to decrease the cyclical effects and increase the Group's profitability and ability to withstand risks.

(IV) PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB8.49 cents per ordinary share for the year ended 31 December 2017 (the “**Proposed Final Dividend**”) (2016: RMB4.00 cents per ordinary share) to the Company's shareholders whose names appear on the register of members of the Company on 8 June 2018. The Proposed Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company (the “**AGM**”). The final dividend, if approved, is expected to be paid on 26 June 2018. The Company will further announce details of the AGM, and the relevant period of closure of the Company's register of members for determining the entitlement to attend and vote at the AGM in due course.

The translation of RMB into Hong Kong Dollars (“**HKD**”) for the purpose of dividend payment in HKD is made at the rate of approximately RMB1.00 = HKD1.2247, which is the official exchange rate of HKD against RMB as quoted on 16 March 2018 by The Hongkong and Shanghai Banking Corporation Limited. Therefore, based on the above translation of the exchange rate, the dividend to be paid in HKD will be approximately HKD0.103 per ordinary share.

(V) CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from 6 June 2018 to 8 June 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified for the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates are lodged with the Company's Hong Kong Share Transfer Agent and Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 5 June 2018.

(VI) SUPPLEMENTARY INFORMATION

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

For the year ended 31 December 2017, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs (which include all IFRSs, IASs and Interpretations).

2. Operational and Financial Risks

(i) Market Risk

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

(ii) Commodity Price Risk

The Group is also exposed to commodity price risk arising from fluctuations in the selling prices of products 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 HKD, 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 1.6% for the year ended 31 December 2017 as compared with an increase of approximately 2.0% in 2016. 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 the projected 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 2017, approximately RMB2,246 million (31 December 2016: RMB956 million), or approximately 39.3% (31 December 2016: 18.5%) 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 2017 and 2016. The gearing ratio of the Group (calculated as net debt divided by the aggregate of total capital and net debt) increased from approximately 71.16% as at 31 December 2016 to approximately 71.34% as at 31 December 2017.

3. *Contingent Liabilities*

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

4. *Material Litigation and Arbitration*

As at 31 December 2017, the Group was not involved in any litigation or arbitration.

5. Scope of work of Ernst & Young

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Accounting Standards Board and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

6. Audit Committee

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the risk management, internal control and reporting matters. The results for the year ended 31 December 2017 have been reviewed by the Audit Committee.

7. Compliance with the Corporate Governance Code

The Company devotes to best practice on corporate governance, and has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") during the year ended 31 December 2017.

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

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transactions by the directors of the Company. The Board confirms that, having made specific enquiries with all directors of the Company, all directors have complied with the required standards of the Model Code during the year ended 31 December 2017.

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

During the year ended 31 December 2017, the Company repurchased on the SEHK a total of 4,264,000 shares of the Company at a total consideration of HKD9,544,890. Such shares of the Company were cancelled on 30 August, 27 September, 12 October and 7 December 2017 respectively. Details of the share repurchases are summarized as follows:

Month of repurchase	Total number of shares repurchased	Repurchase price per share		Aggregate consideration <i>HKD</i>
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	
August 2017	2,850,000	2.15	2.01	5,926,590.00
September 2017	279,000	2.45	2.08	642,640.00
November 2017	1,135,000	2.75	2.52	2,975,660.00

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017. The repurchase of the Company's shares was made for the benefit of the Company's shareholders with a view to enhancing the net asset value per share and earnings per share of the Company.

10. Employees and Remuneration Policy

As at 31 December 2017, there were 6,119 (2016: 6,542) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

11. Disclosure on the 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
and Chief Financial Officer

19 March 2018

** for identification purpose only*