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Jiangsu Innovative Ecological New Materials Limited

江蘇創新環保新材料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2116)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Jiangsu Innovative Ecological New Materials Limited (the “**Company**”) is pleased to announce the unaudited interim results (the “**Interim Results**”) of the Company and its subsidiaries (the “**Group**”, “**we**”, “**us**” or “**our**”) for the six months ended 30 June 2021 (the “**Reporting Period**”), together with comparative figures for the corresponding period in 2020. The Board and the audit committee of the Company (the “**Audit Committee**”) have reviewed and confirmed the Interim Results.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2021 – unaudited
(Expressed in Renminbi Yuan)

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Revenue	<i>3</i>	84,427	73,430
Cost of sales		<u>(63,269)</u>	<u>(49,500)</u>
Gross profit		21,158	23,930
Other income		1,808	2,273
Sales and marketing expenses		(4,659)	(3,383)
General and administrative expenses		(5,274)	(4,983)
Research and development expenses	<i>4(b)</i>	<u>(3,818)</u>	<u>(3,227)</u>
Profit from operations		9,215	14,610
Finance costs	<i>4(a)</i>	<u>–</u>	<u>(15)</u>
Profit before taxation	<i>4</i>	9,215	14,595
Income tax	<i>5</i>	<u>(1,147)</u>	<u>(3,146)</u>
Profit for the period		<u>8,068</u>	<u>11,449</u>
Earnings per share	<i>6</i>		
Basic and diluted (<i>RMB cents</i>)		<u>1.68</u>	<u>2.39</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2021 – unaudited

(Expressed in Renminbi Yuan)

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	8,068	11,449
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	(1,109)	2,168
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	599	(1,122)
Other comprehensive income for the period	(510)	1,046
Total comprehensive income for the period	7,558	12,495

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2021 – unaudited
(Expressed in Renminbi Yuan)

		At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	42,150	44,445
Right-of-use assets		3,154	3,204
Deferred tax assets		313	308
		<u>45,617</u>	<u>47,957</u>
Current assets			
Inventories		21,492	27,095
Trade and other receivables	8	85,219	85,793
Cash and cash equivalents		158,003	144,762
		<u>264,714</u>	<u>257,650</u>
Current liabilities			
Trade and other payables	9	18,022	16,176
Contract liabilities		208	396
Income tax payable		3,150	3,492
		<u>21,380</u>	<u>20,064</u>
Net current assets		243,334	237,586
Total assets less current liabilities		288,951	285,543
Non-current liabilities			
Deferred tax liabilities		2,299	2,423
		<u>2,299</u>	<u>2,423</u>
NET ASSETS		286,652	283,120
CAPITAL AND RESERVES			
Share capital		3,873	3,873
Reserves		282,779	279,247
TOTAL EQUITY		286,652	283,120

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

1 BASIS OF PRESENTATION

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

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorized for issue on 27 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

2 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:

- Amendment to HKFRS 16, Covid-19-related rent concessions
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

(a) Disaggregation of revenue

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

Revenue from contracts with customers within the scope of HKFRS 15

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Sales of oil refining agents	52,357	42,100
Sales of fuel additives	32,070	31,330
Total	84,427	73,430

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

(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 period ended 30 June 2021, substantially all specified non-current assets were physically located in the People's Republic of China ("PRC").

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Mainland China	80,066	66,030
Sudan	4,361	6,369
Other countries and regions	–	1,031
Total	84,427	73,430

(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.

4 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest on other borrowings	—	15

(b) Other items

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Depreciation of right-of-use assets	50	50
Depreciation of property, plant and equipment	2,308	2,176
Research and development expenses (other than depreciation)	3,213	2,610
Impairment losses of trade receivables recognised	10	4
Inventory write-down	27	1

5 INCOME TAX

Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax:		
Provision for current income tax for the period	1,296	3,655
Over-provision in respect of prior years	(20)	(309)
	1,276	3,346
Deferred tax:		
Origination and reversal of temporary differences	(129)	(200)
	1,147	3,146

- (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.
- (ii) 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.

- (iii) 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, as the renewal of High and New Technology Enterprise qualification was not approved, Jiangsu Chuangxin was not entitled to the preferential corporate income tax rate of 15% and was subject to the statutory corporate income tax rate of 25%. As it was uncertain, as at 30 June 2020, whether Jiangsu Chuangxin would be able to renew the qualification as High and New Technology Enterprise, the corporate income tax rate of 25% was applied for the six months ended 30 June 2020.

Jiangsu Chuangxin has renewed the qualification of High and New Technology Enterprise on 2 December 2020 with an effective period of three years from 2020 to 2022, and therefore it was entitled to the preferential corporate income tax rate of 15%.

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

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholder of the Company for the six months ended 30 June 2021 of RMB8,068,000 (six months ended 30 June 2020: RMB11,449,000) and 480,000,000 ordinary shares (six months ended 30 June 2020: 480,000,000 ordinary shares) in issue during the period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2021 and 2020, therefore, diluted earnings per share are equivalent to basic earnings per share.

7 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2021, acquisitions of property, plant and equipment amounted to RMB13,000 (six months ended 30 June 2020: RMB2,053,000). No property, plant and equipment were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

8 TRADE AND OTHER RECEIVABLES

As at the end of the 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:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within 3 months	49,994	48,937
After 3 months but within 6 months	6,435	14,412
After 6 months but within 1 year	2,596	1,920
After 1 year but within 2 years	51	314
After 2 years but within 3 years	397	496
	<hr/>	<hr/>
Trade receivables, net of loss allowance	59,473	66,079
Bills receivable (<i>note (a)</i>)	17,546	9,786
Other receivables	4,952	5,205
	<hr/>	<hr/>
Financial assets measured at amortised cost	81,971	81,070
Deposits and prepayments	3,248	4,723
	<hr/>	<hr/>
Trade and other receivables, net	<u>85,219</u>	<u>85,793</u>

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

(a) Bills receivable

Bills receivable represents short-term bank and commercial acceptance notes receivable that entitle the Group to receive the full face amount from banks and issuers 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 receivable to suppliers as part of the treasury management.

During the six months ended 30 June 2021, 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 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 30 June 2021, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB500,000 (31 December 2020: RMB1,797,000).

9 TRADE AND OTHER PAYABLES

As of the end of the Reporting Period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within 3 months	5,106	1,790
After 3 months but within 6 months	874	240
After 6 months but within 1 year	216	178
Over 1 year but within 2 years	42	–
	<hr/>	<hr/>
Total trade payables	6,238	2,208
Other payables and accruals	11,784	13,968
	<hr/>	<hr/>
Trade and other payables	<u>18,022</u>	<u>16,176</u>

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

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the interim period

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK\$0.01 per ordinary share (six months ended 30 June 2020: HK\$0.01 per ordinary share)	<u>4,026</u>	<u>4,330</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

The shares of the Company (the “**Shares**”) were listed (the “**Listing**”) on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 28 March 2018 (the “**Listing Date**”).

Industry Overview

In recent years, the oil-refining capacity of emerging economies in Asia Pacific region, such as the People’s Republic of China (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 B of the “China VI” Fuel Quality Standard* (第六階段車用汽油國家標準) promulgated by the government of the PRC will be fully implemented from 1 July 2023, and in fact, many provinces and cities have already implemented it in advance. Further, Beijing has announced in July 2021 that an even higher standard named “Jing VI-B” will be implemented in Beijing from December 2021, which is an indication that the Chinese government is likely to further raise the quality standard for vehicle fuels.

All these factors should continuously bring more demands in the PRC for oil refining agents and fuel additives. However, in the first half year of 2020, the novel coronavirus (“**COVID-19**”) pandemic led to a decrease of the domestic demands for diesel oil and gasoline. Since the beginning of the second half of 2020, the effective control of the COVID-19 pandemic in the PRC has led to a gradual pick-up in domestic demands. According to the statistics published by the National Development & Reform Commission, in the first half year of 2021, the domestic consumption of refined fuel oil increased by about 5.7% year-on-year.

Business Overview

In the first half year of 2021, as the COVID-19 pandemic in the PRC continued to decline, the domestic demands for refined fuel oil has been increasing. We seized this momentum and did our best to sell more products to our long-term customers, including 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**”) as well as our existing customers in the non-state-owned oil-refining industry. At the same time, we continued our endeavor in customer diversification by actively developing more private refineries as our customers.

Due to the above factors, for the six months ended 30 June 2021, we recorded a total revenue of RMB84.4 million compared to a total revenue of RMB73.4 million for the six months ended 30 June 2020. The revenue recorded in the first half year of 2021 has already exceeded the level of the first half year of 2019, which was before the outbreak of the COVID-19 pandemic.

From the end of 2020 till now, the global inflation has led to a surge in the prices of raw materials. The prices of the raw materials of some of our main products and the raw materials of high-purity oleic acid, the main component of our lubricity improver, have increased significantly. Meanwhile, most of our supply contracts with our major customers are subsisting long-term or cross-year contracts, and many of them were signed in 2020 with lowered prices due to the impact of the COVID-19 pandemic, for which we are not able to adjust the prices yet. As a result, the gross profit margin of our products sold decreased significantly, and our net profit margin decreased accordingly. For the six months ended 30 June 2021, we recorded a net profit of RMB8.1 million, while the net profit for the six months ended 30 June 2020 was RMB11.4 million. We do not think the global inflation will last for a long time. With the expiration of our long-term and cross-year contracts with major customers, our sales price may be adjusted when signing new long-term and cross-year contracts, so the decline in gross profit margin should be temporary.

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory requirements and our compliance status for the six months ended 30 June 2021:

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.

Compliance status

Aiming at better health, safety and environment (“HSE”) performance, our Group has cut the quantity of hazardous chemicals used 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 in 2020. For the six months ended 30 June 2021, our Group has satisfied the conditions for exemption of obtaining the said license.

Our Group has complied with such requirement for the six months ended 30 June 2021.

Key requirements

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

Our Group has complied with such requirement for the six months ended 30 June 2021.

Future Plan and Prospects

Recently, the coronavirus causing the COVID-19 pandemic has developed some more infectious variant strains, which has caused uncertainty in the development of the pandemic and may also lead to uncertainty in the development of the oil-refining industry. In view of the current situations, we will adopt the strategy of seeking progress while maintaining stability.

- We will continue to closely follow up, study and judge the changes in international and domestic demands and the market situations as well as the price trend of raw materials, and will continue to upgrade the production capacity of our plant in Yixing City, PRC at the right time to meet the demands of customers.
- For the new series of products, vehicle fuel additives (gasoline detergents) with the newest 6th-generation formula, we will continuously do various low-cost preparation work for the products to be formally launched at the right time. At the same time, we will also seek to be a contract manufacturer for other vehicle-fuel-additive manufacturers, so as to make full use of the capacity of our production line.
- We will add to our efforts in customer diversification and do everything possible to develop potential domestic and foreign customers, so as to increase sales and offset the adverse impact of the temporary decline in gross profit margin.
- We will strengthen our research and development of new chemical products, and strive to expand our product range, so as to create new profit-growth opportunities.
- We will continue to strengthen the safety management of our Yixing Plant and the safety education and training of our employees, and implement the practice of 24-hour watch-keeping by company leaders in shifts. We will continue our endeavor in the attempt to upgrade our Yixing Plant's safety production standardization system from Level-3 to Level-2.

Financial Overview

Revenue

Our revenue has increased by 15.0% from RMB73.4 million for the six months ended 30 June 2020 to RMB84.4 million for the six months ended 30 June 2021. The following table sets forth our revenue by products for the periods indicated:

	For the six months ended	
	30 June	
	2021	2020
	RMB'000	RMB'000
Oil refining agents	52,357	42,100
Fuel additives	32,070	31,330
Total revenue	84,427	73,430

The revenue derived from oil refining agents has increased from RMB42.1 million for the six months ended 30 June 2020 to RMB52.4 million for the six months ended 30 June 2021, which was mainly due to the decline of demands in the first half year of 2020 caused by the outbreak of the COVID-19 pandemic leading to the decrease of our sales of oil refining agents, while in the first half year of 2021, with the decline of the pandemic in the PRC and the recovery of domestic demands, we seized the opportunity and sold more oil refining agents. Due to the same reason, the revenue derived from fuel additives has increased from RMB31.3 million for the six months ended 30 June 2020 to RMB32.1 million for the six months ended 30 June 2021.

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

	For the six months ended	
	30 June	
	2021	2020
	RMB'000	RMB'000
Mainland China	80,066	66,030
Overseas		
Sudan	4,361	6,369
Other ⁽¹⁾	–	1,031
Total revenue	84,427	73,430

Note:

- (1) Other overseas countries and regions in which we had sales of our products for the six months ended 30 June 2020 included Niger in Africa. We sell our products to certain of our customers in these countries and regions directly or through their designated agents.

The revenue derived from the PRC market has increased from RMB66.0 million for the six months ended 30 June 2020 to RMB80.1 million for the six months ended 30 June 2021, which was mainly due to the decline of demands in the first half year of 2020 caused by the outbreak of the COVID-19 leading to the decrease of our sales in the PRC, while in the first half year of 2021, with the decline of the pandemic in the PRC and the recovery of domestic demands, we seized the opportunity and sold more products in the PRC. The revenue derived from the overseas market has decreased from RMB7.4 million for the six months ended 30 June 2020 to RMB4.4 million for the six months ended 30 June 2021, which was mainly due to the delay in our exports as a result of the shortage of shipping containers and the difficulties in booking vessels in 2021.

Cost of sales

Our cost of sales has increased from RMB49.5 million for the six months ended 30 June 2020 to RMB63.3 million for the six months ended 30 June 2021. The following table sets forth our cost of sales by products for the periods indicated:

	For the six months ended	
	30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Oil refining agents	38,958	27,837
Fuel additives	24,311	21,663
	<hr/>	<hr/>
Total cost of sales	<u>63,269</u>	<u>49,500</u>

The cost of sales of oil refining agents has increased from RMB27.8 million for the six months ended 30 June 2020 to RMB39.0 million for the six months ended 30 June 2021, which was mainly due to the increase of the sales volume for our oil refining agents and the rise of the purchase price of some of our major raw materials for oil refining agents. The cost of sales of fuel additives has increased from RMB21.7 million for the six months ended 30 June 2020 to RMB24.3 million for the six months ended 30 June 2021, which was mainly due to the increase of the sales volume for our fuel additives and the rise of the purchase price of the major raw materials for our fuel additives.

Gross profit

For the six months ended 30 June 2020 and 2021, our gross profit amounted to RMB23.9 million and RMB21.2 million, respectively. Our gross profit margin was 32.6% and 25.1%, respectively, for the same periods. The table below sets forth our gross profit by products for the periods indicated:

	For the six months ended	
	30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Oil refining agents	13,399	14,263
Fuel additives	7,759	9,667
Total gross profit	<u>21,158</u>	<u>23,930</u>

Our gross profit of oil refining agents has decreased from RMB14.3 million for the six months ended 30 June 2020 to RMB13.4 million for the six months ended 30 June 2021, which was mainly due to the increase of the total cost of sales of our oil refining agents. Our gross profit margin of oil refining agents has decreased from 33.9% to 25.6% for the same period, which was mainly due to that most of the contracts we executed in the first half year of 2021 were long-term or cross-year contracts with prices lowered in 2020 due to the impact of the COVID-19 pandemic, and that some of our major raw materials' prices have risen dramatically in 2021. Our gross profit of fuel additives has decreased from RMB9.7 million for the six months ended 30 June 2020 to RMB7.8 million for the six months ended 30 June 2021, which was mainly due to the increase of the total cost of sales of our fuel additives. Our gross profit margin of fuel additives has decreased from 30.9% to 24.2% for the same period, which was mainly due to that most of the contracts we executed in the first half year of 2021 were long-term or cross-year contracts with prices lowered in 2020 due to the impact of the COVID-19 pandemic, and that the major raw material price for our fuel additives has risen in 2021.

Other income

Our other income has decreased from RMB2.3 million for the six months ended 30 June 2020 to RMB1.8 million for the six months ended 30 June 2021, which was mainly due to the decrease in the bank interests, the income from selling production wastes and the government grants we received.

Income tax expense

Our income tax expense for the six months ended 30 June 2020 and 2021 was RMB3.1 million and RMB1.1 million, respectively. The decrease of the income tax expense is mainly due to the failure of the Company's subsidiary, Jiangsu Chuangxin Petrochemical Co., Ltd* (江蘇創新石化有限公司) (“**Jiangsu Chuangxin**”) in qualifying as High and New Technology Enterprise* (高新技術企業) in PRC in 2019. As a result, Jiangsu Chuangxin was no longer entitled to the preferential corporate income tax rate of 15% and was instead subject to the statutory corporate income tax rate of 25%. In 2020, though Jiangsu Chuangxin again submitted to the related government authority the application for High and New Technology Enterprise qualification, but when we announced the interim results of 2020, the approving result of this application was not yet known, so the income tax for the six months ended 30 June 2020 was calculated at the rate of 25%. Subsequently, Jiangsu Chuangxin regained the qualification of High and New Technology Enterprise on 2 December 2020 with an effective period of three years from 1 January 2020 to 31 December 2022, and therefore it was entitled to the preferential corporate income tax rate of 15% for the six months ended 30 June 2021. Please refer to our announcements dated 31 December 2019, 13 March 2020 and 28 January 2021 respectively for details.

For the six months ended 30 June 2020 and 2021, our effective tax rate for the same periods were 21.6% and 12.4%, respectively.

Profit for the period

As a result of the foregoing, our profit has decreased by 29.5% from RMB11.4 million for the six months ended 30 June 2020 to RMB8.1 million for the six months ended 30 June 2021, which was mainly due to the decrease in total gross profit and the increase of the sales and marketing expenses.

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 requirements.

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

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

Selected items of the consolidated statement of financial position

Cash and cash equivalents

Cash and cash equivalents primarily consist of our cash at banks and on hand. We had cash and cash equivalents of RMB144.8 million as of 31 December 2020 and RMB158.0 million as of 30 June 2021, representing an increase of 9.1%.

Trade and other receivables

Our trade receivables primarily represent the credit sales of our products to be paid by our customers. Our bills receivable represents short-term bank and commercial acceptance notes receivables 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.

Our total trade and other receivables decreased slightly from RMB85.8 million as of 31 December 2020 to RMB85.2 million as of 30 June 2021, with no significant change.

Credit periods and trade receivables

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

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

Trade and other payables

Our trade and other payables primarily consist of trade payables from purchases of raw materials from our suppliers, other payables and accruals. Our other payables and accruals mainly include salary payments, payments for social insurance and housing provident funds, payments for tax and payments to third-party logistics providers.

Our trade and other payables increased from RMB16.2 million as of 31 December 2020 to RMB18.0 million as of 30 June 2021, which was mainly due to the increase of the trade payables for raw materials. All trade payables are expected to be settled within one year.

Gearing Ratio

Our gearing ratio which is calculated by total borrowings divided by total assets was both nil as of 31 December 2020 and 30 June 2021.

Contingent liabilities, guarantees and litigation

As of 30 June 2021, the Group had no contingent liabilities, guarantees and litigation against us.

Capital expenditures

For the six months ended 30 June 2021, our capital expenditures spent were minor. The following table sets forth our capital expenditures for the periods indicated:

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment	<u>13</u>	<u>2,053</u>
Total capital expenditures	<u>13</u>	<u>2,053</u>

Related party transactions

During the six months ended 30 June 2021, the Group did not have any related party transactions.

Connected transactions

During the six months ended 30 June 2021, the Group did not have any connected transactions.

Off-balance sheet arrangements

During the six months ended 30 June 2021, the Group did not have any off-balance sheet arrangements.

Material investments, acquisitions and disposals

For the six months ended 30 June 2021, the Group did not have any material investments, acquisitions and disposals.

USE OF PROCEEDS FROM THE LISTING

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 of the Company dated 19 March 2018. Taking into account the decline in the business from Sudan and the impact on the economy by the international trade war and the COVID-19 pandemic as well as the soaring raw material price since the end of 2020 which is affecting our operating results, we slowed down the progress of our original plan on the use of the proceeds from Listing, in order to ensure that the intended results from the use of the proceeds can be achieved. Up to the date of this announcement, we have only completed a part of the investment in the projects for upgrading our Yixing plant and building production facilities for the manufacturing of an important raw material, high-purity oleic acid, which have been put into commercial production. We will 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.

Since the Listing Date and up to 30 June 2021, the utilization of the net proceeds and remaining balance (approximately HK\$56.0 million) are set out below:

Purposes	Allocation on a pro-rata basis	Amount utilized as of 30 June 2021	The remaining balance as of 30 June 2021
To upgrade our Yixing plant by purchasing new sets of machinery, equipment and analytical instruments	Approximately HK\$42.8 million (approximately 39%)	Approximately HK\$15.1 million	Approximately HK\$27.7 million
To build production facilities for the manufacturing of a 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 (approximately 100%)	Approximately HK\$54.7 million	Approximately HK\$56.0 million

EMPLOYMENT AND EMOLUMENTS

As of 30 June 2021, our Group had 59 employees. All of our employees are 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 include pension scheme, unemployment insurance and housing allowance, etc.

CORPORATE GOVERNANCE

Our Group is committed to maintaining high standards of corporate governance to protect the interest of our shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") as its own code of corporate governance. During the Reporting Period, the Company has complied with the CG Code except for the following deviation from provision A.2.1 of the CG Code which is explained below:

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

EVENTS AFTER THE REPORTING PERIOD

There are no significant subsequent events after the Reporting Period.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2021.

AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with the management of the Company in relation to the accounting principles and practices adopted by the Company, the internal controls and financial report matters, and the Company's policies and practices on corporate governance. The Interim Results has been reviewed by the Audit Committee. The Company's external auditors, KPMG, have carried out a review of the interim financial information for the six months ended 30 June 2021 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. There is no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The Interim Results announcement of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsctxsh.cn). The interim report of the Company for the six months ended 30 June 2021 will be dispatched to shareholders of the Company and available on the same websites in due course as required under the Listing Rules.

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

Hong Kong, 27 August 2021

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

* *For identification purpose only*