



J S C X

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

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 2116

**ANNUAL REPORT 2020**

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Ge Xiaojun (*Chairman and chief executive officer*)

Ms. Gu Jufang

Mr. Huang Lei

Mr. Jiang Caijun

Mr. Fan Yaqiang

### Non-executive Director

Mr. Gu Yao

### Independent Non-executive Directors

Mr. Fan Peng

Mr. Guan Dongtao

Ms. Wu Yan

## AUDIT COMMITTEE

Mr. Guan Dongtao (*Chairman*)

Mr. Fan Peng

Ms. Wu Yan

## REMUNERATION COMMITTEE

Ms. Wu Yan (*Chairwoman*)

Mr. Guan Dongtao

Ms. Gu Jufang

## NOMINATION COMMITTEE

Mr. Ge Xiaojun (*Chairman*)

Ms. Wu Yan

Mr. Guan Dongtao

## JOINT COMPANY SECRETARIES

Mr. Tan Qian

Mr. Wong Yu Kit

## AUTHORISED REPRESENTATIVES

Mr. Ge Xiaojun

Mr. Wong Yu Kit

## REGISTERED ADDRESS IN THE CAYMAN ISLANDS

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN PRC

No. 16 West Kaixuan Road

Economic Development Zone

Yixing, Jiangsu

PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre

No. 248 Queen's Road East

Wanchai

Hong Kong

## AUDITORS

KPMG

Public Interest Entity Auditor

registered in accordance with

the Financial Reporting Council Ordinance

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central

Hong Kong

## LEGAL ADVISERS TO THE COMPANY

Stevenson, Wong and Co. (as to Hong Kong law)

Jiangsu Roadxiu Law Firm (as to PRC law)

# CORPORATE INFORMATION

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## 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

## PRINCIPAL BANKERS

Bank of China Limited  
Yixing Qiting Sub-Branch  
Qiting Subdistrict  
Yixing City, Jiangsu  
PRC

Bank of China Limited  
Yixing Branch  
No. 106, West Taige Road  
Yicheng Subdistrict  
Yixing City, Jiangsu  
PRC

Bank of Communications Co., Ltd.  
Yixing Sub-Branch  
No. 98, Middle Renmin Road  
Yicheng Subdistrict  
Yixing City, Jiangsu  
PRC

CMB Wing Lung Bank Limited  
45 Des Voeux Road  
Central  
Hong Kong

## COMPANY'S WEBSITE

<http://www.jscxsh.cn>

## STOCK CODE

2116

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I, on behalf of the Board, would hereby present the annual report of the Group for the financial year ended 31 December 2020.

Due to the outbreak of the novel coronavirus (“**COVID-19**”) pandemic, the year of 2020 was extraordinary and challenging for the whole world, China and the Group. In that year, we had not only to do well in operation, management and epidemic prevention, but also tackle various adverse factors caused by the pandemic.

For the financial year ended 31 December 2020, the Group recorded a total revenue of approximately RMB159.9 million and net profit of approximately RMB22.1 million. In comparison with that of the year of 2019, both the total revenue and the net profit have declined, which was mainly due to the drop of the selling price of our products as a consequence of the impact of the COVID-19 pandemic to the refining industry. Yet from another perspective, the total quantity of products actually sold in 2020 by the Group almost did not decline, which was mainly due to the unremitting efforts of all our staff who had won many new users for our products. In addition, the start of operation in 2019 of our first-phase project of high-purity oleic acid production facilities using the proceeds received from the Listing has also helped us gain top rankings in the related biddings invited by our major customers.

In 2020, we continued our efforts in customer diversification. While consolidating our cooperation with the existing non-state-owned customers, we added to our strength in the development of new non-state-owned customers, which has broadened the sales channels for our products. At the same time, we are strengthening our cooperation with capable traders to participate in international biddings and develop potential overseas customers.

Our continuous endeavor in research and development has also been successful. As a result, the Group's production entity, Jiangsu Chuangxin Petrochemical Co. Ltd. regained in 2020 the qualification of “High and New Technology Enterprise”, which enables it to enjoy the preferential corporate income tax rate of 15% for 3 years from 2020 to 2022. Consequently, the overall tax burden of the Group is reduced.

In 2020, aiming at better Health, safety and environment (“**HSE**”) performance, we cut the quantity of hazardous chemicals used in the production of our Yixing Plant. As a result, we are no longer required to obtain the License for the Safe Use of Hazardous Chemicals following the evaluation by a professional organization and the registration with the related government authority. In the meantime, we continued strengthening our safety management so as to make sure that the safety management of the Group is always at a high level. Our Yixing Plant quickly completed the construction of the “5-in-1” Chemical-Enterprise Safe-Production Information Management Platform. Further, we are now upgrading our Yixing Plant's safety production standardization system from Level-3 to Level-2, and will strive to pass the acceptance inspection by the related government authority in 2021.

## CHAIRMAN'S STATEMENT

Looking forward to future business, I do not expect the development trend of China's oil-refining enterprises towards larger scale and capacity to change. In fact, some super-large oil-refining enterprises are under construction or being put into production one after another. The Standard B of the "China VI" Fuel Quality Standard promulgated by the government of the PRC will be fully implemented from 1 July 2023. The domestic demands for gasoline and diesel oil affected by the COVID-19 pandemic are also gradually recovering as the pandemic is now under control. These factors will continue to support the demands for our products and inject endless momentum to the development of our business.

As a repayment to our Shareholders, the Board will propose a final dividend of HK\$0.01 per Share for the year ended 31 December 2020.

In the end, I would like to take this opportunity to extend my sincere thanks to all the staff and workers of the Group for their working spirit of whole-hearted unity and progress seeking during hardships, to our Shareholders, customers and cooperating partners for their trust and support, and to our friends from all walks of life for their selfless help.

Yours faithfully,

**Ge Xiaojun**

Chairman and Chief Executive Officer

26 March 2021

# 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 were listed on the Main Board of the Stock Exchange on the Listing Date and the completion of the share offer in connection therewith (the “Share Offer”) took place on the same day.

## INDUSTRY OVERVIEW

In recent years, the oil-refining capacity of emerging economies in Asia Pacific region, such as the PRC, India and Malaysia, has been increasing continuously, and the PRC has become the world’s second largest refiner after the United States. It is expected that this trend will continue in the next 2 to 3 years. At present, refining enterprises in the PRC are enlarging their scale and raising their processing capacity, and some ultra-large refineries are being constructed or have been lately put into operation by these refining enterprises, such as Hengli Petrochemical Co., Ltd.\* (恒力石化股份有限公司), Zhejiang Petroleum & Chemical Co., Ltd.\* (浙江石油化工有限公司), Shenghong Petrochemical Group Co., Ltd.\* (盛虹石化集團有限公司), etc.

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 PRC has been fully implemented from 1 July 2020, and the Standard B thereof will be fully implemented from 1 July 2023, which will continue to promote the production and consumption of high-quality vehicle fuels in the PRC.

All these factors will lead to more demands for oil refining agents and fuel additives, however, in the first half year of 2020, the COVID-19 pandemic affected the domestic demands for diesel oil and gasoline and the operating rate of refineries, and the PRC’s oil-processing volume also declined correspondingly comparing with the same period of 2019. Since the beginning of the second half of 2020, the effective control of the COVID-19 pandemic in the PRC has led to a pick-up in domestic demands.

## BUSINESS OVERVIEW

In 2020, though affected by the COVID-19 pandemic, we well maintained our supplies to the various affiliates of the three state-owned conglomerates, namely China Petrochemical Corporation\* (中國石油化工集團公司) (“Sinopec”), China National Petroleum Corporation\* (中國石油天然氣集團公司) (“CNPC”) and China National Offshore Oil Corporation\* (中國海洋石油集團有限公司) (“CNOOC”). In fact, we performed well in most of the biddings invited by the three conglomerates. As a result, the total quantity of our products sold in 2020 almost did not decline despite the impact of the COVID-19 pandemic.

We also continued our efforts in customer diversification, and more private refining enterprises are becoming our long-term customers.

Our newly-built high-purity oleic acid production facilities have also helped us gain top ranking in the related biddings invited by Sinopec and CNPC.

As of the date of this report, we own numerous national patents and technology-related copyrights, and our research and development centre is now a certified “Province-Level Industrial-Enterprise Technical Centre”\* (省級工業企業技術中心), which will add to the momentum of our development. For the year ended 31 December 2020, we recorded a total revenue of RMB159.9 million as compared to the total revenue of RMB175.8 million for the year ended 31 December 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Compliance with Key Regulatory Requirements

The following table summarizes the key statutory requirements and our compliance status for the year ended 31 December 2020:

### Key requirements

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.

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.

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.

### Compliance status

In the year ended 31 December 2020, aiming at better HSE performance, our Group cut the quantity of hazardous chemicals used in production and is no longer required to obtain the said license following the evaluation by a professional organization and the registration with the related government authority.

Our Group complied with such requirement for the year ended 31 December 2020.

Our Group complied with such applicable requirement for the year ended 31 December 2020.

## Future Plan and Prospects

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

- Following the completion of the first phase project for upgrading our production capacity, we have been following up, and will continue to follow up, closely with the developments of the market and study and judge the market trend, and will continue to upgrade the production capacity of our Yixing Plant at the right time to meet the demands of customers.



## MANAGEMENT DISCUSSION AND ANALYSIS

- The new series of products, vehicle fuel additives (gasoline detergents) with the newest 6th-generation formula, which we have been working on, have been in trial production at the end of 2019. During the Reporting Period, due to the COVID-19 pandemic, the travel of people has eminently decreased, which temporarily suppressed demands and consumers' desire for vehicle fuel additives. Considering the effects of the use of capital, we slowed down the construction and market cultivation of this project. Yet, we have still done various low-cost preparation work for the products to be launched at the right time, such as discussing with experts for improving the formula and package of the products, introducing the products to the sales department of oil companies for the purpose of selling them in their gas stations, contacting automobile 4S shops and repair plants to make our products known to them, approaching car aficionados for trial use of the products, etc. In the meantime, we sent the products to the national authoritative testing organization for testing against the latest national standard, and received the engine bench test report in January 2021 and the analysis report in February 2021. As per the test results and feedbacks of trial use, the performance of our products is excellent. The above work will be further promoted in 2021. In the future, we will continue to research and develop new products with potential market demands so as to create new profit growth points.
- We will make more efforts in diversifying our revenue sources by reaching out to more non-state-owned oil refineries and strengthening our cooperation with capable traders to develop potential overseas customers.
- The first phase of the production facilities for a key raw material, high-purity oleic acid, have been constructed and put in operation in 2019, which has reduced the raw material cost of one of our major products, diesel oil lubricity improver. Making use of this advantage, we have greatly improved our ranking in all major biddings invited by Sinopec and CNPC. We will continue our 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 and obtained a number of new patents. Our major subsidiary, Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) (**Jiangsu Chuangxin**), regained the status of "High and New Technology Enterprise"\* ("高新技術企業"), which enables Jiangsu Chuangxin to enjoy the preferential corporate income tax rate of 15% for 3 years from 2020 to 2022. We will continue enhancing our research and development capabilities to develop innovative, high-quality new products with potential market demands.
- During the Reporting Period, we continued strengthening our safety management so as to make sure the safety management of the Group is always at a high level. We completed the Periodical Safety Status Evaluation Report for the whole Yixing Plant and had it registered with the related government authority. We completed the construction of the "5-in-1" Chemical-Enterprise Safe-Production Information Management Platform. Aiming at better HSE performance, we cut the quantity of hazardous chemicals used in production and as a result, are no longer required to obtain the License for the Safe Use of Hazardous Chemicals following the evaluation of a professional organization and the registration with the related government authority. We are now upgrading our Yixing Plant's safety production standardization system from Level-3 to Level-2, and will strive to pass the acceptance inspection by the related government authority in 2021.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

### Revenue

Our revenue decreased by 9.0% from RMB175.8 million for the year ended 31 December 2019 to RMB159.9 million for the year ended 31 December 2020. The following table sets forth our revenue by products for the years indicated:

	For year ended 31 December	
	2020 RMB'000	2019 RMB'000
Oil refining agents	91,745	113,769
Fuel additives	68,189	61,985
<b>Total revenue</b>	<b>159,934</b>	<b>175,754</b>

Revenue derived from oil refining agents decreased from RMB113.8 million for the year ended 31 December 2019 to RMB91.7 million for the year ended 31 December 2020, which was mainly due to less traveling of people since the outbreak of COVID-19 pandemic in January 2020, leading to reduced consumption of gasoline and diesel oil. As a result, Chinese refineries lowered their production load and also required suppliers to cut their supply prices. Consequently, our sales volume of oil refining agent declined due to lower demands and lower selling price. Revenue derived from fuel additives increased from RMB62.0 million for the year ended 31 December 2019 to RMB68.2 million for the year ended 31 December 2020, which was mainly due to our success in developing more customers, both state-run and private, as users of our fuel additives in the second half of 2020.

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

	For year ended 31 December	
	2020 RMB'000	2019 RMB'000
PRC	149,259	163,931
Sudan	9,644	10,511
Others <sup>(1)</sup>	1,031	1,312
<b>Total revenue</b>	<b>159,934</b>	<b>175,754</b>

Note:

- (1) Other countries and regions in which we had sales for the years ended 31 December 2019 and 2020 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

Revenue derived from the PRC market decreased from RMB163.9 million for the year ended 31 December 2019 to RMB149.3 million for the year ended 31 December 2020, which was mainly due to less traveling of people since the outbreak of COVID-19 pandemic in January 2020, leading to reduced consumption of gasoline and diesel oil. As a result, Chinese refineries lowered their production load and also required suppliers to cut their supply prices, consequently, our sales volume of oil refining agent declined due to lower selling price and less demands. Revenue derived from the overseas market decreased from RMB11.8 million for the year ended 31 December 2019 to RMB10.7 million for the year ended 31 December 2020, which was mainly due to the decrease of demand from a customer in Sudan.

### Cost of sales

Our cost of sales decreased slightly from RMB115.5 million for the year ended 31 December 2019 to RMB115.0 million for the year ended 31 December 2020. The following table sets forth our cost of sales by products for the years indicated:

	For year ended 31 December	
	2020 RMB'000	2019 RMB'000
Oil refining agents	63,866	78,330
Fuel additives	51,155	37,202
<b>Total cost of sales</b>	<b>115,021</b>	115,532

The cost of sales of oil refining agents decreased from RMB78.3 million for the year ended 31 December 2019 to RMB63.9 million for year ended 31 December 2020, which was mainly due to the decrease of sales volumes of our oil refining agents. The cost of sales of fuel additives increased from RMB37.2 million for the year ended 31 December 2019 to RMB51.2 million for the year ended 31 December 2020, which was mainly due to the increase of the quantity of fuel additives sold and the rise of the purchase price of major raw materials for our fuel additives.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Profit from operations

Our profit from operations decreased from RMB34.4 million for the year ended 31 December 2019 to RMB23.3 million for the year ended 31 December 2020, which was mainly due to the decrease in the gross profit of our products sold. The following table sets forth the profit from operations for the years indicated:

	For year ended 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Gross profit	44,913	60,222
Other income	4,376	3,091
Sales and marketing expenses	(8,377)	(8,954)
General and administrative expenses	(10,106)	(11,791)
Research and development expenses	(7,530)	(8,123)
<b>Profit from operations</b>	<b>23,276</b>	<b>34,445</b>

## Gross profit

For the years ended 31 December 2019 and 2020, our gross profit amounted to RMB60.2 million and RMB44.9 million, respectively. Our gross profit margin was 34.3% and 28.1%, respectively, for the same periods. The table below sets forth our gross profit by product for the years indicated:

	For year ended 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Oil refining agents	27,879	35,439
Fuel additives	17,034	24,783
<b>Total gross profit</b>	<b>44,913</b>	<b>60,222</b>

Our gross profit for oil refining agents decreased by 21.3% from RMB35.4 million for the year ended 31 December 2019 to RMB27.9 million for the year ended 31 December 2020, which was mainly due to less traveling of people since the outbreak of COVID-19 pandemic in January 2020, leading to reduced consumption of gasoline and diesel oil. As a result, Chinese refineries lowered their production load and also required suppliers to cut their supply prices, consequently, the demand for our oil refining agents was reduced and our selling price lowered. Our gross profit margin of oil refining agents has decreased from 31.1% to 30.4% for the same period, which was mainly due to the cut of our selling price as required by our customers affected by the COVID-19 pandemic.

# MANAGEMENT DISCUSSION AND ANALYSIS

Our gross profit for fuel additives decreased by 31.3% from RMB24.8 million for the year ended 31 December 2019 to RMB17.0 million for the year ended 31 December 2020, which was mainly due to the cut of our selling price as required by our customers affected by the COVID-19 pandemic and the increase of the production cost of fuel additives as a result of the rise of the prices of our raw materials for fuel additives, and due to the same causes, our gross profit margin of fuel additives has decreased from 40.0% to 25.0% for the same period.

## Other income

Our other income increased from RMB3.1 million for the year ended 31 December 2019 to RMB4.4 million for the year ended 31 December 2020, which was mainly due to the increase of government grants we received in relation to research and development and the income from selling some production wastes.

## Sales and marketing expenses

Our sales and marketing expenses decreased from RMB9.0 million for the year ended 31 December 2019 to RMB8.4 million for the year ended 31 December 2020, which was mainly due to the decrease of the freight cost, the bidding expenses and the traveling expenses of marketing personnel.

## General and administrative expenses

Our general and administrative expenses mainly include the professional service fees, 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 RMB11.8 million for the year ended 31 December 2019 to RMB10.1 million for the year ended 31 December 2020, which was mainly due to the decrease of the tax expenses and the traveling expenses of our managerial personnel.

## Research and development expenses

Our research and development expenses decreased from RMB8.1 million for the year ended 31 December 2019 to RMB7.5 million for the year ended 31 December 2020. Such expenses consisted primarily of the labor and welfare cost, raw material costs and depreciation of machinery, equipment and analytical instruments.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Income tax expense

Our income tax expense for the years ended 31 December 2019 and 2020 was RMB7.5 million and RMB1.2 million, respectively. The decrease of the income tax expense is mainly due to the regain of the qualification as “High and New Technology Enterprise” \* (“高新技術企業”) in the PRC by the Company’s subsidiary, Jiangsu Chuangxin in 2020, as a result, for the year 2020, Jiangsu Chuangxin is entitled to the preferential income tax rate of 15% instead of the statutory corporate income tax rate of 25% for the year 2019. Please refer to our announcements dated 31 December 2019, 13 March 2020 and 28 January 2021 for details. For the years ended 31 December 2019 and 2020, our effective tax rates for the same periods were 21.7% and 5.0%, respectively.

## Profit for the year

As a result of the foregoing, our profit decreased by 18.2% from RMB26.9 million for the year ended 31 December 2019 to RMB22.1 million for the year ended 31 December 2020, which was mainly due to the decrease of the total gross profit.

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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	
	2020 RMB'000	2019 RMB'000
<b>Current assets</b>		
Inventories	27,095	27,569
Trade and other receivables	85,793	73,869
Cash and cash equivalents	144,762	146,693
<b>Total current assets</b>	<b>257,650</b>	<b>248,131</b>
<b>Current liabilities</b>		
Trade and other payables	16,176	19,291
Contract liabilities	396	30
Income tax payable	3,492	3,699
<b>Total current liabilities</b>	<b>20,064</b>	<b>23,020</b>
<b>Net current assets</b>	<b>237,586</b>	<b>225,111</b>

Our current assets increased from RMB248.1 million as of 31 December 2019 to RMB257.7 million as of 31 December 2020, which was mainly due to the increase of trade receivables. Our current liabilities decreased from RMB23.0 million as of 31 December 2019 to RMB20.1 million as of 31 December 2020, which was mainly due to the decrease in trade and other payables.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 commercial 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	
	2020 RMB'000	2019 RMB'000
Trade receivables, net of loss allowance	66,079	60,378
Bills receivables	9,786	7,440
<b>Total Trade and bills receivables</b>	<b>75,865</b>	67,818
Other receivables	5,205	4,346
Deposits and prepayments	4,723	1,705
<b>Total Trade and other receivables, net</b>	<b>85,793</b>	73,869

Our total trade and bills receivables increased from RMB67.8 million as of 31 December 2019 to RMB75.9 million as of 31 December 2020, which was mainly due to slower settlement with customers as a result of the COVID-19 pandemic temporarily affecting the operating status of some of our 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	
	2020 RMB'000	2019 RMB'000
Within 3 months	48,937	46,565
After 3 months but within 6 months	14,412	8,364
After 6 months but within 1 year	1,920	4,324
After 1 year but within 2 years	314	1,125
After 2 years but within 3 years	496	–
<b>Trade receivables, net of loss allowance</b>	<b>66,079</b>	60,378



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 aforesaid 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 the 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 for purchase 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	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	2,208	5,308
Other payables and accruals	13,968	13,983
<b>Total Trade and other payables</b>	<b>16,176</b>	<b>19,291</b>

Our trade and other payables decreased from RMB19.3 million as of 31 December 2019 to RMB16.2 million as of 31 December 2020, which was mainly due to the settlement of trade payables for raw materials. All trade payables are expected to be settled within one year.

## MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the ageing analysis of trade payables, based on the invoice date, as of the dates indicated:

	As of 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	1,790	5,097
After 3 months but within 6 months	240	88
After 6 months but within 1 year	178	16
After 1 year but within 2 years	–	107
<b>Total trade payables</b>	<b>2,208</b>	<b>5,308</b>

### Gearing Ratio

Our gearing ratio which is calculated by total borrowings divided by total assets was both nil as of 31 December 2019 and 31 December 2020.

### Contingent liabilities, guarantees and litigation

As of 31 December 2020 and 2019, we had no contingent liabilities, guarantees and litigation.

### Capital Expenditures and Commitment

For the year ended 31 December 2020, 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 year ended 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Purchase of property, plant and equipment	4,840	14,896
<b>Total capital expenditures</b>	<b>4,840</b>	<b>14,896</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

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

	As of 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contracted for	1,616	312
Authorised but not contracted for	–	–
<b>Total capital commitments not provided for in the financial statements</b>	<b>1,616</b>	<b>312</b>

Save as disclosed above, we did not have any significant capital commitment as of 31 December 2020.

### Off-balance Sheet Arrangements

As of 31 December 2020, we did not have any off-balance sheet arrangements.

### Charges on the Group's assets

As of 31 December 2020, no asset of the Group was subject to any charges.

### Exposure to Exchange Rate Fluctuations

The assets, liabilities and transactions of the Group are primarily denominated in Renminbi (“**RMB**”), Hong Kong dollars (“**HKD**”), Euros (“**EUR**”) and United States dollars (“**USD**”), and therefore exposed to exchange rate fluctuations. For the Reporting Period, the Group did not experience any material negative impacts on its operations due to the fluctuations in currency exchange rates, and no forward foreign exchange or hedging contracts were entered into by the Group during the same period. The Group performs regular reviews on its foreign exchange exposures, and will mitigate the impact of exchange rate fluctuations by entering into currency hedge arrangement when necessary.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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	
	2020	2019
Return on equity <sup>(1)</sup>	8.0%	10.5%
Return on assets <sup>(2)</sup>	7.3%	9.5%
Current ratio <sup>(3)</sup>	12.8	10.8
Quick ratio <sup>(4)</sup>	11.5	9.6
Gross profit margin	28.1%	34.3%
Net profit margin	13.8%	15.3%

### 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 10.5% as of 31 December 2019 to 8.0% as of 31 December 2020 primarily because of the decrease of our profit for the year and the increase of the average equity.

## Return on assets

Our return on assets reflecting our profitability decreased from 9.5% as of 31 December 2019 to 7.3% as of 31 December 2020 primarily because of the decrease of our profit for the year and the increase of our average assets.

## Current ratio

Our current ratio increased from 10.8 as of 31 December 2019 to 12.8 as of 31 December 2020 primarily because of the increase of our current assets and the decrease of our current liabilities. It reflected our ability to pay our obligations which are due within one year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Quick ratio

Our quick ratio reflecting our liquidity increased from 9.6 as of 31 December 2019 to 11.5 as of 31 December 2020 primarily because of the increase of our current assets and the decrease of our current liabilities.

## MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2020, 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 Listing of approximately HK\$110.7 million (after deducting underwriting commissions and other estimated expenses in connection with the Listing). The net proceeds received from the Listing will be used in a manner consistent with that disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus. Taking into account of the temporary decline in the business due to the impact on the economy by the international trade war as well as the COVID-19 pandemic, 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 annual report, 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 following 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 following projects at the right time, so as to finally reach the desired production capacity.

## MANAGEMENT DISCUSSION AND ANALYSIS

Since the Listing Date and up to 31 December 2020, the utilization of the net proceeds and the remaining balance (approximately HK\$56.9 million) are set out below:

Purposes	Allocation (on a pro-rata basis)	Amount utilized as of 31 December 2020	The remaining balance as of 31 December 2020
To upgrade our Yixing Plant by purchasing new sets of machinery, equipment and analytical instruments	Approximately HK\$42.8 million (approximately 39%)	Approximately HK\$14.2 million	Approximately HK\$28.6 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 4%)	Approximately HK\$5.2 million	–
Total	Approximately HK\$110.7 million (100%)	Approximately HK\$53.8 million	Approximately HK\$56.9 million

\* The remaining balance of the net proceeds is expected to be used up in 24 months.

### AGM

The AGM will be held at the Company's principal place of business and headquarters in the PRC at No. 16 West Kaixuan Road, Economic Development Zone, Yixing, Jiangsu, the PRC on Friday, 28 May 2021. Notice of the AGM will be issued and disseminated by the Company to Shareholders in due course as required under the Listing Rules.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Ge Xiaojun (葛曉軍)**, aged 57, is the chairman of the Board, the executive Director and the chief executive officer of the Company. Mr. Ge is primarily responsible for supervising the overall management, strategic planning and day-to-day operations of our Group. Mr. Ge has more than 30 years of sales and management experience in the oil refining agents and fuel additives industry. Prior to joining our Group, Mr. Ge held various positions in Yixing HanGuang Group\* (宜興市漢光集團) from February 1985 to August 1998, where he last served as a sales manager and was primarily responsible for sales of oil refining agents and fuel additive products. From August 1998 to December 2002, Mr. Ge was the supervisor of Yixing Innovation Refining Agent Co., Ltd.\* (宜興市創新煉化助劑有限公司) and primarily responsible for the overall management and operations. Mr. Ge has been serving as the executive director of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) since December 2002 and is primarily responsible for supervising the overall management, strategic planning and day-to-day operations. From December 2009 to June 2015, Mr. Ge served as a director and general manager of Jiangsu Suiquan Financing Assurance Co., Ltd.\* (江蘇穗全融資擔保有限公司).

Mr. Ge graduated with a bachelor degree (remote-education) of business administration from China University of Petroleum (Beijing)\* (中國石油大學(北京)) in January 2016. Mr. Ge is qualified with a Senior Economist Certificate issued by Jiangsu Province Personnel Department\* (江蘇省人事廳) in 2009. Mr. Ge was awarded the title of Wuxi Outstanding Private Entrepreneur\* (優秀民營企業家) by Wuxi Municipal People's Government\* (無錫市人民政府) in April 2009.

Mr. Ge is the spouse of Ms. Gu who is also the executive Director of the Company. Mr. Ge holds 50% interest in Innovative Green Holdings, a controlling shareholder holding 75% interest in the Company.

**Ms. Gu Jufang (顧菊芳)**, aged 57, is the executive Director and the general manager of the Company. Ms. Gu is primarily responsible for supervising the overall management and day-to-day operations of our Group. Ms. Gu has approximately 30 years of management experience in the oil refining agents and fuel additives industry. Prior to joining our Group, Ms. Gu held various positions in Yixing HanGuang Group\* (宜興市漢光集團) from February 1985 to August 1998, where she last served as the vice office manager and was primarily responsible for daily administrative affairs. Ms. Gu also served as a director of Dalian Free Trade Zone Innovation Refining Agent Co., Ltd.\* (大連保稅區創新煉化助劑有限公司) since April 2002. Ms. Gu has been serving as the general manager of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) since December 2002 and is primarily responsible for supervising the overall management and day-to-day operations. Ms. Gu has also been the supervisor of Jiangsu Suiquan Financing Assurance Co., Ltd.\* (江蘇穗全融資擔保有限公司) from December 2009 to June 2015.

Ms. Gu graduated from Suzhou Worker University of Science and Technology\* (蘇州職工科技大學) in July 2000 with a bachelor's degree and China University of Petroleum (Beijing)\* (中國石油大學(北京)) in January 2013 with a diploma (remote-education), both majoring in business administration.

Ms. Gu is the spouse of Mr. Ge. Ms. Gu holds 50% interest in Innovative Green Holdings, a controlling shareholder holding 75% interest in the Company.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Huang Lei (黃磊)**, aged 52, is the executive Director and vice general manager of the Company. Mr. Huang is primarily responsible for research and development of our Group. Mr. Huang has nearly 30 years of research and development experience in the oil refining agents and fuel additives industry. Prior to joining our Group, Mr. Huang held various positions in China Petrochemical Corporation Jiujiang Branch\* (中國石油化工集團公司九江分公司) from July 1990 to August 2010, where he last served as the vice manager of technology department and was primarily responsible for technology research. Mr. Huang has been the vice general manager of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) since September 2010 and is primarily responsible for technology research and development. Mr. Huang was granted Senior Engineer Qualification by China Petrochemical Corporation\* (中國石油化工集團公司) in November 2001. Mr. Huang was one of the main participants of several projects which were issued awards such as Advance Technology Award (Third Class) by China Petrochemical Corporation\* (中國石油化工集團公司) in 2007.

Mr. Huang graduated with a bachelor degree of chemical engineering from Dalian University of Technology\* (大連理工大學) in July 1990.

**Mr. Jiang Caijun (蔣才君)**, aged 51, is the executive Director and vice general manager of the Company. Mr. Jiang is primarily responsible for sales and market development of our Group. Mr. Jiang has more than 20 years of sales and management experience. From 1988 to 2002, Mr. Jiang held various positions in Yixing HanGuang Group\* (宜興市漢光集團), where he last served as the office manager and the assistant general manager and was primarily responsible for daily administrative affairs. Mr. Jiang has been the vice general manager of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) since January 2003 and is primarily responsible for sales and marketing management.

**Mr. Fan Yaqiang (范亞強)**, aged 49, is the executive Director and sales manager of the Company. Mr. Fan is primarily responsible for sales of our products. Mr. Fan has more than 15 years of sales experience in the oil refining agents and fuel additives industry. Prior to joining our Group, from September 1998 to December 1999, Mr. Fan served as the sales personnel at the sales department of Yixing HanGuang Group\* (宜興市漢光集團). From January 2000 to December 2002, Mr. Fan served as the sales manager of Yixing Chuangxin Lianhua Zhuji Co., Ltd.\* (宜興市創新煉化助劑有限公司). Mr. Fan has been the sales manager of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) since January 2003 and is primarily responsible for sales and market development.

Mr. Fan graduated from China University of Petroleum (Beijing)\* (中國石油大學(北京)) in July 2016, with a diploma (remote-education) majoring in chemical engineering and technology.



# DIRECTORS AND SENIOR MANAGEMENT

## Non-executive Director

**Mr. Gu Yao (顧耀)**, aged 35, was appointed as the non-executive Director of the Company on 18 September 2017. Mr. Gu is primarily responsible for overseeing the strategic development of our Group. Mr. Gu has more than 10 years of investment and financial management experience. Prior to joining our Group, Mr. Gu served as the finance manager of Yixing HanGuang Hi-Tech Petrochemical Co., Ltd\* (宜興漢光高新石化有限公司) from September 2008 to December 2011. From January 2012 to July 2016, Mr. Gu served as the investment manager of Shanghai Shambhala Investment Management Co., Ltd\* (上海尚寶投資管理有限公司) from January 2012 to July 2016. Mr. Gu has been the investment manager of Topsearch Printed Circuits (HK) Ltd\* (至卓飛高線路板(香港)有限公司) since August 2016, where is primarily responsible for market development in the PRC.

Mr. Gu graduated from Shanghai University of Finance and Economics\* (上海對外貿易學院) in July 2008, majoring in finance.

## Independent Non-executive Directors

**Mr. Fan Peng (樊鵬)**, aged 38, was appointed as the independent non-executive Director of the Company on 7 March 2018. Mr. Fan has over 10 years of experience in accounting and corporate financing. From August 2020, Mr. Fan serves as vice president of Hailiang Education Group Inc., a company listed on NASDAQ (stock code: HLG). Prior to that, Mr. Fan served as the chief strategy officer of Aesthetic Medical International Holdings Group Limited, a company listed on NASDAQ (stock code: AIH) from August 2018 to August 2020. Prior to that, Mr. Fan served as the chief financial officer of CashBUS (Cayman) Limited from October 2017 to July 2018. Prior to that, he served as the head of investor relations and capital markets of Dali Foods Group Company Limited, a company listed on the Stock Exchange (stock code: 3799), and was responsible for investor relations, corporate development, mergers and acquisitions. Before that, Mr. Fan was the vice president of the corporate finance division of the Hong Kong Branch of Deutsche Bank AG. From May 2007 to December 2007, he served as an analyst in the investment banking department of HSBC Markets (Asia) Limited. Mr. Fan served as a business analyst in the investment banking group of Macquarie Investment Advisory (Beijing) Co, Ltd.\* (麥格理投資顧問(北京)有限公司) from July 2006 to May 2007.

Mr. Fan graduated from Tsinghua University\* (清華大學), with a bachelor's degree in accounting and master's degree in business administration in July 2004 and July 2006, respectively.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Guan Dongtao** (管東濤), aged 49, was appointed as the independent non-executive Director of the Company on 7 March 2018. Mr. Guan has over 25 years of experience in accounting and corporate financing. Mr. Guan served as (i) the audit manager of Jiangsu Yixing Accounting Firm\* (江蘇宜興會計事務所) from September 1993 to August 1999; (ii) the financial manager of Jiangsu Hengxin Technology Co., Ltd\* (江蘇亨鑫科技有限公司) from August 1999 to August 2001; (iii) the financial manager of Shunte Electronic Co., Ltd.\* (順特電氣有限公司) from October 2001 to August 2007; (iv) the chief accountant of Qianjiang Electronic Group Co., Ltd.\* (錢江電氣集團股份有限公司) from August 2007 to July 2008; (v) the financial manager of Jiangsu Junzhi Jishu Co., Ltd.\* (江蘇俊知技術有限公司) from September 2008 to December 2012; and (vi) the chief financial officer of Flying Technology Co., Ltd.\* (展鵬科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603488) from December 2012 to May 2019. Since June 2019 till present, Mr. Guan is the general manager of Dongyin Chuangfu Technology (Shenzhen) Co. Ltd.\* (東尹創富科技(深圳)有限公司).

Mr. Guan graduated from Soochow University\* (蘇州大學) in June 1993, with a bachelor's degree in economics (major in accounting). Mr. Guan was qualified as a certified public accountant of the PRC in 1994 and obtained a professional accounting certificate in 1998.

**Ms. Wu Yan** (吳燕), aged 44, was appointed as the independent non-executive Director of the Company on 7 March 2018. Ms. Wu has 20 years of experience serving as a lawyer. Ms. Wu has served as a director in Jiangsu Manxiu Law office (Yixing)\* (江蘇漫修(宜興)律師事務所) since February 2008. She also worked at Jiangsu Jingxi Law office\* (江蘇荊溪律師事務所) from January 2001 to December 2007. Ms. Wu graduated from National Judges College\* (國家法官學院), with a college diploma of economics law in July 2000. Ms. Wu was qualified as a lawyer of the PRC in June 2001. She served as an independent non-executive director of Jiangsu Zhongchao Holding Co., Ltd.\* (江蘇中超控股有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002471) from March 2015 to March 2018, and has been an independent non-executive director of Jiangsu Gaoke Petrochemical Company Limited\* (江蘇高科石化股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002778) since March 2017.

### SENIOR MANAGEMENT

**Mr. Li Jianjun** (李建軍), aged 46, is the financial controller of the Company. Mr. Li is primarily responsible for financial matters of our Group. Mr. Li has more than 20 years of financial accounting experience. Mr. Li has been the financial controller of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司) since August 2004 and is primarily responsible for financial matters of our Group.

Mr. Li graduated from Soochow University\* (蘇州大學) in July 1999, majoring in accounting. Mr. Li is an intermediate-level accountant certified by the Ministry of Finance of the PRC.

# DIRECTORS AND SENIOR MANAGEMENT

## Joint Company Secretaries

**Mr. Tan Qian (談前)**, aged 50, is one of the joint company secretary of the Company. Mr. Tan is primarily responsible for international trade matters, assisting the overall management and day-to-day operations of our Group. Mr. Tan has more than 20 years of international trade and administrative management experience as well as accounting experience. Prior to joining Jiangsu Chuangxin Petrochemical Co., Ltd\* (江蘇創新石化有限公司) during the period from March 1995 to January 2007, Mr. Tan worked in Yixing Shunlang Property Development Co., Ltd.\* (宜興順浪物業發展有限公司) as the chief accountant and the assistant to the general manager, and was primarily responsible for accounting matters. Mr. Tan has been the international trade manager of Jiangsu Chuangxin Petrochemical Co., Ltd\* (江蘇創新石化有限公司) since February 2007 and is currently also the supervisor of Jiangsu Chuangxin Petrochemical Co., Ltd.\* (江蘇創新石化有限公司). Mr. Tan is primarily responsible for international trade matters, assisting the overall management and day-to-day operations.

Mr. Tan graduated from Jiangsu Agricultural Broadcasting and Television School\* (江蘇省農業廣播電視學校) majoring in finance in July 1994 and from Nanjing Normal University\* (南京師範大學) majoring in English in December 1999.

**Mr. Wong Yu Kit (黃儒傑)**, was appointed as one of the joint company secretary of the Company on 11 June 2018. He is a vice president of SWCS Corporate Services Group (Hong Kong) Limited and has over 10 years of experience in the corporate services field.

Mr. Wong obtained a bachelor's degree in Business Administration and Management from the University of Huddersfield and a master's degree in corporate governance from the Open University of Hong Kong. Mr. Wong is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

# REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of our Group for the year ended 31 December 2020.

## SHARE OFFER

The Company was incorporated in the Cayman Islands on 6 July 2017 as an exempted company with limited liability under the Cayman Islands Companies Law. The Shares were listed on the Main Board of the Stock Exchange on 28 March 2018.

## PRINCIPAL PLACE OF BUSINESS AND PRINCIPAL ACTIVITIES

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.

Our principal place of business and headquarters in the PRC is at No. 16 West Kaixuan Road, Economic Development Zone, Yixing, Jiangsu, the PRC. Our principal place of business in Hong Kong is at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.

The analysis of the revenue of the principal activities of our Group for the year ended 31 December 2020 is set out in note 3 to the consolidated financial statements.

## BUSINESS REVIEW AND RESULTS

A review of the business of our Group for the year ended 31 December 2020 and a discussion on our future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An analysis of our performance for the year ended 31 December 2020 using financial key performance indicators is set out in the section headed "Financial Summary" of this annual report.

The results of our Group for the year ended 31 December 2020 are set out in the section headed "Consolidated Statement of Profit or Loss and Other Comprehensive Income" of this annual report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Our Group strictly complies with the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report of this annual report.

# REPORT OF THE DIRECTORS

## 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 maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (“**Scheme Mandate Limit**”), therefore, this 10% maximum number is 48,000,000 shares, representing 10% of the issued share capital of the Company as at the date of this annual report.

According to this Share Option Scheme, the maximum number of Shares issued and to be issued upon exercise of the Options granted to any one eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of our Shares in issue from time to time.

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of the Company of HK\$1.0 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 30 days after the offer date (“**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Unless otherwise determined by the Board and stated in the offer of the grant of an Option to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

## REPORT OF THE DIRECTORS

The subscription price in respect of any particular Option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheet for the five business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme is valid and effective for a period of 10 years commencing on 11 March 2018 and expiring on 10 March 2028. The remaining life of the Share Option Scheme is around 6 years and 11 months.

No share options have been granted, exercised, canceled or lapsed under the Share Option Scheme since its adoption. As of 31 December 2020, the Company has no outstanding share option under the Share Option Scheme.

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.

### 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.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, sales to our largest customer accounted for 10.2% of our total revenue, and sales to our five largest customers accounted for 36.1% of our total revenue.

The following table sets forth the details of our major customers for the year ended 31 December 2020:

Customer	Group company	Major products sold	Credit term	Revenue Contribution RMB'000	Percentage of total revenue %
Customer A	CNPC	Oil refining agents and fuel additives	Cash on delivery	16,383	10.2

For the year ended 31 December 2020, our purchases from the largest supplier accounted for 14.8% of the total procurements, and purchases from five largest suppliers accounted for 47.5% of the total procurements.

## REPORT OF THE DIRECTORS

The following table sets forth the details of our major suppliers for the year ended 31 December 2020:

Rank	Supplier	Major products purchased	Percentage of total purchases
1	Supplier A	Ethanol amines	14.8
2	Supplier B	Ethanol amines	10.8
3	Supplier C	Oleic acids	8.9

To the best knowledge of the Directors, none of the Directors, their respective close associates or any Shareholders who own more than 5% of the Company's issued share capital, had any beneficial interest in any of our Group's five largest customers or suppliers aforementioned during the Reporting Period.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of our Group during the year ended 31 December 2020 are set out in note 10 to the consolidated financial statements of this annual report.

### SUBSIDIARIES

Details of the major subsidiaries of the Company as of 31 December 2020 are set out in note 12 to the consolidated financial statements of this annual report.

### FINANCIAL SUMMARY

A summary of the results and assets and liabilities of our Group is set out in the section headed "Financial Summary" in this annual report. This summary does not form part of the consolidated financial statements.

### FINANCIAL STATEMENTS

The financial results of our Group for the year ended 31 December 2020 and the financial position of our Group as of that date are set out in the consolidated financial statements of this annual report.

A discussion and analysis of our Group's performance during the Reporting Period and material factors underlying our results and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report.

### SHARE CAPITAL

Details of movements in the share capital of our Group during Reporting Period are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report, of which details are set out in note 19 to the consolidated financial statements of this annual report.

# REPORT OF THE DIRECTORS

## DISTRIBUTABLE RESERVES

Details of movements in the reserves of our Group during Reporting Period are set out in the section headed “Consolidated Statement of Changes in Equity” of this annual report, of which details of reserves available for distribution to Shareholders are set out in note 19 to the consolidated financial statements of this annual report.

As of 31 December 2020, the aggregate amount of reserves available for distribution to Shareholders was RMB91,536,000.

## DIRECTORS

The following table sets forth the Directors at the date of this annual report:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointment Date</b>
Mr. Ge Xiaojun	57	Executive Director, chairman and chief executive officer	18 September 2017
Ms. Gu Jufang	57	Executive Director	18 September 2017
Mr. Huang Lei	52	Executive Director	18 September 2017
Mr. Jiang Caijun	51	Executive Director	18 September 2017
Mr. Fan Yaqiang	49	Executive Director	18 September 2017
Mr. Gu Yao	35	Non-Executive Director	18 September 2017
Mr. Fan Peng	38	Independent Non-Executive Director	7 March 2018
Mr. Guan Dongtao	49	Independent Non-Executive Director	7 March 2018
Ms. Wu Yan	44	Independent Non-Executive Director	7 March 2018

The Company has received, from each of the independent Non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers that all of the independent non-executive Directors are independent of the Company.

In accordance with Article 84 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out in the section headed “Directors and Senior Management” of this annual report.



# REPORT OF THE DIRECTORS

## DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of Directors has entered into a service contract with the Company for a term of three years unless terminated by not less than one month's prior written notice by either party to the other.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## CONTROLLING SHAREHOLDERS' AND DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the sub-section headed "Related Party Transactions" in this annual report, none of the Controlling Shareholders and Directors or any entity connected with a Controlling Shareholder or a Director had a material interest in, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of our Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

## EMPLOYMENT AND EMOLUMENTS

As of 31 December 2020, our Group had 69 employees. All of our employees were based in the 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.

The Remuneration Committee was set up to make recommendation to our Board on the overall remuneration policy and structure for all Directors and senior management of the Company, review remuneration and ensure none of our Directors determine their own remuneration.

We invest in continuing education and training programs for our management and other employees with a view to constantly upgrading their skills and knowledge. We also arrange for internal and external professional training programs to develop our employees' skills and knowledge. These programs include further educational studies, fundamental economics and finance knowledge and skills training, and professional development courses for our management personnel. New employees are required to attend induction training courses to ensure that they are equipped with the necessary skills to perform their duties.

# REPORT OF THE DIRECTORS

## REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

The remuneration of Directors is subject to the Shareholders' approval at the general meeting. The emoluments payable to the Directors and senior management are determined by the Board with recommendations of the Remuneration Committee, their respective contractual terms under their employment contracts or service contracts, having regard to their performance, our operating results and comparable market statistics. No Directors, or any of their respective associates, was involved in deciding their own remuneration.

Remuneration paid to each of the two members of the senior management of the Company (except for five executive Directors) for the year ended 31 December 2020 is less than HK\$1,000,000. Each of our five executive Directors signed in 2019 an agreement with the Company as a supplemental agreement to the existing executive Directors' service contract, which states that the executive Director shall not receive any director's fee during the term of office (including re-elected term of office). Details of the emoluments of the Directors and five highest paid individuals are set out in notes 7 and 8 to the consolidated financial statements of this annual report respectively.

## CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the following changes in the information of our Directors has taken place since the date of the Board meeting approving the annual report of 2019 up to the date of the Board meeting approving this report:

Independent Non-executive Director, Mr. Fan Peng ("**Mr. Fan**") had the following changes in his information:

Mr. Fan resigned as chief strategy officer of Aesthetic Medical International Holdings Group Limited in August 2020 and joined Hailiang Education Group Inc. as vice president in August 2020. Please refer to the section headed "DIRECTORS AND SENIOR MANAGEMENT" of this annual report for the updated details of his information.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND THE ASSOCIATED CORPORATIONS OF THE COMPANY

As of 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Name	Position	Nature of interest	Number of Shares <sup>(1)</sup>	Approximate percentage of shareholding in the same class of Shares (%)
Mr. Ge	Executive Director, Chairman and chief executive officer	Interest in controlled corporation/ interest of spouse <sup>(2)</sup>	360,000,000(L)	75
Ms. Gu	Executive Director	Interest in controlled corporation/ interest of spouse <sup>(2)</sup>	360,000,000(L)	75

*Notes:*

- (1) The letter "L" denotes the entity/person's long position in the Shares.
- (2) Innovative Green Holdings, a beneficial owner of 360,000,000 Shares, is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and Mr. Ge and Ms. Gu are spouses to each other and therefore each of Mr. Ge and Ms. Gu is deemed to be interested in the Shares held by Innovative Green Holdings by virtue of the SFO.

Save as disclosed above, as of 31 December 2020, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 December 2020, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) or corporations had interests or short position in the Shares or underlying Shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Nature of interest	Number of Shares <sup>(1)</sup>	Approximate percentage of shareholding in the same class of Shares (%)
Innovative Green Holdings <sup>(2)</sup>	Beneficial owner	360,000,000(L)	75

Notes:

- (1) The Letter "L" denotes the entity/person's long position in the Shares.
- (2) Innovative Green Holdings is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and Mr. Ge and Ms. Gu are spouses to each other and therefore each of Mr. Ge and Ms. Gu is deemed to be interested in the Shares held by Innovative Green Holdings by virtue of the SFO.

Save as disclosed above, as of 31 December 2020, our Directors were not aware of any persons (other than a director or chief executive of the Company) or corporations who had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period were rights to acquire benefits by means of acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

# REPORT OF THE DIRECTORS

## RETIREMENT SCHEME

Our Group participates in pension scheme administered and operated by the local municipal government of the PRC, and contributes funds to the scheme based on a certain percentage of the salaries of the employees on a monthly basis. Contributions to this retirement plan are charged to profit or loss as they became payable in accordance with the rules of the central pension scheme and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. Our Group has no other material obligation for the payment of pension benefits associated with the scheme beyond the annual contributions described above.

## CONTRACT OF SIGNIFICANCE

Save as disclosed in the sub-section headed “Related Party Transactions” in this report, there had been no contract of significance between the Company and any of our Controlling Shareholders during the Reporting Period.

## DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of 31 December 2020, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## CONNECTED TRANSACTION

There was no connected transaction between our connected persons (as defined in the Listing Rules) and any member of our Group during the Reporting Period.

## RELATED PARTY TRANSACTION

For the year ended 31 December 2020, the Group had no related party transaction.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the Cayman Islands Companies Law, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

# REPORT OF THE DIRECTORS

## NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has confirmed to the Company that he/she/it has complied with the non-competition undertakings that he/she/it provided to the Company under the deed of non-competition dated 11 March 2018. Pursuant to the deed of non-competition, each of our Controlling Shareholders (collectively, the “**Covenantors**”), in favor of the Company (for itself and as trustee for each of the members of our Group), has irrevocably, unconditionally and severally undertaken with the Company that, among others, with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors are individually or collectively with any of their respective close associates interested directly or indirectly in not less than 30% of the issued ordinary share capital of the Company, (i) each Covenantor shall not, and shall procure that their respective close associates (other than members of our Group) will not directly or indirectly compete with our Group; and (ii) each of the Covenantors shall procure that any business investment or other commercial opportunity identified by or offered to the Covenantors and/or any of their close associates is first referred to the Company. Details of the deed of non-competition are set out in the section headed “Relationship with Controlling Shareholders” of the Prospectus. The Company has received from each of the Covenantors a confirmation of their compliance with their undertakings under the deed of non-competition throughout the period from the Listing Date to the date of this report.

The Independent Non-Executive Directors have reviewed the status of compliance and confirmed that all of these non-competition undertakings have been complied with by the Controlling Shareholders during the Reporting Period.

## DIRECTORS’ INTEREST IN COMPETING BUSINESS

During the Reporting Period, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of our Group.

## COMPLIANCE WITH LAWS AND REGULATIONS

Our Group persists in maintaining good corporate governance and operating in compliance with the laws and integrity through abidance by relevant laws and regulations, industry regulations and business ethics.

For the year ended 31 December 2020 and up to the date of this annual report, save as those disclosed in the Prospectus, the Company had not been and was not a party to any material legal, arbitral or administrative proceedings, and the Company was not aware of any pending or threatened legal, arbitral or administrative proceedings against the Company or any of the Directors which would have a material adverse effect on the Company’s operations or financial condition.

For details, please refer to the sub-section headed “Compliance with key regulatory requirements” set out in section headed “Management Discussion and Analysis” of this annual report.

# REPORT OF THE DIRECTORS

## PRINCIPAL RISKS AND UNCERTAINTIES

### Concentrated Customer Base

Our sales to affiliates of Sinopec, CNPC and CNOOC accounted for a significant portion of our revenue. For the year ended 31 December 2020, sales to these three state-owned conglomerates accounted for 36.7%, 35.0% and 7.1% of our total revenue, respectively. We built a network of long-standing customer relationships with affiliates of Sinopec, CNPC and CNOOC as they dominant the PRC petrochemical industry. We anticipate that we will continue to generate a significant portion of our revenue from affiliates of the three state-owned conglomerates. However, following the recent trend of opening the oil and gas industries to privately-owned businesses, we are expanding our customer base to diversify our revenue sources.

### Price Fluctuations

Our oil refining agents and fuel additives are produced with 50 to 60 types of raw materials. The cost of our raw materials accounted for 95.5% of our total cost of sales for the year ended 31 December 2020. We regularly analyze market price trends by inquiring prices from our suppliers and monitoring the prices of raw materials online and generally retain at least two of suppliers for each kind of raw material in order to avoid reliance on any single source of supply. To the extent that we cannot manage price fluctuations, we will pass cost increases onto our customers through price adjustment mechanisms or by accounting for the possibility of such fluctuations in setting prices for our own products.

### Liquidity and Credit Risk

We enter into various contracts with different counterparties in the ordinary course of business, including suppliers and customers. If any of our counterparties default, this may negatively impact our revenue and profits and we may incur additional operating costs. Defaults by our customers may have an adverse effect on our business, financial position and results of operations. Our future liquidity, the payment of trade payables and repayment of any debt obligations, as they become due, will primarily depend on our ability to maintain adequate cash inflows from operating activities. If we are unable to maintain adequate cash inflows from operating activities, we may default on our payment obligations, which may materially and adversely affect our business, financial condition, results of operations and prospects.

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

### Risks caused by Covid-19 Pandemic

Since the outbreak of COVID-19 pandemic in January 2020, less traveling of people led to reduced consumption of gasoline and diesel oil. As a result, Chinese refineries lowered their production load and also required suppliers to cut their supply prices. Consequently, our revenue and profit of 2020 both declined. From the beginning of the second half of 2020, the effective control of the COVID-19 pandemic in the PRC has led to a pick-up in domestic demands. Nevertheless, uncertainty still exists about the future development of the pandemic, which may continue to affect our business and financial performance.

# REPORT OF THE DIRECTORS

These risks are not the only significant risks that may affect the value of the Shares. For more details, please refer to note 20 to the consolidated financial statements in this annual report.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the sub-section headed “Share Option Scheme”, no equity-linked agreements were entered into or subsisted by the Company during the Reporting Period.

## CHARITABLE DONATIONS

For the year ended 31 December 2020, our Group made a charitable donation of RMB100,000.

## DIVIDEND POLICY

Subject to the laws, rules, regulations and the Articles of Association, the Company may distribute the dividend by way of cash, share allotment or any other form in any currency to the Shareholders. Declaration of dividends is subject to the discretion of the Board, depending on our results of operations, working capital, financial position, future prospects and capital requirements, as well as any other factors which the Directors may consider relevant. A separated resolution of the proposed dividend distribution plan will be submitted by the Board to the Shareholders at the general meeting for their consideration and approval. The distribution of dividend will be completed within three months upon the approval at the general meeting by the Shareholders.

## FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.01 per Share for the year ended 31 December 2020 (for the year ended 31 December 2019: HK\$0.01 per share) to shareholders whose names appear on the Company’s register of members on Tuesday, 8 June 2021 (the “**Proposed Final Dividend**”). Subject to the approval of the shareholders at the Company’s forthcoming annual general meeting to be held on Friday, 28 May 2021, the Proposed Final Dividend is expected to be paid on or around Friday, 25 June 2021.

## 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 Tuesday, 25 May 2021 to Friday, 28 May 2021, 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 Monday, 24 May 2021.



## REPORT OF THE DIRECTORS

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Friday, 4 June 2021 to Tuesday, 8 June 2021, 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, 3 June 2021.

### EVENTS AFTER THE REPORTING PERIOD

The Board proposed a final dividend of HK\$0.01 per Share for the year ended 31 December 2020 (for the year ended 31 December 2019: HK\$0.01 per share).

Save as mentioned above and disclosed in note 24 to the consolidated financial statements in this annual report, there are no significant subsequent events after the Reporting Period.

### AUDIT COMMITTEE

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. This annual report 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 Company's external auditors, KPMG, have audited the consolidated financial statements for the year ended 31 December 2020 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

### 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. During the Reporting Period and up to the date of this annual report, 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 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 interest of the Company and its Shareholders as a whole.

# REPORT OF THE DIRECTORS

## SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at all times during the Reporting Period and as of the date of this annual report, the Company has maintained the prescribed minimum percentage of public float of at least 25% under the Listing Rules.

## AUDITORS

The consolidated financial statements for the year ended 31 December 2020 have been audited by KPMG, who has remained as the Company's auditors since the Listing Date and shall retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

**Ge Xiaojun**

*Chairman and Chief Executive Officer*

26 March 2021

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

Our Group is committed to maintain high standards of corporate governance to protect the interest of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. During the Reporting Period and up to the date of this annual report, the Company has complied with the code provisions, 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 code provisions, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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 interest of the Company and its Shareholders as a whole.

## THE BOARD

### Board Composition

As of the date of this annual report, the Board comprises five Executive Directors, namely Mr. Ge Xiaojun (chairman and chief executive officer), Ms. Gu Jufang, Mr. Huang Lei, Mr. Jiang Caijun and Mr. Fan Yaqiang; one Non-Executive Director, namely Mr. Gu Yao; and three Independent Non-Executive Directors, namely Mr. Fan Peng, Mr. Guan Dongtao and Ms. Wu Yan.

The biographies of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. A list of the Directors identifying their roles and functions is available on the websites of the Stock Exchange and the Company.

Save as disclosed in the above-mentioned section in this annual report, none of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship) with any other members of the Board and senior management of the Company.

### Responsibilities

The Board is responsible for supervising the overall management, oversees our strategic planning and monitors business and performance, as well as exercising other powers, functions and duties as conferred by the Articles. The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of our Group, and the training and continuous professional development of Directors and senior management of the Company. The Board also reviews the disclosures in this Corporate Governance Report to ensure compliance.

# CORPORATE GOVERNANCE REPORT

The Board has delegated the authority and responsibility for day-to-day operation of our Group to the executive Directors and senior management of the Company. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"). The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

All Board members have separate and independent access to the Company's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Company's expense upon their request.

The senior management is responsible for the day-to-day management and operation of our Group.

As regards the code provisions requiring directors to disclose the directorships and number and nature of offices they are concurrently holding at other companies or organizations, and other significant commitments as well as the identity to the issuer, the Directors have agreed to disclose the information and any subsequent change to the Company in a timely manner.

## Independence of Independent Non-executive Directors

Since the Listing Date and up to the date of this annual report, the Company has been in compliance with the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with at least one Independent Non-Executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of Independent Non-Executive Directors representing at least one-third of the Board.

As of 31 December 2020, each of the Independent Non-Executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of them are independent under these independence criteria and are capable of effectively exercising independent judgement.

# CORPORATE GOVERNANCE REPORT

## Board Diversity

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge, relationship with other Board members and length of service. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

As at the date of this annual report, the Board comprises 9 Directors including 3 Independent Non-Executive Directors. One third of these Directors are independent of the management, thereby promoting critical review and control of the management process.

## Directors' Training and Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of our operations and businesses. The Company will also provide Directors with briefings and updates on the latest development and changes regarding the Listing Rules and other applicable regulatory requirements from time to time. The Directors are also provided with regular updates on our performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors have attended training regarding Listing Rules compliance before the Listing. During the Reporting Period, all Directors attended a training course in September 2020 offered by the Company's legal adviser regarding the information disclosure responsibilities of companies listed on the Main Board of the Hong Kong Stock Exchange and their directors.

# CORPORATE GOVERNANCE REPORT

A summary of trainings received by the Directors for the year ended 31 December 2020 is as follows:

<b>Name of Directors</b>	<b>Attending in-house training dated 15 September 2020</b>
<i>Executive Directors</i>	
Mr. Ge Xiaojun	✓
Ms. Gu Jufang	✓
Mr. Huang Lei	✓
Mr. Jiang Caijun	✓
Mr. Fan Yaqiang	✓
<i>Non-Executive Director</i>	
Mr. Gu Yao	✓
<i>Independent Non-Executive Directors</i>	
Mr. Fan Peng	✓
Mr. Guan Dongtao	✓
Ms. Wu Yan	✓

## Appointment and Re-election of Directors

Each of the Executive Directors, Non-Executive Director and Independent Non-Executive Directors has signed a service contract with the Company for a term of three years subject to termination as provided in the service contract.

The appointments of Executive Directors, Non-Executive Director and Independent Non-Executive Directors are subject to the provisions of retirement and rotation of the Directors under the Articles of Association and the applicable Listing Rules.

None of the Directors has a service contract which is not determinable by our Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation and shall be eligible for re-election and re-appointment provided that every Director shall be subject to retirement by rotation at least once every three years at every annual general meetings and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by Shareholders at the next general meeting after appointment. Accordingly, each of Mr. Huang Lei, Mr. Jiang Caijun and Mr. Fan Yaqiang, being eligible, offer himself for re-election at the AGM.

# CORPORATE GOVERNANCE REPORT

## Nomination Policy

In order to nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election at general meetings, the secretary of the Nomination Committee shall call a meeting with the list and information of the candidates. For proposing candidates to stand for election at a general meeting, a circular which contains the names, brief biographies, independence, proposed remuneration and any other information as required pursuant to the applicable laws and regulations, will be sent to the Shareholders. Other than the nomination recommended by the Board for election, the Shareholders can serve a notice in writing of the intention to propose that certain person for election as a Director within the lodgment period. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Nomination Committee has the discretion to nominate any person as it considers appropriate and in assessing the suitability of a proposed candidate, the criteria as set out below will be used as reference.

- Reputation and integrity;
- Experience in the directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas;
- Commitment in performing the duties as a director and a member of the Board committees (if applicable); and
- Board diversity, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge, relationship with other Board members and length of service, and the potential contributions can be brought to the Board.

## Board Meetings

The Company intends to hold Board meetings regularly, at least four times a year. A notice will be given not less than 14 days for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. A Director may attend the Board meetings in person, or appoint another Director in writing as his proxy to attend the Board meeting. The Joint Company Secretaries of the Company are responsible for preparing and keeping the documents and records of Board meetings. Draft minutes and final versions of each Board meeting and Board committee meeting will be sent to all Directors or committee members for their comments within a reasonable time after the date on which the meeting is held.

In addition, in order to facilitate open discussion with all Independent Non-Executive Directors, the chairman of the Board had held a meeting with all the Independent Non-Executive Directors without the presence of other Directors in accordance with the code provision A.2.7 of the CG Code during the Reporting Period.

# CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2020, five Board meetings and one general meeting were held, and the attendance record of each Director is set out in the table below:

Name of Directors	Board	Attendance/Number of Meetings			
		Nomination Committee	Remuneration Committee	Audit Committee	General meeting(s)
Mr. Ge Xiaojun	5/5	1/1	N/A	N/A	1/1
Ms. Gu Jufang	5/5	N/A	1/1	N/A	1/1
Mr. Huang Lei	5/5	N/A	N/A	N/A	1/1
Mr. Jiang Caijun	5/5	N/A	N/A	N/A	1/1
Mr. Fan Yaqiang	5/5	N/A	N/A	N/A	1/1
Mr. Gu Yao	5/5	N/A	N/A	N/A	1/1
Mr. Fan Peng	5/5	N/A	N/A	3/3	1/1
Mr. Guan Dongtao	5/5	1/1	1/1	3/3	1/1
Ms. Wu Yan	5/5	1/1	1/1	3/3	1/1

## Model Code for Securities Transactions

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

The Directors have also requested any employee of the Company or director or employee of any subsidiary of the Company who, because of his office or employment in the Company or any subsidiary, is likely to possess inside information in relation to the securities of the Company, not to deal in securities of the Company when he/she would be prohibited from dealing by the Model Code as if he/she were a Director.

## Service Contract of Directors

Each of the Directors has entered into a service contract or appointment letter with the Company pursuant to which each of them has agreed to act as Director for a fixed term of three years commencing from their respective date of appointment unless terminated by either party thereto giving not less than one month's prior written notice.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

The Board is supported by three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Each Board committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are respectively available on the websites of the Stock Exchange and the Company.

All Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

### Audit Committee

The Audit Committee comprises three members, namely Mr. Guan Dongtao, Mr. Fan Peng and Ms. Wu Yan, all being independent non-executive Directors. The Audit Committee is chaired by Mr. Guan Dongtao, who possesses appropriate accounting qualifications.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and dismissal of the external auditors, monitor and review the financial statements and information and oversee the financial reporting system, risk management and internal control systems of the Company.

During the Reporting Period, three Audit Committee meetings were held, which mainly reviewed, among other things, the Company's annual and interim results, the internal control and risk management systems of the Group and the re-appointment of independent auditor of the Group.

### Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors, namely Ms. Wu Yan (chairwoman), Mr. Guan Dongtao; and one executive Director, namely Ms. Gu Jufang.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure for all Directors and senior management of the Company, and to review remuneration and ensure none of the Directors determine their own remuneration.

The major objective of our remuneration policy is to develop and review the remuneration package of individual Director and senior management of the Company with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, goals and objective of the Company, and recommend the remuneration proposals to the Board and ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the Reporting Period, one Remuneration Committee meeting was held to review the remuneration package of the Directors and the senior management.

# CORPORATE GOVERNANCE REPORT

## Nomination Committee

The Nomination Committee currently comprises three members, including one executive Director, namely Mr. Ge Xiaojun (chairman); and two Independent Non-Executive Directors, namely Ms. Wu Yan and Mr. Guan Dongtao.

The primary duties of the Nomination Committee are to review the structure, size, composition and diversity of the Board at least annually and make recommendation to the Board regarding candidates to fill vacancies on the Board and/or in senior management of the Company.

During the Reporting Period, one Nomination Committee meeting was held, which mainly reviewed the structure, size, diversity and composition of the Board, reviewed the independence of independent non-executive Directors, and recommended the re-election of retiring Directors.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosures in this Corporate Governance Report.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management of the Company are set out in notes 7 and 8 to the consolidated financial statements in this annual report.

The remuneration to Directors is subject to the Shareholders' approval at the general meeting. The emoluments payable to the Directors and senior management of the Company are determined by the Board with recommendations of the Remuneration Committee, their respective contractual terms under their employment contracts or service contracts, having regard to their performance, our Group's operating results and comparable market statistics. No Directors, or any of their respective associates, was involved in deciding their own remuneration.

Remuneration paid to each of the Directors and the members of the senior management of the Company for the year ended 31 December 2020 is less than HK\$1,000,000. Each of our five executive Directors signed in 2019 an agreement with the Company as a supplemental agreement to the existing Executive Directors' service contract, which states that the executive director shall not receive any director's fee during the term of office (including re-elected term of office).

# CORPORATE GOVERNANCE REPORT

## RESPONSIBILITIES FOR FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the financial statements for the year ended 31 December 2020 which give a true and fair view of the affairs, results and cash flows of our Group.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put forward to the Board for approval. The Company has provided all members of the Board with monthly updates on the Company's performance, positions and prospects.

To the best knowledge of the Directors, there are no material uncertainties relating to events or conditions which may cast significant doubt upon our Group's ability to continue as a going concern.

The statement by KPMG, our external auditors, regarding their reporting responsibilities on the consolidated financial statements of our Group is set out in the section headed "Independent Auditor's Report" of this annual report.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Company has established internal audit function and risk management and internal control systems with relevant policies and procedures that we believe are appropriate for our business operations. We will continuously monitor and evaluate our business and take measures to protect the interest of our Group and the Shareholders. The Board oversees and manages the risks associated with our business. Audit Committee is responsible for reviewing and supervising our financial reporting process and internal control system.

In order to improve our corporate governance and to prevent the recurrence of non-compliance incidents in the future, we have adopted a series of internal control policies, procedures and programs designed to provide reasonable assurance for achieving objectives such as effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control systems include the following:

- We provided the Directors with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties;
- We adopted various policies to ensure compliance with the Listing Rules, including those in relation to risk management, continuing connected transactions and inside information disclosure;
- We implemented internal control policies in relation to financial management;

# CORPORATE GOVERNANCE REPORT

- We implemented a series of internal rules and regulations in relation to our business operations, including those in relation to the management of our quality control, sales and marketing, production, procurement, research and development, human resources and information on technology systems; and
- We implemented relevant policies in relation to our social insurance fund and housing provident fund to ensure compliance.

The Board acknowledges that it is the responsibility of the Board for maintaining adequate internal control and risk management systems to protect the Shareholders' investments and the Company's assets and review the effectiveness of such systems on an annual basis.

The Board considers that the existing internal audit function and the internal control and risk management systems of the Company are reasonably effective and adequate.

## EXTERNAL AUDITORS

KPMG has been appointed as the external auditors of the Company. The Audit Committee has been notified of the nature and the service charges of the audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditors.

The remuneration paid to the external auditors of the Company, KPMG, in respect of audit and non-audit services provided to our Group during the year ended 31 December 2020 was analyzed below:

<b>Service category</b>	<b>Fees RMB</b>
Audit services	
– audit services on 2020 annual financial statements of our Group	1,230,000
– statutory audit of a subsidiary	35,000
Non-audit services	
– tax compliance services	14,000
	<hr/>
	1,279,000

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors under the annual review.

# CORPORATE GOVERNANCE REPORT

## JOINT COMPANY SECRETARIES

Mr. Tan Qian (談前) (“**Mr. Tan**”) is one of the joint company secretaries of the Company. Mr. Wong Yu Kit (黃儒傑) (“**Mr. Wong**”), a vice president of SWCS Corporate Services Group (Hong Kong) Limited, is the other joint company secretary of the Company. Both of the joint company secretaries are responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures as well as the applicable laws, rules and regulations are followed. Mr. Tan is the primary corporate contact person at the Company for Mr. Wong.

Both Mr. Tan and Mr. Wong have complied with the relevant professional training requirement of taking not less than 15 hours of professional training under Rule 3.29 of the Listing Rules during the Reporting Period.

## CONVENING EXTRAORDINARY GENERAL MEETINGS

Pursuant to the Articles of Association of the Company, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company. Shareholders could use the same way of convening an extraordinary general meeting as above to put forward proposals in detail at general meetings.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged appropriate Directors and officers liability insurance which covers the corresponding costs, charges, expenses and liabilities for any legal action against them arising out of our corporate activities.

## COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Company's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The AGM provides an opportunity for the Shareholders to communicate directly with the Directors. The chairman of the Board and the chairman of the Board committees will attend the AGM to answer Shareholders' questions. The auditor will also attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

# CORPORATE GOVERNANCE REPORT

## CONSTITUTIONAL DOCUMENTS

Pursuant to the resolutions of the Shareholders passed on 11 March 2018, the amended and restated memorandum of association was adopted with effect from the date of these resolutions and the Articles of Association were adopted with effect from the Listing Date. They are available on the websites of the Stock Exchange and the Company.

## INVESTOR RELATIONS

Since the Listing Date and up to the date of this annual report, the Company has maintained corporate transparency and communications with the Shareholders and the investment community through timely distribution of announcements and/or other publications. The Company's website provides an effective communication platform to keep abreast of the latest developments of the market.

## ENQUIRIES TO THE BOARD

The Company encourages Shareholders to attend Shareholders' meetings and make enquiries by either directly raising questions to the Board and Board Committees at the general meetings or providing written notice of such enquires to the principal place of business and headquarters of the Company in PRC at No.16 West Kaixuan Road, Economic Development Zone, Yixing, Jiangsu, the PRC (email address:2116@jscxsh.cn).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report provides a summary of the performance in the environmental, social and governance aspects of our Group in the year of 2020. This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “**Guide**”) under Appendix 27 of the Listing Rules. The scope and information covered herein comply with the disclosure principle required in the Guide.

Through repeated discussions within our Group and direct communication with stakeholders, we acquaint ourselves with the core concerns of stakeholders, identify important environmental, social and governance factors, and thereby develop related strategies, objectives, plans and measures to promote the sustainable development of our business. The key performance indicators (KPIs) in this report are made in accordance with the related calculation standard and methods provided in the Guide under Appendix 27 of the Listing Rules. The calculation methods and the coverage thereof are consistent with that of last year’s report, and have been so made as to avoid misleading to readers’ decision, judgment and choice or causing omission or incorrect reporting format.

The Board has established a special ESG team to inject the philosophy of sustainable development in the daily operations practice of the Group, to keep our overall strategy aligned with our goals of sustainable development, to set up a monitoring system to safeguard the achievement of the corresponding business goals, and to constantly improve ESG performance of the Group.

This report covers the overall performance of our Group in various aspects, including environmental protection, employee protection, safe production and performance of social responsibilities for the year ended 31 December 2020. In the view that oil refining agents and fuel additives constitute all of our operating income sources and belong to the same industry, this report covers the Company and all of its subsidiaries. Unless otherwise stated, the information contained in this report is derived from the Group’s files and statistical reports, and the monetary amounts involved are denominated in RMB.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. ANALYSIS OF ENVIRONMENTAL PERFORMANCE OF OUR GROUP

Our Group is principally engaged in the development, production and sale of oil refining agents and fuel additives that can be applied to reduce undesirable emissions and comply with the evolving regulatory requirements on environmental protection of the PRC government. Our Group is committed to environmental protection, advocates energy saving and emission reduction, and has adopted and implemented a series of measures to ensure its compliance with standards of ISO certifications.

### 2.1 OVERVIEW OF RELEVANT ENVIRONMENTAL PROTECTION POLICIES IN KEY BUSINESS AREAS

Policies and Regulations	Date of issuance and Issuer	Main content
Guiding Opinions on Constructing a Modern Environmental Governance System* (關於構建現代環境治理體系的指導意見)	3 March 2020, the State Council	To implement a pollutant-discharge licensing management system in accordance with the law, to accelerate the legislative process of the regulations on pollutant-discharge licensing management, to improve the pollutant-discharge licensing system, to strengthen the supervision and inspection of enterprises' pollutant-discharge activities, and to well coordinate the relationship between pollutant-discharge licensing and environmental impact assessment system as per the principle of a smooth transition between the old and the new systems.
Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources* (固定污染源排污許可分類管理名錄)(2019 Edition)	20 December 2019, Ministry of Ecology and Environment	It requires that 107 industries and four general processes be subject to discharge permit management. It also requires that in addition to these industries, enterprises identified as key pollutant discharge enterprises by relevant environmental protection authorities with discharge amount reaching prescribed standards shall also be subject to discharge permit management.
Law of the People's Republic of China on the prevention and control of air pollution* (中華人民共和國大氣污染防治法)(2018 Revision)	26 October 2018, Standing Committee of the National People's Congress	Protecting and improving the environment, preventing and controlling atmospheric pollution, safeguarding public health, promoting the construction of ecological civilization, and promoting sustainable economic and social development.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Policies and Regulations	Date of issuance and Issuer	Main content
Law of the People's Republic of China on the prevention and control of soil pollution* (中華人民共和國土壤污染防治法)	31 August 2018, Standing Committee of the National People's Congress	It proposes to focus on establishing a corresponding legal system, strengthen the environmental supervision on industrial and mining enterprises, and cut off the source of soil pollution to curb the further pollution; to implement classified administration of contaminated lands, establish a technological system to gradually promote risk management and control.
Three-year Action Plan for Winning the Battle for a Blue Sky* (打贏藍天保衛戰三年行動計劃)	27 June 2018, the State Council	The plan states that it is expected to dramatically reduce the total emissions of major atmospheric pollutants, lower the greenhouse gas emissions in a coordinated manner, further see a marked drop in the density of PM 2.5, and significantly decrease the number of seriously polluted days, through best endeavors in the forthcoming three years, in turn to significantly improve the air quality and obviously strengthen the happiness of citizens to a blue sky.
The 13th Five-year Plan for the Development of National Environmental Protection Standards* (國家環境保護標準“十三五”發展規劃)	10 April 2017, Ministry of Environmental Protection	The plan will facilitate the formulation and revision of about 900 environmental protection standards and the issuance of about 800 environmental protection standards, including about 100 quality standards and pollutant discharge (control) standards, about 400 environmental monitoring standards, and about 300 basic environmental standards and management standards.
Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste* (中華人民共和國固體廢物污染環境防治法)(2016 Revision)	7 November 2016, Standing Committee of the National People's Congress	In order to prevent and control the solid waste pollution on the environment, China will reduce the amount of solid waste and minimize its impact by fully utilizing the solid waste under the principle of harmless disposal of solid waste, thereby facilitating the development of clean production and recycling economy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.2 ANALYSIS OF EMISSIONS OF OUR GROUP

### 2.2.1 Analysis of Emission Indicators of our Group

#### *Emission of Exhaust Gas*

Our Group's emission of exhaust gas is mainly from the combustion of gasoline by vehicles. The exhaust gas emitted from combustion of relevant fossil fuels mainly includes pollutants such as nitrogen oxides (NOx), sulfur oxides (SOx) and particulate matter (PM). In 2020, our Group emitted nitrogen oxides of 126.43 kilograms, sulfur oxides of 0.25 kilogram and particulate matter of 12.11 kilograms during the course of its production and operation.

#### *Emission of Greenhouse Gas*

Our Group generates greenhouse gas mainly from the combustion of gasoline by vehicles and natural gas and electricity consumption in operation. The emission of greenhouse gas includes direct emission of greenhouse gas and indirect emission of greenhouse gas. Our Group's emission of greenhouse gas in 2020 is as follows:

Type of Greenhouse Gas	Direct emission (Unit: ton of carbon dioxide equivalent)	Indirect emission (Unit: ton of carbon dioxide equivalent)
Carbon dioxide (CO <sub>2</sub> )	37.07	600.75
Methane (CH <sub>4</sub> )	0.08	0.14
Nitrous oxide (N <sub>2</sub> O)	4.94	2.85
<b>Total</b>	<b>42.09</b>	<b>603.74</b>

In 2020, our Group's total carbon emission amounted to approximately 645.83 tons of carbon dioxide equivalent with emission density of 403.76 tons of carbon dioxide equivalent/RMB100 million.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Hazardous/Non-hazardous Waste*

In 2020, our group did not discharge any toxic or hazardous wastes. In 2020, our Group generated about 1,000 tons of domestic sewage during the course of its production and operation, and all the sewage generated has been transported to the sewage treatment plant for proper treatment up to the discharge standard. All the non-hazardous wastes generated by the group were disposed of in 2020, further enhancing the environmental protecting effects. In addition, our Group is actively improving business operation efficiency and environmental protection supervision measures to further reduce the possibility that our Group's business will have a negative impact on the environment.

## **2.2.2 Our Emission Reduction Measures and Results**

### *Measures for Emission Reduction and Relevant Progress*

Our Group attached great importance to energy saving and emission reduction, and set up a goal of approximately 3% emission cut for the year of 2020 comparing with the previous year. We adopt closed production techniques hardly generating any greenhouse gas in the process of production. Nevertheless, our Group has installed the activated carbon gas absorption system in the filling workshop to further absorb minor gas escaped, thereby minimizing the possibility of pollutant emission.



In addition, we replaced the original water-pump-type vacuum pumps with screw vacuum pumps for the vacuum-pumping process of the reaction stills, which changed the cooling mode from water cooling to natural cooling, so as to save water and further reduce gas emission.

### *Disposal methods of hazardous & non-hazardous wastes, measures for reducing generation and the results achieved*

Our Group attaches great importance to environmental protection, energy conservation and emission reduction, and timely treats hazardous and non-hazardous wastes. In detail, we have our suppliers recycle old packaging materials which we are not able to reuse, so as to save packaging costs and reduce packaging wastes. We hand over the liquid and solid wastes from our laboratory to professional companies for recycling and treatment, so as to reduce their impact on the environment. We installed an activated carbon adsorption system in each workshop to adsorb tiny amount of greenhouse gases emitted, so as to minimize the possibility of pollution emission. We have our waste water disposed of by the sewage treatment plant next door to our plant, which not only saves the transportation cost but also avoids the pollution to the environment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

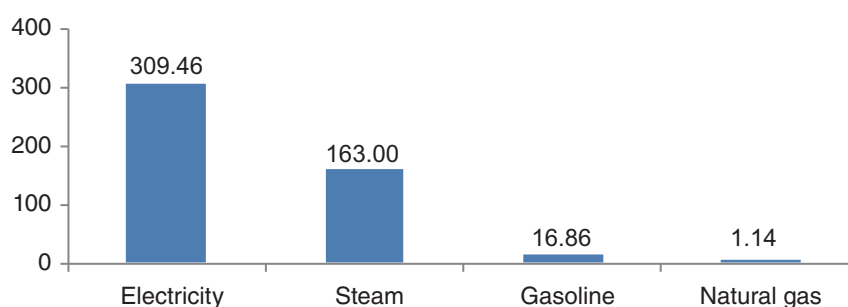
## 2.3 ANALYSIS OF USE OF RESOURCE BY OUR GROUP

### 2.3.1 Main Energy Consumption Structure of Our Group

In 2020, our Group consumed a total of approximately 12.32 tons of fossil fuels in its operation, including approximately 11.46 tons of gasoline and approximately 0.86 ton of natural gas. In addition, our Group consumed electricity of approximately 766,000.00KWH and water of approximately 11,200.00 tons in its operation.

In 2020, the total energy consumed by our Group in its operation amounted to approximately 490.47 tons of standard coal equivalent, of which 63.1% was electricity, 33.2% was steam, 3.4% was gasoline and 0.2% was natural gas.

**Comparison of Energy Consumption of our Group in 2020  
(unit: ton of standard coal equivalent)**



### 2.3.2 Measures on Efficient Use of Energy Taken by our Group

In 2020, our Group had been actively promoting the efficient use of energy. Our Group had emphasized the importance of efficient use of energy in all the work conferences, and had raised employees' awareness on energy conservation and environmental protection during production. Furthermore, our Group had also vigorously advocated the efficient use of energy in its production management system and had implemented strict regulations on the procedures for the use of energy. Our Group had listed the relevant requirements for energy conservation and consumption reduction as well.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to improve the utilizing efficiency of energy and resources, our Group has taken the following specific measures: 1. In order to improve the utilizing efficiency of fixed assets and save energy, in 2020, our Group disposed of a number of automobiles with high fuel consumption, which greatly reduced the number of our automobiles and thereby significantly reduced the gasoline consumption and average fuel consumption of our vehicles. 2. Our Group strengthened the management of energy saving and consumption reduction and thereby reduced the total power consumption without reducing the total production output. 3. Our Group uses more tank cars and less packing drums in delivery, which reduces the consumption of packages without decreasing the total sales volume. In 2020, our Group implemented the above-said three measures and thereby improved energy efficiency in multiple aspects, reduced the waste of resources and protected the environment with our practical actions.

### 2.3.3 Analysis of Resource Utilization Indicators of Our Group

#### *Total Energy Consumption and Intensity*

Energy consumption of our Group in 2020 is shown in the following tables:

<b>Unit</b>	<b>Total gasoline consumption of our Group in 2020</b>
Litre (l)	15,700.00
Kilogram (kg)	11,461.00
Kilogram of standard coal equivalent (kgsce)	16,863.72

<b>Unit</b>	<b>Total natural gas consumption of our Group in 2020</b>
Cubic meter (m <sup>3</sup> )	1,200.00
Kilogram (kg)	860.88
Kilogram of standard coal equivalent (kgsce)	1,144.97

<b>Unit</b>	<b>Total electricity consumption of our Group in 2020</b>
Kilowatt hour (kWh)	766,000.00
Kilogram of standard coal equivalent (kgsce)	309,464.00

In 2020, our Group's total energy consumption amounted to 490.47 tons of standard coal equivalent with energy consumption intensity of 30.66 kilograms of standard coal equivalent/RMB10,000.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2020, our Group's total water consumption amounted to 11,200 tons with energy consumption intensity of 0.7 ton/RMB10,000.

## *Usage of Suitable Water Sources*

Our Group uses suitable water sources in accordance with Regulation on Administration of the Water Drawing Permit and the Levy of Water Resource Fee without causing any problem.

## *Total Amount of Packaging Materials Used for Finished Products*

The packaging materials used for our Group's products mainly include plastic barrels and metal barrels. In 2020, our Group used approximately 63.30 tons of plastic and 315.10 tons of metal for packaging materials of finished products.

## 2.4 ANALYSIS OF ENVIRONMENT AND NATURAL RESOURCES

### *2.4.1 Analysis of Major Impacts of Business Activities on Environment and Natural Resources and Relevant Measures*

Our Group conducts its business operation in compliance with the relevant regulations of the Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, and strictly handles the generated emissions and pollutants. All emissions and pollutants are tested and recorded in a detailed manner, and meet the requirements of national environmental protection regulations and emission standards without adversely affecting the environment and natural resources.

Our Group's business activities do not have significant impacts on the environment and natural resources. The noise generated by our Group's business activities is low, which is further insulated by building walls, doors and windows, and therefore, has no impact on the environment. Our group does not produce dust in its business activities. A small amount of solid wastes are disposed of by professional companies. A small amount of exhaust gases is adsorbed by the activated carbon system. No process wastewater is produced during production. Other wastewater mainly consists of primary rainwater, cooling water and domestic sewage, which is disposed of by sewage treatment plants.

Major climate-related matters have not had a significant impact on the production and life of our Group. Our Group's risk management system and the professional guidance from relevant government departments can help us respond to natural disasters. Our Group is in a good geographical location. Since the establishment of our Group, there has never been a natural disaster that had a significant impact on our Group's production and operation. Climate change is not expected to have a predictable impact on our Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our Group's customers are all large-scale enterprises with strong resilience to natural disasters and climate change, and therefore are not expected to have a significant impact on our Group's business due to natural disasters or climate change. In order to cope with various risks, our Group has formulated a risk management system. For natural disasters, our Group usually carries out prevention and control measures in combination with the professional guidance of relevant government departments. As an example, for the COVID-19 pandemic first occurred in the end of 2019, according to the guidance of relevant government departments and in consideration of the actual conditions of our Group, we prepared a perfect set of prevention and control measures and conducted a remote training course in epidemic prevention for our employees before resuming our production in February 2020.

## 3 ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY

### 3.1 ANALYSIS OF EMPLOYMENT AND LABOUR CURRENT STATUS OF OUR GROUP

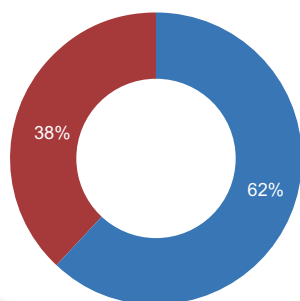
#### 3.1.1 Overview of Employment Status and Labour Standards

##### *Employment Principles*

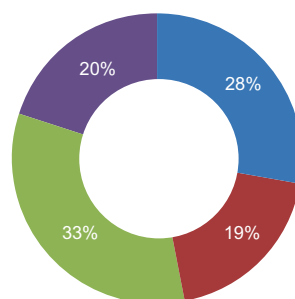
Our Group strictly complies with the Labour Law of the PRC\* (中華人民共和國勞動法), and has formulated comprehensive employment rules and systems and has implemented the employment principles of "selecting people by jobs, matching people and positions, and undergoing recruitment openly and fairly".

##### *Details of Existing Employees*

#### **Breakdown of Existing Employees of our Group by Major Indicators for 2020**



■ Male ■ Female  
**Gender**



■ 35 and below ■ 36-45 ■ 46-55 ■ 56 and above  
**Age Group**

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As of 31 December 2020, the total number of existing employees of our Group was 69, all of them are full-time employees, of which 68 work in Jiangsu Province and 1 works in other areas.

Our Group has a relatively balanced gender structure of employees with 43 male employees and 26 female employees, representing 62% and 38%, respectively, of the total number of employees. In order to create a favourable working environment for female employees, we strive to ensure that female employees are entitled to various leaves and insurance in accordance with relevant laws. Our employee handbook provides that female employees shall be entitled to 90 days of normal maternity leave with additional 30 days of leave for late childbearing and additional 15 days of leave for each additional baby in case of multiparity. In addition, we actively carry out various cultural activities to enrich the leisure time of female employees and strives to create a more harmonious working environment.

Our Group also maintains a reasonable age structure of employees with fairly even distribution among different age groups, which shows that we attach importance to introducing young blood while valuing experienced employees.

## *Details of Employee Turnover*

In 2020, a total of 12 employees had left our Group, representing 18% of the total number of existing employees. Among which, 6 of them were male, 6 of them were female, 8 of them aged 35 and below, and 4 of them aged over 35, all of them are from Jiangsu Province.

## *Employee Benefits*

Our Group protects the rights and benefits of all employees. Our Group explicitly states the rights and benefits of its employees in the employee handbook. Based on the national allocation principles of “same pay for same job and more pay for more work” and “prioritizing efficiency with due consideration to fairness”, our Group offers basic salary, performance salary and bonus as well as benefits such as allowance, labour protection supplies, festival gifts and free physical examination to its employees. In addition, our Group provides timely and full contribution to employees’ housing provident fund, endowment insurance, medical insurance, unemployment insurance and other social insurance in accordance with the requirements of the Labour Law of the PRC. Our employees are also entitled to any salary, benefits and leaves (such as work-related injury leave, sick leave and marriage leave) required by relevant laws.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Employee Incentive

Our Group has implemented a series of incentive policies, such as incentives for outstanding employees and so on. We give cash rewards to outstanding employees in the current year, and give priority to promotion. For the employees who can master the operation skills of their own position and other positions, we will provide incentives such as salary increase and promotion.

### 3.1.2 Overview of Employees' Health and Safety Assurance

We consecutively passed the OHSAS18001/ISO45001 Occupational Health and Safety Management System Certification and strictly implements occupational health and safety management based on such standard. Meanwhile, we carry out safe production in strictly accordance with the requirements of relevant safety supervision authorities, and are consecutively recognized as III-Grade Enterprise of Work Safety Standardization of Wuxi City.

In order to assure the health and safety of our employees, we have actively developed the Compilation of Safe Production Management Systems, including safety responsibility assessment system, safety education and training system, safety facilities/protective equipment management system, hidden safety issues investigation and rectification management system, etc. We equipped employees with a complete set of safety protection equipment. We formulated a set of employees' safety responsibilities and post them on walls. We train employees in terms of occupational hazards and preventive measures thereof.

In addition, our Group has posted the Safety Responsibility Rules for Employees in the factory buildings, with specific rules including participation in safety activities, learning safety technical knowledge, strictly compliance with various safety production rules and regulations, and requirements on careful inspection of facilities and safety measures before handing over. In the past three years, there has never been any employee who died at work, nor have there been any working days lost due to work-related injury.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Occupational Health and Safety Measures*

### – Safety Responsibility Assessment System

Our Group attaches great importance to the working environment and safety assurance of its employees. In order to ensure that systems on safety production responsibilities are implemented, our Group has developed a safety responsibility assessment system, which establishes different safety responsibility assessment items for departments, foremen (team leaders) and employees. Our Group will carry out year-end assessments on safety responsibility for employees at all levels with the safety responsibility assessment system, and provide rewards or impose punishments based on the assessment results correspondingly.

### – Safety Facilities/Protective Equipment Management System

Our Group strictly manages its safety facilities including alarm devices for production equipment, explosion-proof and pressure-relief devices, and overload protection devices for electrical equipment, and arranges specific personnel to be responsible for regular patrol inspection, maintenance and management. In addition, based on the list of our safety facilities, our Group provides full sets of safety and protective gear to its employees, including safety helmet, safety net, protective mask, special gloves, oxygen breathing apparatus, to ensure the work safety and physical health of our employees.



(First aid kit)



(Fire-fighting sandbox)

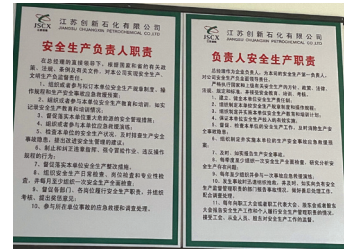
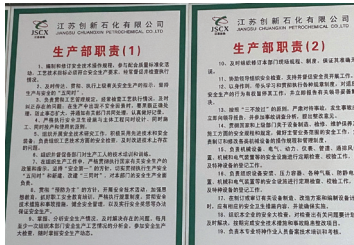


(Combustible gas detector)

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Hidden Safety Issues Investigation And Rectification Management System

In order to further implement the Order No.16 of the State Administration of Work Safety\* (國家安全生產監督管理總局令(第16號)) and effectively implement of the Code for Investigation and Management of Hidden Safety Issues of Safety Production Accidents in Production and Operation Units in Jiangsu Province\* (江蘇省生產經營單位安全生產事故隱患排查治理工作規範), our Group has formulated this system. The specific contents of the system include regular safety inspections (including at least two comprehensive safety inspections per month and at least four departmental safety inspections per month), recording the details of hidden safety issues investigations for control, and establishing a special account for hidden safety issues rectification and management. Our security department supervises and reviews the rectification and management.



(Safety responsibilities posted on walls: Safety responsibility of production department, post responsibility system for workshop workers, safety responsibilities of team leader and workers, safety responsibility of the key person running the enterprise, safety responsibility of the person in charge of safe production)

- Safety Training and Training for Emergency

Our Group actively held safety training activities and training activities for emergency in 2020. The management safety training activities were held once a month. Workshop safety training activities were held once or twice a month. Production department and team training activities were held twice a month. In 2020, we held an education course on management policy and awareness of environmental protection and safety, and fire drills were carried out once for each half of the year. The production department and team training activities include relevant safety-knowledge education for various chemicals (such as butyl ester, phthalic anhydride, precursor chemicals, etc.) as well as various trainings related to fire safety and safe production operation.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.1.3 Overview of Employee Development and Training

In order to support the personal development of our employees, our Group provides various kinds of on-the-job training or external training. In 2020, in addition to the monthly workshop safety learning activities and management safety training activities, a number of special trainings including staff codes & related management regulation trainings, fire safety knowledge training, comprehensive emergency plan drill, new-employee orientation trainings, management department trainings and directors & executive trainings were also held, with a total length of about 591 hours.

### Percentage of trained employees by gender and the length of training per person:

	Proportion of employees trained	Length of training per person (hour)
Male	100%	12.6
Female	34.6%	1.8

## 3.1.4 Rules and Measures of Prevention of Child Labour or Forced Labour

Our Group actively prevents child labour or forced labour during the business operation in strictly accordance with relevant requirements of the laws, and adheres to the zero tolerance to child labour and forced labour in any form. We also require the elimination of such issue in the assessments of suppliers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.2 ANALYSIS OF CURRENT STATUS OF OPERATIONAL MANAGEMENT

### *3.2.1 Overview of Supply Chain Management*

Our Group has set clear requirements on selection and management of suppliers to ensure standardized management and proper selection of suppliers. For the selection of suppliers, our Group has 4 conditions: (i) the products in line with the technical standards of the Company; (ii) stable quality; (iii) timely delivery; and (iv) reasonable price and integrity.

As of 31 December 2020, our Group had 25 suppliers in total for our major raw materials, which included 17 domestic suppliers, 8 overseas. Our procurement department establishes a database of suppliers on the List of Qualified Suppliers which includes basic information of suppliers, summary of quality issues, product price and delivery record for long-term assessment of suppliers. For new suppliers, our Group assesses them in five aspects: enterprise qualification and past performance, delivery and service ability, product price, product quality and on-site inspection, and judges their qualifications by scoring and then decides whether or not to admit them in the list of our qualified suppliers. For products supplied by qualified suppliers, our quality inspection department records the quality information of products inspected. For substandard parts and components identified in the installation process, the quality inspection department will prepare monthly reports of quality issues, and our after-sale service department will prepare monthly reports of after-sale service quality. Such two reports will be maintained in the database of suppliers of the procurement department as a major basis of supplier assessment in the future.

While paying attention to product quality and supply capacity of our suppliers and every link of the supply chain, our Group inspects and evaluates the safety, environment, health management systems and relevant qualifications of the suppliers, such as pollutant discharge license. In order to encourage suppliers to use more environment-friendly products and services, we require suppliers to use tank cars as much as possible for delivery instead of packing drums, so as to save packaging materials, and we also require package suppliers to recycle and reuse packaging materials.

Our Group conducts assessment on suppliers annually, during which the procurement department, the quality inspection department and our technical department jointly assess the suppliers based on the list and basic information of suppliers provided by the procurement department and the quality information of suppliers provided by the quality inspection department, in order to determine the ability level of suppliers and their products, which is then reviewed by the responsible vice general manager and approved by the general manager and adopted as the basis of procurement for next year to ensure an effective control over operational risks resulting from improper selection, unreasonable method or fraudulent practice of suppliers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.2.2 Overview of Product Safety Conditions

In 2020, no products sold by our Group were recalled for safety and health reasons, nor were there any complaints regarding product issues or service quality issues.

Our Group's after-sales service includes 4 aspects namely "Service Response, On-site Follow-up, Expert Answer to Questions and Technical Training". We engaged experts in oil-refining agents as our representatives of after-sales service to solve all kinds of issues raised by customers. In order to strengthen the after-sales services of products, establish an operation concept of "Market-focused and Customer-oriented" to meet the evolving needs of customers and improve customer satisfaction, our Group has specially formulated the Management Methods on After-sales Services (the "**Methods**"). Upon receiving complaints, our Group shall promptly deal with the complaints in accordance with the Methods. Complaints regarding product quality issues will be promptly dealt with by the technical department based on the feedbacks received from the after-sales service team. As for the claims for compensation from customers, the after-sales service team will come up with a solution and shall act accordingly after being reviewed by our marketing director, deputy general manager and approved by the Chairman. Furthermore, the after-sales service team shall promptly provide customers with our feedbacks and results regarding their complaints, to ensure customer satisfaction.

In December 2018, our Group issued an After-Sales Service Commitment and Service Plan (hereinafter referred to as "**the Plan**"). As per the Plan, our technical support and after-sales services cover these 4 aspects of "Service Response, On-site Follow-up, Expert Answer to Questions and Technical Training". Accordingly, we specially engaged experts in oil-refining agents as representatives of our technical support and after-sales service, who solve the problems encountered by customers. According to the Plan, if any problems occur during the use of our products, we can provide technical consultation at any time and reply to customers within 12 hours. If site services are necessary, after receiving the notice of the buyer or the owner, our technical service personnel can arrive at the site within 48 hours to provide free technical services.

Our Group had established a detailed patent management system covering five major aspects in accordance with the Patent Law of the PRC\* (中華人民共和國專利法) and the Detailed Rules for the Implementation of the Patent Law of the PRC\* (中華人民共和國專利法實施細則等有關規定), including general patent management regulations, specific management terms, patent applications, patent licensing and patent protection, which effectively regulates our Group's patent use and protection mechanism.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.2.3 Summary of Anti-corruption Measures of our Group

Our Group requires employees at all positions to undertake their corresponding responsibilities to avoid conflict of interest with our Group and report to our Group in a timely manner in the event of conflict of interest. The employee handbook also specifies the provisions on punishment of non-compliance. During the Reporting Period, our Group saw no legal cases regarding corrupt practices.

## 3.3 OVERVIEW OF COMMUNITY INVESTMENT OF OUR GROUP

In 2020, our Group actively fulfills its corporate social responsibility. In January 2020, we donated RMB100,000 to Qiting Sub-district Branch of Yixing City Charity Society and actively participated in the prevention and control of the COVID-19 pandemic, carrying forward the fine tradition of the Chinese Nation of "One in trouble, all come to help". The donated money was used for purchasing and distributing disposable medical protective materials such as medical caps, goggles, protective masks (screens), N95 masks, disposable medical masks, disposable medical protective clothing, disposable quarantine (anti-penetration) clothing, etc. which contributed to the fight against the pandemic.

**国内支付业务付款回单**

客户号: 150151367 日期: 2020年01月31日

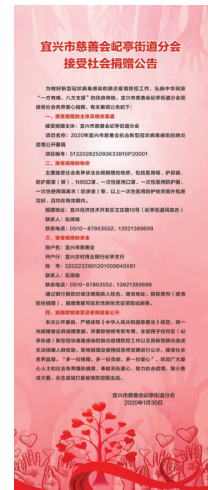
付款人账号: [REDACTED] 收款人账号: [REDACTED]

付款人名称: 江苏创新石化有限公司 收款人名称: 宜兴市慈善会

付款人开户行: 中国银行宜兴支行营业部 收款人开户行: 江苏宜兴农村商业银行股份有限公司纪东支行

金额: CNY100,000.00 人民币壹拾万圆整

备注: 江苏创新石化有限公司 (开发区凤凰西路16号, 盛康阳光国际)



# INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report  
to the shareholders of Jiangsu Innovative Ecological New Materials Limited**  
(Incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of Jiangsu Innovative Ecological New Materials Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 77 to 134, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

<b>Revenue recognition</b>	
Refer to note 3 to the consolidated financial statements and the accounting policies on page 97.	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group's revenue is mainly derived from sale of oil refining agents and fuel additives.</p> <p>The Group recognises revenue when the Group satisfies its performance obligations by transferring the control of promised goods to the customer. Management evaluates the terms of individual contracts in order to determine the appropriate timing for revenue recognition, which varies amongst customers.</p> <p>The Group determines that control of goods are transferred for domestic sales when the goods are delivered to the customer's designated premises and accepted by these customers, and for export sales when the goods are loaded on board a shipping vessel in line with contractual arrangements and related agreed commercial shipping terms.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> <li>obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over revenue recognition;</li> <li>inspecting customer contracts, on a sample basis, to identify terms and conditions relating to the timing of control over goods transfer and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standard;</li> <li>comparing revenue transactions recorded during the current year, on a sample basis, with sales contracts and goods delivery documents like customers' acknowledgement of goods acceptance, shipping documents, customs declaration forms, whichever is applicable, and assessing whether the related revenue had been recognised in accordance with the Group's revenue recognition accounting policies;</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

Revenue recognition	
Refer to note 3 to the consolidated financial statements and the accounting policies on page 97.	
The Key Audit Matter	How the matter was addressed in our audit
We identify recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	<ul style="list-style-type: none"> <li>comparing, on a sample basis, revenue transactions recorded before and after the reporting date with underlying goods delivery documents like customers' acknowledgement of goods acceptance, shipping documents, customs declaration forms, whichever is applicable, to determine whether the related revenue had been recognised in the appropriate financial period;</li> <li>inspecting underlying documentation for manual journal entries relating to revenue raised during the year on a sample basis, to assess if these manual journal entries are properly supported and appropriately made in accordance with the Group's revenue recognition accounting policies.</li> </ul>

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## INDEPENDENT AUDITOR'S REPORT

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Au Yat Fo.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong  
26 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2020

(Expressed in Renminbi (RMB) Yuan)

	<i>Note</i>	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Revenue</b>	<i>3</i>	<b>159,934</b>	175,754
Cost of sales		<b>(115,021)</b>	(115,532)
<b>Gross profit</b>		<b>44,913</b>	60,222
Other income	<i>4</i>	<b>4,376</b>	3,091
Sales and marketing expenses		<b>(8,377)</b>	(8,954)
General and administrative expenses		<b>(10,106)</b>	(11,791)
Research and development expenses	<i>5(c)</i>	<b>(7,530)</b>	(8,123)
<b>Profit from operations</b>		<b>23,276</b>	34,445
Finance costs	<i>5(a)</i>	<b>(53)</b>	(31)
<b>Profit before taxation</b>	<i>5</i>	<b>23,223</b>	34,414
Income tax	<i>6</i>	<b>(1,171)</b>	(7,468)
<b>Profit for the year</b>		<b>22,052</b>	26,946
<b>Earnings per share</b>	<i>9</i>		
Basic and diluted (RMB cents)		<b>4.59</b>	5.61

The notes on page 83 to 134 form part of these financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

(Expressed in Renminbi Yuan)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Profit for the year</b>	<b>22,052</b>	26,946
<b>Other comprehensive income for the year (after tax and reclassification adjustments):</b>		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	<b>(6,538)</b>	2,407
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	<b>3,400</b>	(1,220)
<b>Other comprehensive income for the year</b>	<b>(3,138)</b>	1,187
<b>Total comprehensive income for the year</b>	<b>18,914</b>	28,133

The notes on page 83 to 134 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020  
(Expressed in Renminbi Yuan)

	Note	2020 RMB'000	2019 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	44,445	44,069
Right-of-use assets	11	3,204	3,304
Deferred tax assets	18(b)	308	503
		<b>47,957</b>	47,876
<b>Current assets</b>			
Inventories	13	27,095	27,569
Trade and other receivables	14	85,793	73,869
Cash and cash equivalents	15	144,762	146,693
		<b>257,650</b>	248,131
<b>Current liabilities</b>			
Trade and other payables	17	16,176	19,291
Contract liabilities	16	396	30
Income tax payable	18(a)	3,492	3,699
		<b>20,064</b>	23,020
<b>Net current assets</b>		<b>237,586</b>	225,111
<b>Total assets less current liabilities</b>		<b>285,543</b>	272,987
<b>Non-current liabilities</b>			
Deferred tax liabilities	18(b)	2,423	4,451
		<b>2,423</b>	4,451
<b>NET ASSETS</b>		<b>283,120</b>	268,536

The notes on page 83 to 134 form part of these financial statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

(Expressed in Renminbi Yuan)

	Note	2020 RMB'000	2019 RMB'000
<b>CAPITAL AND RESERVES</b>			
Share capital	19	3,873	3,873
Reserves	19	279,247	264,663
<b>TOTAL EQUITY</b>		<b>283,120</b>	<b>268,536</b>

Approved and authorised for issue by the board of directors on 26 March 2021.

	)	
Ge Xiaojun	)	
	)	Directors
Gu Jufang	)	
	)	

The notes on page 83 to 134 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

(Expressed in Renminbi Yuan)

	Share capital	Share premium	Capital reserve	PRC statutory reserve	Exchange reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 19(c)	Note 19(d)	Note 19(e)	Note 19(f)	Note 19(g)		
<b>Balance at 1 January 2019</b>	3,873	104,494	79,938	17,744	5,857	32,601	244,507
Profit for the year	-	-	-	-	-	26,946	26,946
Other comprehensive income	-	-	-	-	1,187	-	1,187
<b>Total comprehensive income</b>	-	-	-	-	1,187	26,946	28,133
Appropriation to reserve	-	-	-	2,901	-	(2,901)	-
Dividends approved in respect of the previous year (note 19(b))	-	(4,104)	-	-	-	-	(4,104)
<b>Balance at 31 December 2019 and 1 January 2020</b>	3,873	100,390	79,938	20,645	7,044	56,646	268,536
Profit for the year	-	-	-	-	-	22,052	22,052
Other comprehensive income	-	-	-	-	(3,138)	-	(3,138)
<b>Total comprehensive income</b>	-	-	-	-	(3,138)	22,052	18,914
Appropriation to reserve	-	-	-	2,359	-	(2,359)	-
Dividends approved in respect of the previous year (note 19(b))	-	(4,330)	-	-	-	-	(4,330)
<b>Balance at 31 December 2020</b>	3,873	96,060	79,938	23,004	3,906	76,339	283,120

The notes on page 83 to 134 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2020

(Expressed in Renminbi Yuan)

	Note	2020 RMB'000	2019 RMB'000
<b>Operating activities:</b>			
Cash generated from operations	15(b)	10,657	53,988
Income tax paid	18(a)	(3,211)	(3,633)
<b>Net cash generated from operating activities</b>		<b>7,446</b>	50,355
<b>Investing activities:</b>			
Payment for purchase of property, plant and equipment		(4,840)	(14,896)
Proceeds from disposal of property, plant and equipment		200	5
Interest received		2,848	2,725
<b>Net cash used in investing activities</b>		<b>(1,792)</b>	(12,166)
<b>Financing activities:</b>			
Proceeds from other borrowings	15(c)	5,750	3,120
Repayment of other borrowings	15(c)	(5,750)	(3,120)
Interest paid		(53)	(31)
Dividends paid to equity shareholders of the Company	15(c)	(4,330)	(4,104)
<b>Net cash used in financing activities</b>		<b>(4,383)</b>	(4,135)
<b>Net increase in cash and cash equivalents</b>		<b>1,271</b>	34,054
<b>Effect of foreign exchange rate changes</b>		<b>(3,202)</b>	949
<b>Cash and cash equivalents at beginning of the year</b>	15(a)	<b>146,693</b>	111,690
<b>Cash and cash equivalents at end of the year</b>	15(a)	<b>144,762</b>	146,693

The notes on page 83 to 134 form part of these financial statements.

# 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 disclosure 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**”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the 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 accounting period 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 sales of oil refining agents and fuel additives that are applied to reduce undesirable emissions.

The consolidated financial statements for the year ended 31 December 2020 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 the 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

#### (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.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

### (c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendment to HKFRS 16, Covid-19-Related Rent Concessions

None of these 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.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h) (ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see note 1(h) (ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Plant and buildings	10 – 20 years
- Machinery and equipment	10 years
- Office and other equipment	5 years
- Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(h) (ii)). Capitalization of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

### (f) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

#### *As a lessee*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(h)(iii)).



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Leased assets (continued)

#### *As a lessee (continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

### (h) Credit losses and impairment of assets

#### *(i) Credit losses from financial assets measured at amortised cost*

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### (i) Credit losses from financial assets measured at amortised cost *(continued)*

##### *Measurement of ECLs (continued)*

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Credit losses and impairment of assets (continued)

#### (i) Credit losses from financial assets measured at amortised cost (continued)

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for financial assets measured at amortised cost with a corresponding adjustment to their carrying amount through a loss allowance account.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Credit losses and impairment of assets (continued)

#### (i) Credit losses from financial assets measured at amortised cost (continued)

##### *Basis of calculation of interest income*

Interest income recognised in accordance with note 1(r) (ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

#### (i) Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Credit losses and impairment of assets (continued)

#### (i) Credit losses from financial assets measured at amortised cost (continued)

#### (ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each Reporting Period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets; and
- investments in subsidiaries in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h) (i)).

### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(h) (i).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (l) Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see note 1(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(t)).

### (o) Employee benefits

#### *(i) Short-term employee benefits*

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Defined contribution retirement plan*

Contributions to PRC local retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each Reporting Period. Deferred tax assets and liabilities are not discounted.



# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **(p) Income tax** *(continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

### **(q) Provisions and contingent liabilities**

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **(r) Revenue and other income**

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

#### ***(i) Sale of goods***

Revenue is recognised when the customer takes possession of and accepts the goods.

#### ***(ii) Interest income***

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(h) (i)).

#### ***(iii) Government grants***

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently are recognised in profit or loss on a systematic basis over the useful life of the asset.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

### (u) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Related parties *(continued)*

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES

### (a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

#### *Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

### (b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

#### (i) *Provision for expected credit losses of trade receivables*

The Group uses a provision of matrix to calculate ECLs for trade receivables. The provision matrix is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the ageing of trade receivable balances, the repayment history of the Group's individual customers, current market conditions and customer-specific conditions, all of which involve a significant degree of management judgement.

The provision of ECLs is sensitive to changes in circumstances and of customer-specific conditions. The information about the ECLs and trade receivables are disclosed in notes 14 and 20(a). If the financial condition of the customers was to deteriorate, actual loss allowance would be higher than estimated.

#### (ii) *Net realizable value of inventories*

As described in note 1(i), net realizable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realizable value.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 REVENUE

### (a) Disaggregation of revenue

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Sales of oil refining agents	91,745	113,769
Sales of fuel additives	68,189	61,985
Total	<b>159,934</b>	175,754

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 2020 presented as below:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	16,383	20,922

Details of concentrations of credit risk arising from these customers are set out in note 20(a).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3 REVENUE (continued)

### (a) Disaggregation of revenue (continued)

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

The following table sets out information about the geographical location of the 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 2020, substantially all specified non-current assets were physically located in the PRC.

	2020 RMB'000	2019 RMB'000
Mainland China	149,259	163,931
Sudan	9,644	10,511
Other countries and regions	1,031	1,312
Total	159,934	175,754

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

The 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 the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of oil refining agents 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 the Group's most senior executive management for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sale of oil refining agents and fuel additives.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 4 OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Service income	44	270
Government grants	610	216
Net foreign exchange loss	(57)	(400)
Interest income on financial assets measured at amortised cost	2,848	2,725
Scrap sales	1,144	308
Net loss on disposal of property, plant and equipment	(125)	(3)
Others	(88)	(25)
Total	<b>4,376</b>	3,091

## 5 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on other borrowings	53	31

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 5 PROFIT BEFORE TAXATION (continued)

### (b) Staff costs

	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	6,749	7,269
Contributions to defined contribution retirement plans (i)	28	364
	<b>6,777</b>	<b>7,633</b>

- (i) Employees of the 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.

The 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

	2020 RMB'000	2019 RMB'000
Cost of inventories (i) (note 13(b))	119,647	120,092
Research and development expenses	7,530	8,123
Depreciation of property, plant and equipment (note 15(b))	4,389	3,207
Depreciation of right-of-use assets (note 11)	100	100
Impairment losses of trade receivables reversed	(1)	(87)
Auditors' remuneration		
– audit services	1,265	1,385
– tax services	14	26
	<b>1,279</b>	<b>1,411</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 5 PROFIT BEFORE TAXATION (continued)

### (c) Other items (continued)

- (i) Cost of inventories includes the following amounts, which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Staff costs	1,910	2,315
Depreciation and amortization	2,240	1,036
Research and development expenses	4,626	4,560

## 6 INCOME TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Current tax:</b>		
Provision for current income tax for the year (note 18(a))	3,313	2,369
Over-provision in prior years (note 18(a))	(309)	(70)
	<b>3,004</b>	<b>2,299</b>
<b>Deferred tax:</b>		
Reversal and origination of temporary differences (note 18(b))	(254)	5,983
Effect on deferred tax balances at 1 January resulting from a change in tax rate (note 18(b))	(1,579)	(814)
	<b>1,171</b>	<b>7,468</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 6 INCOME TAX (continued)

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

	2020 RMB'000	2019 RMB'000
<b>Profit before taxation</b>	<b>23,223</b>	34,414
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	6,184	9,109
Tax effect of preferential tax rate (ii)	(2,476)	–
Over-provision in prior years	(309)	(70)
Tax effect of non-deductible expenses	58	300
Tax losses not recognized	6	9
Additional deduction for qualified research and development costs (iii)	(713)	(1,066)
Effect on deferred tax balances at 1 January resulting from a change in tax rate (note 18(b))	(1,579)	(814)
<b>Actual income tax expense</b>	<b>1,171</b>	7,468

(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. 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 2020, Jiangsu Chuangxin obtained the approval of High and New Technology Enterprise with an effective period of three years from 2020 to 2022. Therefore, Jiangsu Chuangxin was entitled to a preferential income tax rate of 15% for a period of three years from 2020 to 2022.

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 7 DIRECTOR'S EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2020

	Director's fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>					
Mr. Ge Xiaojun	-	202	36	1	239
Ms. Gu Jufang	-	150	36	-	186
Mr. Huang Lei	-	176	36	1	213
Mr. Jiang Caijun	-	176	36	1	213
Mr. Fan Yaqiang	-	97	30	1	128
<b>Non-executive director</b>					
Mr. Gu Yao	106	-	-	-	106
<b>Independent non-executive directors</b>					
Mr. Fan Peng	106	-	-	-	106
Mr. Guan Dongtao	106	-	-	-	106
Ms. Wu Yan	106	-	-	-	106
	424	801	174	4	1,403

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 7 DIRECTOR'S EMOLUMENTS (continued)

Year ended 31 December 2019

	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<b>Executive directors</b>					
Mr. Ge Xiaojun	-	205	36	7	248
Ms. Gu Jufang	-	150	36	-	186
Mr. Huang Lei	-	184	36	7	227
Mr. Jiang Caijun	-	184	36	7	227
Mr. Fan Yaqiang	-	102	30	7	139
<b>Non-executive director</b>					
Mr. Gu Yao	107	-	-	-	107
<b>Independent non-executive directors</b>					
Mr. Fan Peng	107	-	-	-	107
Mr. Guan Dongtao	107	-	-	-	107
Ms. Wu Yan	107	-	-	-	107
	428	825	174	28	1,455

Mr. Fan Peng, Mr. Guan Dongtao and Ms. Wu Yan were retired and re-appointed as independent non-executive directors of the Company on 28 May 2020.

All Executive directors of the Group waived or agreed to waive director's fees during the year.

During the year, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2019: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2019: two) individuals are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, allowance and benefits in kind	149	312
Discretionary bonuses	36	66
Retirement scheme contributions	1	14
	<b>186</b>	<b>392</b>

The emoluments of the one (2019: two) individuals with the highest emoluments are within the following band:

	2020 <i>Number of individuals</i>	2019 <i>Number of individuals</i>
Nil – HK\$1,000,000	1	2

## 9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB22,052,000 (2019: RMB26,946,000), and 480,000,000 ordinary shares (2019: 480,000,000 ordinary shares) in issue during the year, calculated as follows:

### (i) Weighted average number of ordinary shares

	2020	2019
Shares in issue on January 1	480,000,000	480,000,000
Weighted average number of ordinary shares	<b>480,000,000</b>	<b>480,000,000</b>

There were no dilutive potential ordinary shares for the years ended 31 December 2020 and 2019; therefore, diluted earnings per share are equivalent to basic earnings per share.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 10 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost:</b>						
<b>At 1 January 2019</b>	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)
<b>At 31 December 2019 and 1 January 2020</b>	28,250	36,438	5,598	12,864	2,521	85,671
Additions	-	329	262	564	3,935	5,090
Transfer from construction in progress	873	356	-	-	(1,229)	-
Disposals	-	-	-	(6,330)	-	(6,330)
<b>At 31 December 2020</b>	29,123	37,123	5,860	7,098	5,227	84,431
<b>Accumulated depreciation:</b>						
<b>At 1 January 2019</b>	(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
<b>At 31 December 2019 and 1 January 2020</b>	(14,251)	(11,580)	(3,924)	(11,847)	-	(41,602)
Charge for the year	(1,266)	(2,523)	(396)	(204)	-	(4,389)
Written back on disposals	-	-	-	6,005	-	6,005
<b>At 31 December 2020</b>	(15,517)	(14,103)	(4,320)	(6,046)	-	(39,986)
<b>Net book value:</b>						
<b>At 31 December 2020</b>	13,606	23,020	1,540	1,052	5,227	44,445
<b>At 31 December 2019</b>	13,999	24,858	1,674	1,017	2,521	44,069



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 11 RIGHT-OF-USE ASSETS

	<b>Leasehold land</b> <i>RMB'000</i>
<b>Cost:</b>	
At 1 January 2019, 1 January 2020 and 31 December 2020	3,404
<b>Accumulated depreciation:</b>	
At 1 January 2019	–
Charge for the year	(100)
At 31 December 2019 and 1 January 2020	(100)
Charge for the year	(100)
At 31 December 2020	(200)
<b>Net book value:</b>	
At 31 December 2020	3,204
At 1 January 2020	3,304

The Group's leasehold land is located in the PRC. The Group was formally granted by the relevant PRC authorities of the right to use the land on which the Group's factories and infrastructures are erected for a period of 49.5 years.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 12 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment and operation	Registered capital/issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Innovative Green Group Holdings Limited	The British Virgin Islands 6 July 2017	50,000 shares of USD1 each/USD 1	100%	–	Investment holding
China Grand New Material Holdings Limited	Hong Kong 4 August 2017	1 share	–	100%	Investment holding
Jiangsu Chuangxin Petrochemical Co., Ltd.* 江蘇創新石化有限公司	The PRC 31 December 2002	USD20,000,000/ USD20,000,000	–	100%	Developing and manufacturing oil refining agents and fuel additives

\* The company is a wholly foreign owned enterprise with limited liability.

The official name of the company is in Chinese. The English translation of the name is for reference only.

## 13 INVENTORIES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	17,331	19,667
Work in progress	4,906	3,121
Finished goods	2,265	3,174
Consignment goods	2,593	1,607
	<b>27,095</b>	27,569

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 13 INVENTORIES (continued)

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount of inventories sold	114,953	115,701
Write-down of inventories	68	–
Reversal of write-down of inventories	–	(169)
Cost of inventories directly recognised as research and development expenses	4,626	4,560
	<b>119,647</b>	120,092

## 14 TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables, net of loss allowance (note (a))	66,079	60,378
Bills receivables (note (b))	9,786	7,440
Other receivables	5,205	4,346
Financial assets measured at amortised cost	81,070	72,164
Deposits and prepayments	4,723	1,705
Trade and other receivables, net	<b>85,793</b>	73,869

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 14 TRADE AND OTHER RECEIVABLES (continued)

### (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:

	2020 RMB'000	2019 RMB'000
Within 3 months	48,937	46,565
After 3 months but within 6 months	14,412	8,364
After 6 months but within 1 year	1,920	4,324
After 1 year but within 2 years	314	1,125
After 2 years but within 3 years	496	–
Trade receivables, net of loss allowance	66,079	60,378

Further details on the Group's credit policy are set out in note 20(a).

### (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 2020 and 2019, the 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 2020, the 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 RMB1,797,000 (2019: RMB Nil).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 15 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 RMB'000
Cash at banks and on hand	144,762	146,693

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

	Note	2020 RMB'000	2019 RMB'000
Profit before taxation		23,223	34,414
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	4,389	3,207
Depreciation of right-of-use assets	11	100	100
Write-down of inventories	13(b)	68	–
Reversal of write-down of inventories	13(b)	–	(169)
Finance costs	5(a)	53	31
Interest income	4	(2,848)	(2,725)
Foreign exchange differences		(143)	328
Net loss on disposal of property, plant and equipment	4	125	3
Changes in working capital:			
Decrease/(increase) in inventories		406	(2,778)
(Increase)/decrease in trade and other receivables		(11,924)	22,544
Decrease in trade and other payables		(3,158)	(505)
Increase/(decrease) in contract liabilities		366	(462)
Cash generated from operations		10,657	53,988

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 15 CASH AND CASH EQUIVALENTS (continued)

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

	<b>Other borrowings</b> <i>RMB'000</i>	<b>Dividends payable</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Balance at 1 January 2019	–	–	–
Changes from financing cash flows:			
– Proceeds from other borrowings	3,120	–	3,120
– Repayment of other borrowings	(3,120)	–	(3,120)
– Dividends paid to equity shareholders of the Company	–	(4,104)	(4,104)
<b>Total changes from financing cash flows</b>	–	(4,104)	(4,104)
Other changes:			
– Dividends approved in respect of the previous year ( <i>note 19(b)</i> )	–	4,104	4,104
Balance at 31 December 2019 and 1 January 2020	–	–	–
Changes from financing cash flows:			
– Proceeds from other borrowings	5,750	–	5,750
– Repayment of other borrowings	(5,750)	–	(5,750)
– Dividends paid to equity shareholders of the Company	–	(4,330)	(4,330)
<b>Total changes from financing cash flows</b>	–	(4,330)	(4,330)
Other changes:			
– Dividends approved in respect of the previous year ( <i>note 19(b)</i> )	–	4,330	4,330
<b>Balance at 31 December 2020</b>	–	–	–

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 16 CONTRACT LIABILITIES

Contract liabilities	2020 RMB'000	2019 RMB'000
Made-to-order manufacturing arrangements – Billings in advance of performance	396	30

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

### Made-to-order manufacturing arrangements

When the 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. The 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

	2020 RMB'000	2019 RMB'000
Balance at 1 January	30	492
Increase in contract liabilities as a result of billing in advance of manufacturing activities	4,639	1,922
Decrease in contract liabilities as a result of recognising revenue during the year	(4,273)	(2,384)
Balance at 31 December	396	30

## 17 TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables (note (a))	2,208	5,308
Other payables and accruals	13,968	13,983
Trade and other payables	16,176	19,291

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17 TRADE AND OTHER PAYABLES (continued)

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	1,790	5,097
Over 3 months but within 6 months	240	88
Over 6 months but within 1 year	178	16
Over 1 year but within 2 years	–	107
Trade payables	<b>2,208</b>	<b>5,308</b>

## 18 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Balance at 1 January	3,699	5,033
Provision for current income tax for the year (note 6(a))	3,313	2,369
Over-provision in prior years (note 6(a))	(309)	(70)
Payment made during the year	(3,211)	(3,633)
Balance at 31 December	<b>3,492</b>	<b>3,699</b>



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 18 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(continued)

(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 deduction of property, plant and equipment RMB'000	Total RMB'000
Balance at 1 January 2019	16	36	1,169	–	1,221
Effect on deferred tax balances resulting from a change in tax rate (note 6(a))	11	24	779	–	814
Charged to profit or loss (note 6(a))	(21)	(41)	(1,470)	(4,451)	(5,983)
Balance at 31 December 2019 and 1 January 2020	6	19	478	(4,451)	(3,948)
Effect on deferred tax balances resulting from a change in tax rate (note 6(a))	(2)	(8)	(191)	1,780	1,579
Charged to profit or loss (note 6(a))	–	6	–	248	254
Balance at 31 December 2020	4	17	287	(2,423)	(2,115)

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

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in the consolidated statements of financial position	308	503
Net deferred tax liabilities recognised in the consolidated statements of financial position	(2,423)	(4,451)
	(2,115)	(3,948)

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 18 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(continued)

(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. The Group has not recognised deferred tax liabilities as at 31 December 2020 in respect of undistributed earnings of RMB81,076,000 (2019: RMB59,847,000) 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.

## 19 CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company	Share capital <i>RMB'000</i> <i>Note 23</i>	Share premium <i>RMB'000</i> <i>Note 23</i>	Exchange reserve <i>RMB'000</i> <i>Note 23</i>	Accumulated losses <i>RMB'000</i> <i>Note 23</i>	Total <i>RMB'000</i> <i>Note 23</i>
<b>Balance at 1 January 2019</b>	3,873	104,494	9,994	(1,023)	117,338
Total comprehensive income ( <i>Note 23</i> )	-	-	2,407	(2,005)	402
Dividends approved in respect of the previous year ( <i>note 19(b)</i> )	-	(4,104)	-	-	(4,104)
<b>Balance at 31 December 2019 and 1 January 2020</b>	3,873	100,390	12,401	(3,028)	113,636
Total comprehensive income ( <i>Note 23</i> )	-	-	(6,538)	(1,496)	(8,034)
Dividends approved in respect of the previous year ( <i>note 19(b)</i> )	-	(4,330)	-	-	(4,330)
<b>Balance at 31 December 2020</b>	3,873	96,060	5,863	(4,524)	101,272

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 19 CAPITAL AND RESERVES (continued)

### (b) Dividends

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

	2020 RMB'000	2019 RMB'000
Final dividend proposed after the end of the Reporting Period of HK\$0.01 per ordinary share (2019: HK \$0.01 per ordinary share)	4,026	4,330

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

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.01 per share (2019: HK\$0.01 per share)	4,330	4,104

### (c) Share capital

#### (i) Authorized and issued share capital

	Par value HK\$	No. of shares '000	HK\$ '000
Ordinary shares, issued and fully paid At 31 December 2019, December 2019 and 1 January and 31 December 2020	0.01	480,000	4,800
RMB equivalent ('000)			3,873

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 19 CAPITAL AND RESERVES *(continued)*

### (d) 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.

### (e) Capital reserve

On 12 September 2017, the Company became the holding company of the Group, and the aggregate amount of the paid-in capital of all the entities comprising the Group were transferred to the capital reserve.

### (f) PRC statutory reserves

#### *Statutory general reserve*

Statutory general reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the company comprising the Group which is incorporated in the PRC.

For the entity concerned, statutory general reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital right before conversion.

### (g) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China. The reserve is dealt with in accordance with the according policy set out in note 1(s).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 19 CAPITAL AND RESERVES *(continued)*

### (h) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

At 31 December 2020, the Group had bank loans amounting to RMB nil (31 December 2019: Nil). The Group had bank deposits and cash balance as at 31 December 2020 amounting to RMB144,762,000 (31 December 2019: RMB146,693,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. This ratio is calculated as net debt divided by equity. The Group defines net debt as loans and borrowings plus unaccrued proposed dividends, less cash and cash equivalents. Total equity comprises all components of equity, less unaccrued proposed dividends.

During the year ended 31 December 2020, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor its subsidiaries are subject to internally or externally imposed capital requirements.

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial assets of the Group include cash and cash equivalents and trade and other receivables. Financial liabilities of the Group include trade and other payables and other financial liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- foreign currency risk

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The risks are mitigated by various measures as disclosed below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents, bills receivable is limited because the counterparties are banks and financial institutions with high credit ratings, for which the Group considers to have low credit risk.

#### *Trade receivables*

The group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-120 days from the date of billing. Normally, the group does not obtain collateral from customers.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (a) Credit risk (continued)

#### Trade receivables (continued)

The group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. As at 31 December 2020, 0.8% (2019: 2.1%) of the total trade receivables were due from the Group's largest customer and 29.9% (2019: 19.5%) of the total trade receivables were due from the Group's five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customers, the loss allowance based on past due status is not further distinguished between the Group's different customers.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2020		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.02%	46,726	8
Less than 6 months past due	0.04%	18,812	8
6 to 12 months past due	0.04%	*	*
More than 12 months past due	0.93%	562	5
		<b>66,100</b>	<b>21</b>

\* The balances represented amount less than RMB1,000.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (a) Credit risk (continued)

#### Trade receivables (continued)

	2019		
	Expected loss rate	Gross carrying amount <i>RMB'000</i>	Loss allowance <i>RMB'000</i>
Current (not past due)	0.02%	44,942	9
Less than 6 months past due	0.05%	14,622	8
6 to 12 months past due	0.55%	836	5
More than 12 months past due	1.01%	–	–
		60,400	22

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Balance at 1 January 2020	22	109
Impairment losses reversed during the year	(1)	(87)
Balance at 31 December	21	22



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows the remaining contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	As at 31 December 2020			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payable	16,176	-	16,176	16,176

	As at 31 December 2019			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying mount RMB'000
Trade and other payables	19,291	-	19,291	19,291

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (c) Foreign currency risk

The Group is exposed to currency risk primarily through sales which give rise to receivables and bank balances that are denominated in foreign currencies, that are, currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is primarily United States Dollars (“**USD**”), Euros (“**EUR**”) and Hong Kong Dollars (“**HKD**”).

The following table details the Group’s exposure at the end of each reporting period to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of each Reporting Period. Differences resulting from the translation of the financial statements of foreign operations into the Group’s presentation currency are excluded.

	Exposure to USD (expressed in RMB)	
	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	183	356
Trade and other receivables	5,246	1,411
	<b>5,429</b>	<b>1,767</b>

	Exposure to EUR (expressed in RMB)	
	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	14	7,743

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (c) Foreign currency risk (continued)

The following table indicates the change in the Group's profit after taxation and retained earnings that would arise if foreign exchange rates to which the Group's financial assets have significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant:

	2020		2019	
	Increase/ decrease in foreign exchange rates RMB'000	Increase/ (decrease) in profit after taxation and retained earnings RMB'000	Increase/ decrease in foreign exchange rates RMB'000	Increase/ (decrease) in profit after taxation and retained earnings RMB'000
USD	5%	231	5%	66
	-5%	(231)	-5%	(66)
EUR	5%	1	5%	290
	-5%	(1)	-5%	(290)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translating into RMB at the exchange rate ruling at the end of each Reporting Period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each Reporting Period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (d) Fair value measurement

#### (i) *Financial assets and liabilities carried at fair value*

##### *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

#### (ii) *Fair values of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2020 and 2019.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 21 COMMITMENT

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contracted for	1,616	312
Authorised but not contracted for	–	–
	<b>1,616</b>	<b>312</b>

## 22 RELATED PARTY TRANSACTIONS

As at 31 December 2020, the Group had no balances with related parties (31 December 2019: nil). During the year ended 31 December 2020, the Group did not have material related party transactions (2019: nil).

### (a) Directors and key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short-term employee benefits	1,756	1,805
Post-employee benefits	3	42
	<b>1,759</b>	<b>1,847</b>

Total remuneration is included in "staff costs" (see note 5(b)).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 23 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
<b>Non-current assets</b>			
Investment in a subsidiary	(note i)	(*)	(*)
Amounts due from subsidiaries		53,285	56,660
		53,285	56,660
<b>Current assets</b>			
Other receivables		174	184
Cash and cash equivalents		49,030	58,100
		49,204	58,284
<b>Current liabilities</b>			
Other payables		1,217	1,308
Amount due to a subsidiary		(*)	(*)
		1,217	1,308
<b>Net current assets</b>		47,987	56,976
Total assets less current liabilities		101,272	113,636
<b>NET ASSETS</b>		101,272	113,636
<b>EQUITY</b>			
Share capital		3,873	3,873
Reserves		97,399	109,763
<b>TOTAL EQUITY/(DEFICIT)</b>		101,272	113,636

(i) The investment cost represented 1 ordinary share of US\$1 in Innovative Green Group Holdings Limited subscribed by the Company.

\* The balances represented amount less than RMB1,000.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 24 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) After the end of the Reporting Period, the Directors proposed a final dividend. Further details are disclosed in note 19(b).

## 25 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, the directors consider the immediate parent and ultimate holding company of the Group to be Innovative Green Holdings Limited, which is incorporated in the British Virgin Islands and beneficially owned by Mr. Ge Xiaojun and Ms. Gu Jufang, and it does not produce financial statements available for public use.

## 26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## FINANCIAL SUMMARY

The following is a summary of the results, assets and liabilities of our Group for each of the years ended 31 December 2016, 2017, 2018, 2019 and 2020.

	Year ended 31 December				2020 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
<b>RESULTS</b>					
Profit from operations	39,123	32,616	26,276	34,445	<b>23,276</b>
Profit before tax	39,123	32,319	25,942	34,414	<b>23,223</b>
Income tax expense	(5,777)	(4,942)	(2,970)	(7,468)	<b>(1,171)</b>
Net profit and total comprehensive income for the year	33,346	27,337	22,972	26,946	<b>22,052</b>
<b>ASSETS AND LIABILITIES</b>					
Total assets	144,220	157,188	270,915	296,007	<b>305,607</b>
Current liabilities	43,871	49,877	26,408	23,020	<b>20,064</b>
Total equity	100,349	107,311	244,507	268,536	<b>283,120</b>

*Note:*

The summary of assets and liabilities of our Group as of 31 December 2016, 2017 and 2018 and the summary of the results of our Group for the years ended 31 December 2016, 2017 and 2018 have been extracted from the Prospectus.



## DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

“AGM”	the annual general meeting of the Company to be held at No. 16 West Kaixuan Road, Economic Development Zone Yixing, Jiangsu Province, the PRC at 3:00 p.m. on Friday, 28 May 2021
“Articles” or “Articles of Association”	the amended and restated articles of association of the Company as amended from time to time
“Board” or “Board of Directors”	the board of directors of the Company
“Company”	Jiangsu Innovative Ecological New Materials Limited* (江蘇創新環保新材料有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 6 July 2017, the Shares of which are listed on the Main board (stock code: 2116)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires, references in this annual report to “China” and “PRC” do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to Mr. Ge, Ms. Gu and Innovative Green Holdings
“Director(s)”	the director(s) of the Company
“Group”, “we,” “us,” or “our”	the Company and its subsidiaries
“HKAS”	Hong Kong Accounting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

## DEFINITIONS

“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Innovative Green Holdings”	Innovative Green Holdings Limited, which is owned as to 50% by Mr. Ge and 50% by Ms. Gu, and is directly interested in approximately 75% of the issued Shares
“Listing”	the listing of the Shares on the Main Board
“Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Listing Date”	28 March 2018, being the date on which dealing in the Shares first commenced on the Main Board
“Main Board”	Main Board of the Hong Kong Stock Exchange
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Mr. Ge”	Mr. Ge Xiaojun (葛曉軍), the Chairman, an executive Director, the chief executive officer of the Company and one of our Controlling Shareholders and Ms. Gu’s spouse
“Ms. Gu”	Ms. Gu Jufang (顧菊芳), an executive Director and one of our Controlling Shareholders and Mr. Ge’s spouse
“Prospectus”	the prospectus of the Company dated 19 March 2018 in connection with the Hong Kong Public Offering (as defined therein)

## DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Reporting Period”	the period for the year ended 31 December 2020
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Yixing”	Yixing City (宜興市), a county under the jurisdiction of Wuxi City, Jiangsu Province, PRC
“Yixing Plant”	our production facilities located in Yixing
“US\$” or “USD”	US dollars, the lawful currency of the United States of America
“%”	per cent.