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JSCX

Jiangsu Innovative Ecological New Materials Limited
江蘇創新環保新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2116)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Jiangsu Innovative Ecological New Materials Limited (the "**Company**") is pleased to announce the audited annual results (the "**Annual Results**") of the Company and its subsidiaries (the "**Group**", "**we**", "**us**" or "**our**") for the year ended 31 December 2019 (the "**Reporting Period**"), together with comparative figures for the corresponding period in 2018. The Board and the audit committee (the "**Audit Committee**") have reviewed and confirmed the Annual Results.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2019
*(Expressed in Renminbi (**RMB**) Yuan)*

	Note	**2019**	2018
		RMB'000	*RMB'000*
			(Note)
Revenue	*2*	**175,754**	177,119
Cost of sales		**(115,532)**	(123,944)
Gross profit		**60,222**	53,175
Other income	*3*	**3,091**	6,042
Sales and marketing expenses		**(8,954)**	(7,621)
General and administrative expenses		**(11,791)**	(17,569)
Research and development expenses	*4(c)*	**(8,123)**	(7,751)
Profit from operations		**34,445**	26,276
Finance costs	*4(a)*	**(31)**	(334)
Profit before taxation	*4*	**34,414**	25,942
Income tax	*5*	**(7,468)**	(2,970)
Profit for the year		**26,946**	22,972
Earnings per share	*6*		
Basic and diluted (RMB cents)		**5.61**	5.09

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	2019	2018
	RMB'000	*RMB'000*
		(Note)
Profit for the year	**26,946**	22,972
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	**2,407**	9,994
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	**(1,220)**	(4,137)
Other comprehensive income for the year	**1,187**	5,857
Total comprehensive income for the year	**28,133**	28,829

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2019
(Expressed in Renminbi Yuan)

	Note	2019 RMB'000	2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	7	**44,069**	33,565
Lease prepayment	1(c)	**–**	3,404
Right-of-use assets		**3,304**	–
Deferred tax assets	13(b)	**503**	1,221
		47,876	38,190
Current assets			
Inventories	8	**27,569**	24,622
Trade and other receivables	9	**73,869**	96,413
Cash and cash equivalents	10	**146,693**	111,690
		248,131	232,725
Current liabilities			
Trade and other payables	12	**19,291**	20,883
Contract liabilities	11	**30**	492
Income tax payable	13(a)	**3,699**	5,033
		23,020	26,408
Net current assets		**225,111**	206,317
Total assets less current liabilities		**272,987**	244,507
Non-current liabilities			
Deferred tax liabilities	13(b)	**4,451**	–
		4,451	–
NET ASSETS		**268,536**	244,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
at 31 December 2019
(Expressed in Renminbi Yuan)

	Note	**2019**	2018
		RMB'000	*RMB'000*
			(Note)
CAPITAL AND RESERVES			
Share capital	*14*	**3,873**	3,873
Reserves	*14*	**264,663**	240,634
TOTAL EQUITY		**268,536**	244,507

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	Note	2019 RMB'000	2018 RMB'000 (Note)
Operating activities:			
Cash generated from operations	*10(b)*	**53,988**	10,888
Income tax paid	*13(a)*	**(3,633)**	(2,750)
Net cash generated from operating activities		**50,355**	8,138
Investing activities:			
Payment for purchase of property, plant and equipment		**(14,896)**	(14,692)
Proceeds from disposal of property, plant and equipment		**5**	–
Interest received		**2,725**	1,915
Net cash used in investing activities		**(12,166)**	(12,777)
Financing activities:			
Proceeds from other borrowings	*10(c)*	**3,120**	–
Repayment of bank loan and other borrowings	*10(c)*	**(3,120)**	(18,000)
Net proceeds from issuance of shares by initial public offering, net of issuance cost	*14(b)*	**–**	108,367
Interest paid		**(31)**	(334)
Dividends paid to equity shareholders of the Company	*10(c)*	**(4,104)**	–
Net cash (used in)/ generated from financing activities		**(4,135)**	90,033
Net increase in cash and cash equivalents		**34,054**	85,394
Effect of foreign exchange rate changes		**949**	323
Cash and cash equivalents at beginning of the year	*10(a)*	**111,690**	25,973
Cash and cash equivalents at end of the year	*10(a)*	**146,693**	111,690

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of our Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

Jiangsu Innovative Ecological New Materials Limited ("**the Company**") was incorporated in the Cayman Islands on 6 July 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 March 2018 (the "**Listing**"). The Group is principally engaged in the development, manufacture and sale of oil refining agents and fuel additives that are applied to reduce undesirable emissions.

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "**Group**").

(i) Basis of measurement

Items included in the financial statements of each entity in our Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "**Functional Currency**"). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis.

(ii) Use of estimates and judgments

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The group has initially applied HKFRS 16 as from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

The Group has performed an assessment on the impact of the adoption of HKFRS 16 and concluded that no adjustment to the opening balance of equity at 1 January 2019 was recognised. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position. To reflect the changes in presentation, the Group had made the following adjustment at 1 January 2019, as a result of the adoption of HKFRS16:

– Lease prepayments amounting to RMB3,404,000 as at 1 January 2019, which represents land use rights in respect of land located in the PRC with lease term of 49.5 years is now measured under right-of-use assets.

(iii) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

2 REVENUE

(a) Disaggregation of revenue

(i) Disaggregation of revenue from contracts with customers by major products lines

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of oil refining agents	**113,769**	104,248
Sales of fuel additives	**61,985**	72,871
Total	**175,754**	177,119

All revenue was recognized at a point in time under HKFRS 15.

The Group's customer base included one customer with which transactions had exceeded 10 percent of the Group's revenues for the year ended 31 December 2019 presented as below:

	2019	2018
	RMB'000	*RMB'000*
Customer A	**20,922**	24,712

(ii) Disaggregation of revenue from contracts with customers by geographical area

The following table sets out information about the geographical location of our Group's revenue from external customers. The geographical location of revenue is based on the customers' location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of right-of-use assets. During the year ended 31 December 2019, substantially all specified non-current assets were physically located in the PRC.

	2019	2018
	RMB'000	**RMB'000**
Mainland China	**163,931**	171,332
Sudan	**10,511**	4,898
Other countries and regions	**1,312**	889
Total	**175,754**	177,119

(iii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

Our Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for oil refining agents and fuel additives such that the Group does not disclose information about revenue that our Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of oil refining agents and fuel additives that had an original expected duration of one year or less.

(b) **Segment reporting**

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by our Group's most senior executive management for the purpose of resources allocation and performance assessment. On this basis, our Group has determined that it only has one operating segment which is the sale of oil refining agents and fuel additives.

3 OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Service income	**270**	146
Government grants	**216**	2,669
Net foreign exchange (loss)/gain	**(400)**	1,017
Interest income on financial assets measured at amortised cost	**2,725**	1,915
Scrap sales	**308**	–
Net loss on disposal of property, plant and equipment	**(3)**	–
Others	**(25)**	295
Total	**3,091**	6,042

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) **Finance costs**

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loan and other borrowings	**31**	334

(b) **Staff costs**

	2019	2018
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**7,269**	5,505
Contributions to defined contribution retirement plans (i)	**364**	358
	7,633	5,863

(i) Employees of our Group's subsidiary in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiary in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

Our Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) Other items

	2019	2018
	RMB'000	*RMB'000*
		(Note)
Cost of inventories (i) *(note 8(b))*	**120,092**	128,040
Research and development expenses	**8,123**	7,751
Depreciation of property, plant and equipment	**3,207**	2,576
Depreciation of right-of-use assets	**100**	–
Amortization of lease prepayment	**–**	100
Impairment losses of trade receivables (reversed)/recognised	**(87)**	78
Listing expenses	**–**	7,320
Auditors' remuneration		
– audit services	**1,385**	1,385
– tax services	**26**	26
	1,411	1,411

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

(i) Cost of inventories includes the following amounts, which are also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

	2019	2018
	RMB'000	*RMB'000*
Staff costs	**2,315**	1,291
Depreciation and amortization	**1,036**	441
Research and development expenses	**4,560**	4,096

5 INCOME TAX

(a) Income tax in the consolidated statements of profit or loss represents:

	2019	2018
	RMB'000	*RMB'000*
Current tax:		
Provision for current income tax for the year	**2,369**	4,014
Over-provision in prior years	**(70)**	(269)
	2,299	3,745
Deferred tax:		
Origination and reversal of temporary differences *(note 13(b))*	**5,983**	(775)
Effect on deferred tax balances at 1 January resulting from a change in tax rate *(note 13(b))*	**(814)**	–
	7,468	2,970

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	2019 *RMB'000*	2018 *RMB'000*
Profit before taxation	**34,414**	25,942
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	**9,109**	6,751
Tax effect of preferential tax rate (ii)	**–**	(2,708)
Over-provision in prior years	**(70)**	(269)
Tax effect of non-deductible expenses	**300**	91
Utilisation of temporary differences not recognised in previous years	**–**	(304)
Tax losses not recognized	**9**	19
Additional deduction for qualified research and development costs (iii)	**(1,066)**	(610)
Effect on deferred tax balances at 1 January resulting from a change in tax rate *(note 13(b))*	**(814)**	–
Actual income tax expense	**7,468**	2,970

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The Company's subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at 16.5% of the estimated assessable profits. Payments of dividends by Hong Kong companies are not subject to any withholding tax.

(ii) The Company's subsidiary, Jiangsu Chuangxin Petrochemical Co., Ltd. ("**Jiangsu Chuangxin**") is subject to the PRC corporate income tax rate of 25%. According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Jiangsu Chuangxin obtained the approval of High and New Technology Enterprise in 2013 with an effective period of three years from 2013 to 2015 and obtained the renewed approval of High and New Technology Enterprise in 2016 with another effective period of three years from 2016 to 2018. Therefore, Jiangsu Chuangxin was entitled to a preferential income tax rate of 15% for a period of three years from 2016 to 2018. In 2019, Jiangsu Chuangxin submitted an application to the related PRC government authority for the assessment and renewal approval of its "**High and New Technology Enterprise**" qualification, but the application was not approved, thus, it was not entitled to the preferential corporate income tax rate of 15% and was subject to the statutory corporate income tax rate of 25% in 2019.

(iii) Under the PRC Corporate Income Tax Law and its relevant regulations, additional tax deduction is allowed for qualified research and development costs.

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB26,946,000 (2018: RMB22,972,000) and 480,000,000 ordinary shares (2018: the weighted average of 451,726,027 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2019	2018
Shares in issue on January 1	**480,000,000**	1
Effect of capitalization issue on 11 March 2018 *(note)*	**–**	359,999,999
Effect of shares issued by initial public offering on 28 March 2018	**–**	91,726,027
Weighted average number of ordinary shares	**480,000,000**	451,726,027

Note: The number of ordinary shares outstanding before the capitalization issue was adjusted for the proportionate change in the number of ordinary shares outstanding as if the capitalization issue had occurred at the beginning of the earliest period presented.

There were no dilutive potential ordinary shares for the years ended 31 December 2019 and 2018; therefore, diluted earnings per share are equivalent to basic earnings per share.

7 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings *RMB'000*	Machinery and equipment *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in process *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2018	23,221	15,011	4,376	12,943	–	55,551
Additions	58	177	493	–	15,848	16,576
Disposals	–	–	(50)	–	–	(50)
At 31 December 2018 and 1 January 2019	23,279	15,188	4,819	12,943	15,848	72,077
Additions	–	1,623	825	–	11,271	13,719
Transfer from construction in progress	4,971	19,627	–	–	(24,598)	–
Disposals	–	–	(46)	(79)	–	(125)
At 31 December 2019	28,250	36,438	5,598	12,864	2,521	85,671
Accumulated depreciation:						
At 1 January 2018	(12,060)	(9,666)	(2,964)	(11,296)	–	(35,986)
Charge for the year	(1,051)	(645)	(473)	(407)	–	(2,576)
Written back on disposals	–	–	50	–	–	50
At 31 December 2018 and 1 January 2019	(13,111)	(10,311)	(3,387)	(11,703)	–	(38,512)
Charge for the year	(1,140)	(1,269)	(583)	(215)	–	(3,207)
Written back on disposals	–	–	46	71	–	117
At 31 December 2019	(14,251)	(11,580)	(3,924)	(11,847)	–	(41,602)
Net book value:						
At 31 December 2019	13,999	24,858	1,674	1,017	2,521	44,069
At 31 December 2018	10,168	4,877	1,432	1,240	15,848	33,565

8 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**19,667**	19,280
Work in progress	**3,121**	737
Finished goods	**3,174**	4,061
Consignment goods	**1,607**	544
	27,569	24,622

(b) The analysis of the amount of inventories recognised as expenses and included in profit or loss is as follows:

	2019	2018
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**115,701**	123,946
Reversal of write-down of inventories	**(169)**	(2)
Cost of inventories directly recognised as research and development expenses	**4,560**	4,096
	120,092	128,040

9 TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables, net of loss allowance *(note (a))*	**60,378**	81,702
Bills receivables *(note (b))*	**7,440**	7,495
Other receivables	**4,346**	5,530
Financial assets measured at amortised cost	**72,164**	94,727
Deposits and prepayments	**1,705**	1,686
Trade and other receivables, net	**73,869**	96,413

All of the trade and other receivables, including deposits and prepayments, are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As at the end of each reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**46,565**	65,485
After 3 months but within 6 months	**8,364**	5,323
After 6 months but within 1 year	**4,324**	4,673
After 1 year but within 2 years	**1,125**	6,221
Trade receivables, net of loss allowance	**60,378**	81,702

(b) Bills receivables

Bills receivables represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from banks at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivables to suppliers as part of the treasury management.

During the years ended 31 December 2019 and 2018, our Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a fully recourse basis. The Group had derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of each reporting period. In the opinion of the directors, the Group had transferred substantially all the risks and rewards of ownership of these bills to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2019, our Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by our Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB nil (2018: RMB200,000).

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019	2018
	RMB'000	*RMB'000*
Cash at banks and on hand	**146,693**	111,690

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2019**	2018
		RMB'000	*RMB'000*
			(Note)
Profit before taxation	*4*	**34,414**	25,942
Adjustments for:			
Depreciation of property, plant and equipment	*4(c)*	**3,207**	2,576
Depreciation of right-of-use assets	*4(c)*	**100**	–
Amortization of lease prepayment	*4(c)*	**–**	100
Reversal of write-down of inventories	*8(b)*	**(169)**	(2)
Finance costs		**31**	334
Interest income	*3*	**(2,725)**	(1,915)
Foreign exchange differences		**328**	25
Net loss on disposal of property, plant and equipment		**3**	–
Changes in working capital:			
Increase in inventories		**(2,778)**	(8,874)
Decrease/(increase) in trade and other receivables		**22,544**	(4,459)
Decrease in trade and other payables		**(505)**	(3,331)
(Decrease)/Increase in contract liabilities		**(462)**	492
Cash generated from operations		**53,988**	10,888

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

(c) Reconciliation of liabilities arising from financial activities is as below:

	Bank loan and other borrowings *RMB'000*	**Dividends payable** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2018	18,000	–	18,000
Changes from financing cash flows:			
– Repayment of bank loan and other borrowings	(18,000)	–	(18,000)
Balance at 31 December 2018 and 1 January 2019			
Changes from financing cash flows:			
– Proceeds from other borrowings	3,120	–	3,120
– Repayment of bank loan and other borrowings	(3,120)	–	(3,120)
– Dividends paid to equity shareholders of the Company	–	(4,104)	(4,104)
Total changes from financing cash flows	–	(4,104)	(4,104)
Other changes:			
– Dividends approved in respect of the previous year *(note 14(a))*	–	4,104	4,104
Balance at 31 December 2019	–	–	–

11 CONTRACT LIABILITIES

	2019 ***RMB'000***	2018 *RMB'000*
Contract liabilities		
Made-to-order manufacturing arrangements		
– Billings in advance of performance	**30**	492

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Made-to-order manufacturing arrangements

When our Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised when control over a product transferred to the customers. Our Group typically receives a deposit on acceptance of orders from new customers, the amount of the deposit, if any, was negotiated on a case by case basis with customers.

Movements in contract liabilities

	2019	2018
	RMB'000	*RMB'000*
Balance at 1 January	**492**	–
Increase in contract liabilities as a result of billing in advance of manufacturing activities	**1,922**	2,881
Decrease in contract liabilities as a result of recognising revenue during the year	**(2,384)**	(2,389)
Balance at 31 December	**30**	492

12 TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables *(note (a))*	**5,308**	5,373
Other payables and accruals	**13,983**	15,510
Trade and other payables	**19,291**	20,883

All trade payables are expected to be settled within one year.

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**5,097**	5,202
Over 3 months but within 6 months	**88**	106
Over 6 months but within 1 year	**16**	53
Over 1 year but within 2 years	**107**	10
Over 2 years but within 3 years	**–**	2
Trade payables	**5,308**	5,373

13 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	2019	2018
	RMB'000	*RMB'000*
Balance at 1 January	**5,033**	4,038
Provision for current income tax for the year *(note 5(a))*	**2,369**	4,014
Over-provision in prior years *(note 5(a))*	**(70)**	(269)
Payment made during the year	**(3,633)**	(2,750)
Balance at 31 December	**3,699**	5,033

(b) Deferred tax assets and deferred tax liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Credit loss allowance** *RMB'000*	**Inventory provision** *RMB'000*	**Accrued expenses and other payables** *RMB'000*	**Lump-sum pre-tax decuction of property, plant and equipment** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2018	7	39	400	–	446
Credited/(charged) to profit or loss *(note 5(a))*	9	(3)	769	–	775
Balance at 31 December 2018 and 1 January 2019	16	36	1,169	–	1,221
Effect on deferred tax balances resulting from a change in tax rate *(note 5(a))*	11	24	779	–	814
Charged to profit or loss *(note 5(a))*	(21)	(41)	(1,470)	(4,451)	(5,983)
Balance at 31 December 2019	6	19	478	(4,451)	(3,948)

(ii) Reconciliation to the consolidated statements of financial position:

	2019 ***RMB'000***	2018 *RMB'000*
Net deferred tax assets recognised in the consolidated statements of financial position	**503**	1,221
Net deferred tax liabilities recognised in the consolidated statements of financial position	**(4,451)**	–
	(3,948)	1,221

(c) Deferred tax liabilities not recognised:

The new CIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Our Group has not recognised deferred tax liabilities as at 31 December 2019 in respect of undistributed earnings of RMB59,847,000 (2018: RMB33,741,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

14 CAPITAL AND RESERVES

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2019	2018
	RMB'000	*RMB'000*
Final dividend proposed after the end of the Reporting Period of Hong Kong Dollar ("**HK$**") 0.01 per ordinary share (2018: HK$0.01 per ordinary share)	**4,330**	4,104

The final dividend proposed after the end of the Reporting Period has not been recognised as a liability at the end of the Reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019	2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.01 per share (2018: Nil)	**4,104**	–

(b) Share capital

(i) Authorized and issued share capital

	Par value	**No. of shares**	**HK$**
	HK$	*'000*	*'000*
Ordinary shares, issued and fully paid			
At 1 January 2018	0.01	–*	–*
Capitalisation issue *(note (ii))*	0.01	360,000	3,600
Initial public offering *(note (iii))*	0.01	120,000	1,200
At 31 December 2018, 1 January 2019 and 31 December 2019	0.01	480,000	4,800
RMB equivalent *('000)*			3,873

* The balance represented number less than 1,000.

The Company was incorporated in the Cayman Islands on 6 July 2017 as part of the Reorganization with an initial authorized share capital of HK$380,000 divided into 38,000,000 shares with a par value of HK$0.01 each, of which one fully paid share was allotted and issued on 6 July 2017.

Upon the completion of various steps of the Reorganization, the Company became the holding company of the companies comprising our Group on 12 September 2017. The share capital in the consolidated statement of financial position as at 31 December 2017 represents the issued share capital of HK$0.01 of the Company.

(ii) Capitalization issue

Pursuant to the written resolution dated 11 March 2018, the Company allotted and issued 360,000,000 shares of HK$0.01 each to the then existing shareholders. This resolution was conditional upon the share premium account being credited as a result of the Company's initial public offering and pursuant to this resolution, a sum of HK$3,600,000 (equivalent to RMB2,913,000) standing to the credit of the share premium account as of 28 March 2018 was subsequently applied in paying up this capitalization issue in full.

(iii) Issue of ordinary shares by initial public offering

On 28 March 2018, the Company issued 120,000,000 shares with a par value of HK$0.01, at a price of HK$1.25 per share by way of public offering in Hong Kong. Net proceeds from these issues amounted to RMB108,367,000 (after offsetting expenses directly attributable to the issue of shares of RMB11,663,000), out of which RMB960,000 and RMB107,407,000 were recorded in share capital and share premium accounts, respectively.

(c) Share premium

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering, net of related issuance costs. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately from following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

15 COMMITMENT

Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019	2018
	RMB'000	*RMB'000*
Contracted for	**312**	1,875
Authorised but not contracted for	**–**	–
	312	1,875

16 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the Reporting Period, the Directors proposed a final dividend. Further details are disclosed in note 14(a).

Due to the outbreak of the novel coronavirus epidemic (COVID-19) since January 2020, the PRC and other countries across the world have implemented a series of precautionary and control measures including travel restrictions, which have already had a certain negative impact on the consumption of gasoline and diesel oil in the PRC, consequently, the oil-refining agents and fuel additives industry of the PRC will also be affected to a certain extent in 2020.

These factors have adversely impacted the Group's sales in the PRC market and may continue to impact the Group's sales for at least the first half of the year 2020. The Group will monitor the developments of COVID-19 epidemic closely, assess and react actively to its impacts on the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

We develop, manufacture and market oil refining agents and fuel additives that are primarily applied to reduce undesirable emissions and comply with the evolving regulatory requirements.

The shares of the Company (the "**Shares**") were listed on the main board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 March 2018 (the "**Listing Date**") and the completion of the share offer in connection therewith (the "**Share Offer**") took place on the same day.

Industry Overview

Oil refining agents refer to different chemicals used during the crude oil refining process, typically to enhance the refining process and improve the performance of final products or protect oil refining units. Fuel additives are added into fuel oils to improve the quality of fuel oils and thereby enhance the engine performance of vehicles and reduce the amount of harmful substances in the tail gas.

The Standard A of the "**China VI**" Fuel Quality Standard* (第六階段車用汽油國家標準) promulgated by the government of China ("**PRC**") will be fully implemented from 1 July 2020, and the Standard B thereof will be fully implemented from 1 July 2023. In fact, some of the provinces and cities in east PRC have already implemented the A Phase standard since 1 January 2019. Further, some provinces and cities have started banning the sale of vehicles using "**China V**" fuels, which will promote the production and consumption of high-quality vehicle fuels in PRC and consequently lead to more demands for more oil refining agents and fuel additives.

The volume of application of oil refining agents and fuel additives is highly correlated to crude oil consumption and fuel quality standards in PRC. The oil consumption in PRC has continually increased over the past decades, and many ultra-large refineries are being constructed or have been put into operation in recent years in PRC, as a result, the country's oil refining agents and fuel additives industry has likewise continued to grow at a steady pace. However, the gasoline and diesel oil consumption in PRC are now suffering negative impacts since January 2020 as a result of the travel restrictions due to the outbreak of the novel coronavirus (COVID-19) epidemic, consequently, the refining agents and fuel additives industry of PRC may also be affected correspondingly to a certain extent in 2020.

The PRC oil refining agents and fuel additives industry is relatively fragmented. As Jiangsu Province is surrounded by a number of large-scale refinery plants, the oil refining agents and fuel additives manufacturers located in Jiangsu Province gain a great advantage over competitors that are located elsewhere by being able to maintain lower logistical costs.

Business Overview

We aspire to bring forth an innovative, environmentally sustainable generation of oil refining technology with our oil refining agents and fuel additives. Our oil refining agents are used to refine crude oil and extend the working life of oil refining units, enhancing economic efficiencies and, with respect to oil refineries, reducing undesirable emissions in the form of industrial waste. Our fuel additives are used to assist customers in complying with ever more stringent mandatory emissions regulations while maintaining the quality and efficiency of fuels. We are among the earliest of our peers to enter the PRC oil refining agents and fuel additives industry and formed long-standing relationships with various affiliates of three state-owned conglomerates, namely China Petrochemical Corporation* (中國石油化工集團公司) ("**Sinopec**"), China National Offshore Oil Corporation* (中國海洋石油集團) ("**CNOOC**") and China National Petroleum Corporation* (中國石油天然氣集團公司) ("**CNPC**").

As a result of our efforts in customer diversification, we have become a regular supplier of several large-scale private refining enterprises. Along with our continuous efforts, more private refining enterprises will become our customers. Our newly built high-purity oleic acid production facilities have reduced the raw-material cost of one of our major products, diesel-oil lubricity improver, which will enable us to expand our sales channels by utilizing our advantages in cost, hence our market influences will be further extended.

As of the date of this announcement, we own 4 invention patents and 20 utility model patents as well as 4 technology-related copyrights. For the year ended 31 December 2019, we recorded total revenue of RMB175.8 million as compared to total revenue of RMB177.1 million for the year ended 31 December 2018.

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory requirements and our compliance status for the year ended 31 December 2019:

Key requirements	**Compliance status**
According to the Measures for the Implementation of the Permits for the Safe Use of Hazardous Chemicals* (危險化學品安全使用許可證實施辦法), chemical enterprises (other than manufacturing enterprises of hazardous chemicals) which use hazardous chemicals in production shall obtain the License for the Safe Use of Hazardous Chemicals* (危險化學品安全使用許可證) if the amount of their use of hazardous chemicals has reached the stipulated quantity of hazardous chemicals.	Our Group complied with such requirement for the year ended 31 December 2019.
According to the Measures for the Administration of Permits for Trading in Hazardous Chemicals* (危險化學品經營許可證管理辦法), enterprises which are carrying out the operation of hazardous chemicals without the License for the Safe Operation of Businesses Dealing in Hazardous Chemicals* (危險化學品經營許可證) may be ordered by the production safety administrative authorities to cease their business activities.	Our Group complied with such requirement for the year ended 31 December 2019.
According to the Interim Measures for the Administration of Pollutants Discharge Licenses* (排污許可證管理暫行規定), enterprises which directly or indirectly discharge industrial wastewater into the water must obtain a pollutant discharge license.	Our Group complied with such applicable requirement for the year ended 31 December 2019.

Future Plan and Prospects

We will keep strengthening our core competitive strengths and enable us to capture rising business opportunities by following strategies:

- Before the end of the Reporting Period, the first phase project for upgrading our production capacity had been completed and put into production. We will follow up closely with the developments of the market and study and judge the market situations and trend, and will continue to upgrade the production capacity of our plant in Yixing City, PRC at the right time to meet the demands of customers.

- A new series of products, vehicle fuel additives (gasoline detergents) with the newest 6th-generation formula, which we have been working on since 2018, have been trial-produced at the end of 2019, and will be put into regular production and sale at the right time in 2020. We will continue to research and develop new products with potential market demands, so as to expand our product mix and create new profit growth points while continuing to improve the quality of our existing products and technologies.

- We will continue to expand our customer base to diversify our revenue sources by such means as: reaching out to more non-state-owned oil refineries, cooperating with capable traders to develop potential overseas customers, selling the newly-developed vehicle fuel additives (gasoline detergents) directly to end consumers.

- During the Reporting Period, the first phase production facilities for a key raw material, high-purity oleic acid have been constructed and put in operation, which has reduced the raw material cost of one of our major products, diesel oil lubricity improver. Making use of this cost advantage, we will endeavor to expand the sales channels of this major product. Meanwhile, we will closely follow up with and observe the market trend, and invest more capital at the right time to expand the production capacity of this key raw material.

- During the Reporting Period, based on the achievements of our research and development, we applied for a number of new patents and copyrights, some of which have been approved by the relevant authorities. During the Reporting Period ,our research &development centre was certified by related government authorities as a "Province-Level Industrial-Enterprise Technical Centre"* ("省級工業企業技術中心") We will continue enhancing our research and development capabilities to develop innovative, high-quality new products with potential market demands.

- On 21 March 2019, which was within the Reporting Period, a severe explosion accident happened in Xiangshui City, PRC. After that, the government of PRC has greatly strengthened the safety supervision and penalty on manufacturers, therefore, the safety management ability has become an essential aspect of the viability and competitiveness of chemical manufacturers. During the Reporting Period, we have strengthened our safety management and put more efforts in the construction of safety-protection facilities and the safety education and training of employees. In the future, we will make continuous efforts to improve our safety management and perfect and upgrade our safety-protection facilities, so as to make sure the safety management of the Group is always maintained at a high level.

Financial Overview

Revenue

Our revenue decreased by 0.7% from RMB177.1 million for the year ended 31 December 2018 to RMB175.8 million for the year ended 31 December 2019. The following table sets forth our revenue by products for the years indicated:

	For year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Oil refining agents	**113,769**	104,248
Fuel additives	**61,985**	72,871
Total revenue	**175,754**	177,119

Revenue derived from oil refining agents increased from RMB104.2 million for the year ended 31 December 2018 to RMB113.8 million for the year ended 31 December 2019, which was mainly due to the gradual recovery of consumption as a result of the completion of the overhaul carried out in 2018 of the customer in Sudan and some of the customers from Sinopec. Revenue derived from fuel additives decreased from RMB72.9 million for the year ended 31 December 2018 to RMB62.0 million for the year ended 31 December 2019, which was mainly due to the decrease of the quantity of cetane improver we sold as a distributor, as its demands often fluctuate.

We sold the majority of our products to customers in PRC. The following table sets forth our revenue by geography for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC	**163,931**	171,332
Sudan	**10,511**	4,898
Others[1]	**1,312**	889
Total revenue	**175,754**	177,119

Note:

(1) Other countries and regions in which we had sales for the years ended 31 December 2018 and 2019 included Chad, Algeria and Niger in Africa. We sell our products to certain of our customers in these countries and regions through their designated agents.

Revenue derived from the PRC market decreased from RMB171.3 million for the year ended 31 December 2018 to RMB163.9 million for the year ended 31 December 2019, which was mainly due to the decrease of the quantity of fuel additives we sold as a distributor. Revenue derived from the Sudan market increased from RMB4.9 million for the year ended 31 December 2018 to RMB10.5 million for the year ended 31 December 2019, which was mainly due to the gradual recovery of consumption for our refining agents as a result of the completion of the overhaul of our major customer in Sudan carried out in 2018.

Cost of sales

Our cost of sales increased from RMB123.9 million for the year ended 31 December 2018 to RMB115.5 million for the year ended 31 December 2019. The following table sets forth our cost of sales by products for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Oil refining agents	**78,330**	76,286
Fuel additives	**37,202**	47,658
Total cost of sales	**115,532**	123,944

The cost of sales of oil refining agents increased from RMB76.3 million for the year ended 31 December 2018 to RMB78.3 million for year ended 31 December 2019, which was mainly due to the increase of sales volumes of our oil refining agents. The cost of sales of fuel additives decreased from RMB47.7 million for the year ended 31 December 2018 to RMB37.2 million for the year ended 31 December 2019, which was mainly due to decrease of the quantity of fuel additives we sold as a distributor.

Profit from operations

Our profit from operations increased from RMB26.3 million for the year ended 31 December 2018 to RMB34.4 million for the year ended 31 December 2019, which was mainly due to the increase in the gross profit of our oil refining agents. The following table sets forth the profit from operations for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Gross profit	**60,222**	53,175
Other income	**3,091**	6,042
Sales and marketing expenses	**(8,954)**	(7,621)
General and administrative expenses	**(11,791)**	(17,569)
Research and development expenses	**(8,123)**	(7,751)
Profit from operations	**34,445**	26,276

Gross profit

For the years ended 31 December 2018 and 2019, our gross profit amounted to RMB53.2 million and RMB60.2 million, respectively. Our gross profit margin was 30.0% and 34.3%, respectively, for the same periods. The table below sets forth our gross profit by product for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Oil refining agents	**35,439**	27,962
Fuel additives	**24,783**	25,213
Total gross profit	**60,222**	53,175

Our gross profit for oil refining agents increased by 26.4% from RMB28.0 million for the year ended 31 December 2018 to RMB35.4 million for the year ended 31 December 2019, which was mainly due to the gradual recovery of consumption as a result of the completion of the overhaul carried out in 2018 of the customer in Sudan and some of the customers from Sinopec. Our gross profit margin of oil refining agents has increased from 26.8% to 31.1% for the same period, which was mainly due to the decrease of our purchase price of some of our major raw materials.

Our gross profit for fuel additives decreased by 1.6% from RMB25.2 million for the year ended 31 December 2018 to RMB24.8 million for the year ended 31 December 2019, which was mainly due to the decrease of the quantity of cetane improver we sold as a distributor, as its demands often fluctuate. Our gross profit margin of fuel additives has increased from 34.6% to 40.0% for the same period, which was mainly due to the risen proportion of the products with higher gross profit margin amongst all the fuel additives sold.

Other income

Our other income decreased from RMB6.0 million for the year ended 31 December 2018 to RMB3.1 million for the year ended 31 December 2019, which was mainly due to the decrease of government grants after the Listing.

Sales and marketing expenses

Our sales and marketing expenses increased from RMB7.6 million for the year ended 31 December 2018 to RMB9.0 million for the year ended 31 December 2019, which was mainly due to the increase of bidding expenses and advertising expenses.

General and administrative expenses

Our general and administrative expenses mainly include the professional service fees in relation to the Listing, the labor and welfare cost, taxes, depreciation and amortization, travel expenses, office and vehicles expenses and hospitality and entertainment costs.

Our general and administrative expenses decreased from RMB17.6 million for the year ended 31 December 2018 to RMB11.8 million for the year ended 31 December 2019, which was mainly due to the decrease of the Listing expenses.

Research and development expenses

Our research and development expenses basically remained stable at RMB7.8 million for the year ended 31 December 2018 and RMB8.1 million for the year ended 31 December 2019. Such expenses consisted primarily of the labor and welfare cost, raw material costs and depreciation of machinery, equipment and analytical instruments.

Income tax expense

Our income tax expense for the years ended 31 December 2018 and 2019 was RMB3.0 million and RMB7.5 million, respectively. The increase of the income tax expense is mainly due to the growth of the Group's profit before taxation and the failure of the Company's subsidiary, Jiangsu Chuangxin in qualifying as "**High and New Technology Enterprise**" * ("高新技術企業") in PRC in 2019, as a result, for the year 2019, Jiangsu Chuangxin is not entitled to the preferential income tax rate of 15% as it was in 2018, and is instead subject to the statutory corporate income tax rate of 25%. Please refer to our announcements dated 31 December 2019 and 13 March 2020. For the years ended 31 December 2018 and 2019, our effective tax rate for the same periods were 11.4% and 21.7%, respectively.

Profit for the year

As a result of the foregoing, our profit increased by 17% from RMB23.0 million for the year ended 31 December 2018 to RMB26.9 million for the year ended 31 December 2019, which was mainly due to the increase of the gross profit and the decrease in professional service fees in relation to the Listing.

Liquidity, Financial Resources and Capital Structure

We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity that can meet our working capital needs.

The Shares became listed on the main board of the Stock Exchange on 28 March 2018 with net proceeds from the Share Offer of approximately HK$110.7 million (after deducting underwriting commissions and other estimated expenses in connection with the Share Offer).

We financed our operations primarily by existing cash and cash equivalents, net proceeds from the Share Offer and cash flows from operations. Taking into account the financial resources available to us, the Directors believe that our current cash and cash equivalents, together with available credit facilities and expected cash flows from operations, will be sufficient to satisfy our current requirements and able to fulfill our business obligations.

Cash flows

The following table sets forth a selected summary of our consolidated cash flow statement for the periods indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash from operating activities	**50,355**	8,138
Net cash used in investing activities	**(12,166)**	(12,777)
Net cash (used in)/from financing activities	**(4,135)**	90,033
Net increase in cash and cash equivalents	**34,054**	85,394
Effect of foreign exchange rate changes	**949**	323
Cash and cash equivalents at beginning of the year	**111,690**	25,973
Cash and cash equivalents at end of the year	**146,693**	111,690

Net cash flows from operating activities

We derive our cash generated from operating activities principally from payments for the sales of our products. Our cash used in operating activities is principally for purchases of raw materials and distributable products.

For the year ended 31 December 2019, our net cash generated from operating activities was RMB50.4 million, primarily reflecting: (i) our profit before tax adjusted for depreciation, interest income from bank deposits, reversal of write-down of inventories, as well as amortization of lease prepayment; and (ii) the effects of changes in working capital. Our net cash generated from operating activities increased from RMB8.1 million for the year ended 31 December 2018 to RMB50.4 million for the year ended 31 December 2019, which was mainly due to the collection of trade receivables and the increase in profit for the year of 2019.

Net cash flows used in investing activities

Our cash used in investing activities is principally for the payment for investment in property, plant and equipment.

For the year ended 31 December 2019, our net cash used in investing activities was RMB12.2 million, which was primarily attributable to: (i) interest received of RMB2.7 million; and (ii) payment for purchase of property, plant and equipment of RMB14.9 million.

Net cash (used in)/from financing activities

Our cash generated from financing activities is from the proceeds from other borrowings. Our cash used in financing activities mainly consist of repayment of other borrowings and dividends paid to equity shareholders of the Company.

For the year ended 31 December 2019, our net cash used in financing activities was RMB4.1 million. Our net cash outflow from financing activities was primarily the dividends paid to the equity shareholders of the Company.

Selected Items of the Consolidated Statements of Financial Position

The following table sets forth the selected items of the consolidated statements of financial position as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current assets		
Inventories	**27,569**	24,622
Trade and other receivables	**73,869**	96,413
Cash and cash equivalents	**146,693**	111,690
Total current assets	**248,131**	232,725
Current liabilities		
Trade and other payables	**19,291**	20,883
Contract liabilities	**30**	492
Income tax payable	**3,699**	5,033
Total current liabilities	**23,020**	26,408
Net current assets	**225,111**	206,317

Our current assets increased from RMB232.7 million as of 31 December 2018 to RMB248.1 million as of 31 December 2019, which was mainly due to the increase of cash and cash equivalents and decrease of trade receivables as a result of better credit control leading to quicker settlement with customers and the increase in the profit for the year of 2019. Our current liabilities decreased from RMB26.4 million as in 31 December 2018 to RMB23.0 million as of 31 December 2019, which was mainly due to the decrease in trade and other payables and income tax payable.

Inventories

Our inventories consist of raw materials, works in progress, finished goods and consignment goods. Our inventories increased from RMB24.6 million as of 31 December 2018 to RMB27.6 million as of 31 December 2019, which was mainly due to the increase in the stock of works in progress and consignment goods. The following table sets forth our inventories as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials	**19,667**	19,280
Works in progress	**3,121**	737
Finished goods	**3,174**	4,061
Consignment goods	**1,607**	544
Total	**27,569**	24,622

Our raw materials remained basically stable at RMB19.3 million as of 31 December 2018 and RMB19.7 million as of 31 December 2019.

Our works in progress increased from RMB0.7 million as of 31 December 2018 to RMB3.1 million as of 31 December 2019, which was mainly due to more steps are involved in the production of our lubricity improver as a result of self production of its major raw material started in the year of 2019.

Our finished goods decreased slightly from RMB4.1 million as of 31 December 2018 to RMB3.2 million as of 31 December 2019.

Our average turnover days of inventories is calculated by average inventories divided by cost of sales for the year and multiplied by 365. The average inventories is calculated as inventories at the beginning of the year plus inventories at the end of the year, divided by two. For the years ended 31 December 2018 and 2019, our average turnover days of inventories was 59 days and 82 days, respectively, primarily because we kept more inventory at the end of 2019 as preparation for sales orders to be delivered in early 2020.

Trade and other receivables

Our trade receivables primarily represent the credit sales of our products to be paid by our customers. Our bills receivables represent short-term bank acceptance notes and commerical acceptance bills receivable that entitle our Group to receive the full face amount from banks or customers at maturity, which generally ranges from three to six months from the date of issuance. The following table sets forth our trade and other receivables as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables, net of loss allowance	**60,378**	81,702
Bills receivables	**7,440**	7,495
Total Trade and bills receivables	**67,818**	89,197
Other receivables	**4,346**	5,530
Deposits and prepayments	**1,705**	1,686
Total Trade and other receivables, net	**73,869**	96,413

Our total trade and bills receivables decreased from RMB89.2 million as of 31 December 2018 to RMB67.8 million as of 31 December 2019, which was mainly due to better credit control leading to quicker settlement with customers.

The following table sets forth the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**46,565**	65,485
After 3 months but within 6 months	**8,364**	5,323
After 6 months but within 1 year	**4,324**	4,673
After 1 year but within 2 years	**1,125**	6,221
Trade receivables, net of loss allowance	**60,378**	81,702

Credit periods and trade receivables

We set credit periods ranging from 30 to 120 days for our PRC customers, calculated from the dates that our invoices are issued. As most of our customers are affiliates of the three state-owned conglomerates, they generally have longer payment periods, which our Directors believe is due to longer internal approval processes. We employ a favorable credit policy towards our customers due to their scale and financial strength. We did not have any material bad debts during the Reporting Period.

To manage our credit risk, we have a credit policy in place and the exposures to our credit risks are monitored on an ongoing basis. Our senior management team will perform individual credit evaluations on all customers, taking into account information specific to the customer and the economic environment in which the customer operates.

Trade and other payables

Our trade and other payables primarily consist of trade payables from purchases of raw materials from our suppliers, other payables and accruals. Our other payables and accruals mainly include salary payments, payments for social insurance and housing provident funds, payments for tax and payments to third-party logistics providers. The following table sets forth our trade and other payables as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**5,308**	5,373
Other payables and accruals	**13,983**	15,510
Total Trade and other payables	**19,291**	20,883

Our trade and other payables decreased from RMB20.9 million as of 31 December 2018 to RMB19.3 million as of 31 December 2019, which was mainly due to the settlement of other payables. All trade payables are expected to be settled within one year.

The following table sets forth the ageing analysis of trade payables as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**5,097**	5,202
After 3 months but within 6 months	**88**	106
After 6 months but within 1 year	**16**	53
After 1 year but within 2 years	**107**	10
After 2 years but within 3 years	**–**	2
Total trade payables	**5,308**	5,373

Gearing Ratio

Our gearing ratio which is calculated by total borrowings divided by total assets was both nil as of 31 December 2018 and 31 December 2019.

Contingent liabilities

As of 31 December 2019 and 2018, we had no contingent liabilities.

Capital Expenditures and Commitment

For the year ended 31 December 2019, our capital expenditures were spent on upgrading production capacity and oleic acid projects. The following table sets forth our capital expenditures for the years indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Purchase of property, plant and equipment	**14,896**	14,692
Total capital expenditures	**14,896**	14,692

The following table sets forth our capital commitments not provided for in the financial statements as of the dates indicated:

	As of 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted for	**312**	1,875
Authorised but not contracted for	**–**	–
Total capital commitments not provided for in the financial statements	**312**	1,875

Save as disclosed above, we did not have any significant capital commitment as of 31 December 2019.

Off-balance Sheet Arrangements

As of 31 December 2019, we did not have any off-balance sheet arrangements.

Foreign Currency Exposure

Our Group does not use any derivative financial instruments to hedge the risk of exchange rate changes for the year ended 31 December 2019.

Key Financial Ratios

The following tables set forth certain key financial ratios as of the dates or for the years indicated:

	As of 31 December	
	2019	2018
Return on equity[(1)]	**10.5%**	13.1%
Return on assets[(2)]	**9.5%**	10.7%
Current ratio[(3)]	**10.8**	8.8
Quick ratio[(4)]	**9.6**	7.9
Gross profit margin	**34.3%**	30.0%
Net profit margin	**15.3%**	13.0%

Notes:

(1) Return on equity represents profit for the year divided by average equity, calculated as equity at the beginning of the year plus equity at the end of the year, divided by two.

(2) Return on assets represents profit for the year divided by average assets, calculated as assets at the beginning of the year plus assets at the end of the year, divided by two.

(3) Current ratio represents total current assets divided by total current liabilities as of the relevant year end.

(4) Quick ratio represents total current assets less inventories divided by total current liabilities as of the relevant year end.

Return on equity

Our return on equity reflecting our financial performance decreased from 13.1% as of 31 December 2018 to 10.5% as of 31 December 2019 primarily because of the increase of our total equity as a result of the increase of the undistributed profit.

Return on assets

Our return on assets reflecting our profitability decreased from 10.7% as of 31 December 2018 to 9.5% as of 31 December 2019 primarily because our total assets increased as a result of the increase of the undistributed profit.

Current ratio

Our current ratio increased from 8.8 as of 31 December 2018 to 10.8 as of 31 December 2019 primarily because of the increase of cash and cash equivalents and decrease of trade receivables as a result of better credit control leading to quicker settlement with customers and the increase in the profit for the year of 2019. It reflected our ability to pay our obligations which are due within one year.

Quick ratio

Our quick ratio reflecting our liquidity increased from 7.9 as of 31 December 2018 to 9.6 as of 31 December 2019 primarily because of the increase of cash and cash equivalents and decrease of trade receivables as a result of better credit control leading to quicker settlement with customers and the increase in the profit for the year of 2019.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2019, there were no material investments, acquisitions and disposals. Other than bank loans and repurchase financing which we may consider, we do not expect to have any plan for material investment and sources of funding in the short term.

USE OF PROCEEDS FROM THE SHARE OFFER

The Shares were listed on the main board of the Stock Exchange on the Listing Date with net proceeds received by the Company from the Share Offer of approximately HK$110.7 million (after deducting underwriting commissions and other estimated expenses in connection with the Share Offer). The net proceeds received from the Share Offer will be used in a manner consistent with that disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 19 March 2018. Taking into account of the temporary decline in the business from Sudan and the impact on the economy of the international trade war, we slowed down the progress of our original plan on the use of the proceeds from Listing, in order to ensure that the intended results from the use of the proceeds can be achieved. Up to the date of this announcement, we have only completed a part of the investment in the projects for upgrading our Yixing plant and building production facilities for the manufacturing of an important raw material, high-purity oleic acid, which have been put into commercial production. We will evaluate the effects of the commercial production of the abovesaid investment, and follow up closely with the developments of the market and study and judge the market situations and trend, and will continue to invest the proceeds in the above-said projects at the right time, so as to finally reach the desired production capacity.

Since the Listing Date and up to the date of this announcement, the remaining balance of the net proceeds was approximately HK$62.4 million, which is expected to be used up within 24 months. The details of the utilization and remaining balance of the net proceeds are set out below:

Purposes	**Allocation (on a pro-rata basis)**	**Amount utilized as of 31 December 2019**	**The remaining balance as of 31 December 2019**
To upgrade our Yixing plant by purchasing new sets of machinery, equipment and analytical instruments	Approximately HK$42.8 million (approximately 39%)	Approximately HK$8.7 million	Approximately HK$34.1 million
To build production facilities for the manufacturing of lower-cost raw material substitute, high-purity oleic acid, for the production of lubricity improvers	Approximately HK$53.9 million (approximately 49%)	Approximately HK$25.6 million	Approximately HK$28.3 million
General business operations and working capital	Approximately HK$8.8 million (approximately 8%)	Approximately HK$8.8 million	–
To repay bank borrowings	Approximately HK$5.2 million	Approximately HK$5.2 million	–
Total	Approximately HK$110.7 million	Approximately HK$48.3 million	Approximately HK$62.4 million

SHARE OPTION SCHEME

The share option scheme was adopted by the Company and approved by shareholders of the Company on 11 March 2018 (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to motivate the relevant participants to optimize their future contributions to our Group, to reward them for their past contributions, and to attract and retain or otherwise maintain ongoing relationships with such participants who are significant to and whose contributions are or will be beneficial to the performance, growth or success of our Group. Eligible participants of the Share Option Scheme include any employees, any Directors (including independent non-executive Directors), advisors, shareholders, suppliers, customers and consultants of our Group. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 11 March 2018 and will expire on 10 March 2028. Further details of the Share Option Scheme are set out in the section headed "Statutory and General Information – Share Option Scheme" in Appendix V to the prospectus of the Company dated 19 March 2018.

No share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption. As of 31 December 2019, the Company has no outstanding share option under the Share Option Scheme.

EMPLOYMENT AND EMOLUMENTS

As of 31 December 2019, our Group had 73 employees. All of our employees are based in PRC. Our employees' remuneration has been paid in accordance with relevant laws and regulations in the PRC. Appropriate salaries and bonuses were paid with reference to the actual practices of the Company. Other corresponding benefits included pension scheme, unemployment insurance and housing allowance, etc.

CORPORATE GOVERNANCE

Our Group is committed to maintaining high standards of corporate governance to protect the interest of our shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2019, the Company has complied with the CG Code except for the following deviation from provision A.2.1 of the CG Code which is explained below:

According to provision A.2.1 of the CG Code the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ge Xiaojun ("**Mr. Ge**") is the chairman of the Board and the chief executive officer of the Company. The Board is of the view that vesting the roles of both chairman and chief executive officer in Mr. Ge has the benefit of providing consistent and continuous planning and execution of our Group's strategies. The Board also believes that the current arrangement is in the best interest of our Group and our shareholders as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its rules governing dealings by the Directors in the listed securities of the Company. During the Reporting Period, having made specific enquiry to each Director, all Directors have confirmed that they have fully complied with the required standards as set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

The Board proposed a final dividend of HK$0.01 per Share for the year ended 31 December 2019 (for the year ended 31 December 2018: HK$0.01 per share).

Save as mentioned above and disclosed in the paragraph "Income tax expenses" in Management Discussion and Analysis and note 16 to the consolidated financial statements of this Annual Results, there are no significant subsequent events after the Reporting Period.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.01 per share for the year ended 31 December 2019 (for the year ended 31 December 2018: HK$0.01 per share) to shareholders whose names appear on the Company's register of members on Wednesday, 10 June 2020 (the "**Proposed Final Dividend**"). Subject to the approval of the shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 28 May 2020 (the "**AGM**"), the Proposed Final Dividend is expected to be paid on or around Wednesday, 24 June 2020.

AGM

The AGM will be held at the Company's headquarters and principal place of business in the PRC at No. 16 West Kaixuan Road, Economic Development Zone, Yixing, Jiangsu, the PRC on Thursday, 28 May 2020. Notice of the AGM will be issued and disseminated by the Company to shareholders in due course as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain shareholder's entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 22 May 2020 to Thursday, 28 May 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 21 May 2020.

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be entitled to the Proposed Final Dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 4 June 2020.

AUDIT COMMITTEE AND REVIEW OF THE ANNUAL RESULTS

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Company, auditing, internal controls and financial report matters, and the Company's policies and practices on corporate governance. The Annual Results has been reviewed and confirmed by the Audit Committee. There is no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

The financial figures in respect of our Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary result announcement have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in our Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditors.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The Annual Results announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jscxsh.cn). The annual report for the year ended 31 December 2019 will be dispatched to shareholders of the Company and available on the same websites in due course as required under the Listing Rules.

By Order of the Board
Jiangsu Innovative Ecological New Materials Limited
Ge Xiaojun
Chairman and Chief Executive Officer

Hong Kong, 30 March 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Ge Xiaojun, Ms. Gu Jufang, Mr. Huang Lei, Mr. Jiang Caijun and Mr. Fan Yaqiang; the non-executive Director of the Company is Mr. Gu Yao; and the independent non-executive Directors of the Company are Mr. Fan Peng, Mr. Guan Dongtao and Ms. Wu Yan.

* *For identification purpose only*