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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 2020

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 2020 (the “**Reporting Period**”), together with comparative figures for the corresponding period in 2019. The Board and the audit committee of the Company (the “**Audit Committee**”) have reviewed and confirmed the Interim Results.

INTERIM RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi Yuan)

		Six months ended 30 June	
	Note	2020 RMB'000	2019 RMB'000
Revenue	3	73,430	82,132
Cost of sales		<u>(49,500)</u>	<u>(53,925)</u>
Gross profit		23,930	28,207
Other income		2,273	1,077
Sales and marketing expenses		(3,383)	(3,702)
General and administrative expenses		(4,983)	(5,137)
Research and development expenses	4(b)	<u>(3,227)</u>	<u>(3,862)</u>
Profit from operations		14,610	16,583
Finance costs	4(a)	<u>(15)</u>	<u>(31)</u>
Profit before taxation	4	14,595	16,552
Income tax	5	<u>(3,146)</u>	<u>(2,253)</u>
Profit for the period		<u>11,449</u>	<u>14,299</u>
Earnings per share	6		
Basic and diluted (RMB cents)		<u>2.39</u>	<u>2.98</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi Yuan)

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	11,449	14,299
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	2,168	348
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	<u>(1,122)</u>	<u>(221)</u>
Other comprehensive income for the period	<u>1,046</u>	<u>127</u>
Total comprehensive income for the period	<u>12,495</u>	<u>14,426</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2020 – unaudited
(Expressed in Renminbi Yuan)

		At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	7	43,946	44,069
Right-of-use assets		3,254	3,304
Deferred tax assets		497	503
		<u>47,697</u>	<u>47,876</u>
Current assets			
Inventories		21,694	27,569
Trade and other receivables	8	85,313	73,869
Cash and cash equivalents		146,954	146,693
		<u>253,961</u>	<u>248,131</u>
Current liabilities			
Trade and other payables	9	14,147	19,291
Contract liabilities		1,246	30
Income tax payable		5,319	3,699
		<u>20,712</u>	<u>23,020</u>
Net current assets		233,249	225,111
Total assets less current liabilities		280,946	272,987
Non-current liabilities			
Deferred tax liabilities		4,245	4,451
		<u>4,245</u>	<u>4,451</u>
NET ASSETS		276,701	268,536
CAPITAL AND RESERVES			
Share capital		3,873	3,873
Reserves		272,828	264,663
TOTAL EQUITY		276,701	268,536

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 26 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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:

- 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 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	
	2020 RMB'000	2019 RMB'000
Sales of oil refining agents	42,100	47,649
Sales of fuel additives	31,330	34,483
Total	73,430	82,132

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 2020, substantially all specified non-current assets were physically located in the People's Republic of China ("PRC").

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Mainland China	66,030	80,525
Sudan	6,369	643
Other countries and regions	1,031	964
Total	73,430	82,132

(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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on other borrowings	<u>15</u>	<u>31</u>

(b) Other items

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of right-of-use assets	50	50
Depreciation of property, plant and equipment	2,176	1,263
Research and development expenses (other than depreciation)	2,610	3,412
Impairment losses of trade receivables recognised/(reversed)	4	(62)
Inventory write-down	<u>1</u>	<u>-</u>

5 INCOME TAX

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
Provision for current income tax for the period	3,655	1,433
Over-provision in respect of prior years	<u>(309)</u>	<u>(70)</u>
	3,346	1,363
Deferred tax:		
Origination and reversal of temporary differences	<u>(200)</u>	<u>890</u>
	<u>3,146</u>	<u>2,253</u>

- (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, 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% since 2019.
- (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 2020 of RMB11,449,000 (six months ended 30 June 2019: RMB14,299,000) and 480,000,000 ordinary shares (six months ended 30 June 2019: 480,000,000 ordinary shares) in issue during the period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2020 and 2019, 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 2020, acquisitions of property, plant and equipment amounted to RMB2,053,000 (six months ended 30 June 2019: RMB10,706,000). No property, plant and equipment were disposed of during the six months ended 30 June 2020. Items of property, plant and equipment with a net book value of RMB8,000 were disposed of during the six months ended 30 June 2019, resulting in a loss on disposal of RMB3,000.

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 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 3 months	51,466	46,565
After 3 months but within 6 months	11,107	8,364
After 6 months but within 1 year	4,097	4,324
After 1 year but within 2 years	1,284	1,125
	<hr/>	<hr/>
Trade receivables, net of loss allowance	67,954	60,378
Bills receivable (<i>note (a)</i>)	6,170	7,440
Other receivables	3,772	4,346
	<hr/>	<hr/>
Financial assets measured at amortised cost	77,896	72,164
Deposits and prepayments	7,417	1,705
	<hr/>	<hr/>
Trade and other receivables, net	<u>85,313</u>	<u>73,869</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 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 receivable to suppliers as part of the treasury management.

During the six months ended 30 June 2020, 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 2020, 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 RMB800,000 (31 December 2019: Nil).

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 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 3 months	2,076	5,097
After 3 months but within 6 months	409	88
After 6 months but within 1 year	22	16
Over 1 year but within 2 years	2	107
	<hr/>	<hr/>
Total trade payables	2,509	5,308
Other payables and accruals	11,638	13,983
	<hr/>	<hr/>
Trade and other payables	<u>14,147</u>	<u>19,291</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 2020 (six months ended 30 June 2019: 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 2020 <i>RMB'000</i>	2019 <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 2019: HK\$0.01 per ordinary share)	<u>4,330</u>	<u>4,104</u>

11 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The PRC and other countries across the world have implemented a series of precautionary and control measures including travel restrictions, which have already had a certain negative impact on the consumption of gasoline and diesel oil in the PRC, consequently, the oil-refining agents and fuel additives industry of the PRC will also be affected to a certain extent in 2020.

As far as the Group's businesses are concerned, as of the date of this report, no material adverse effects on the consolidated financial statements of the Group as a result of the COVID-19 outbreak has been identified. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The shares of the Company (the “**Shares**”) were listed (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

Oil refining agents refer to various chemicals used during the crude oil refining process, typically to enhance the refining process and to improve the performance of final products or protect oil refining units. Fuel additives are added into fuel oils to improve the quality of fuel oils and thereby enhancing the engine performance of vehicles.

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 fuels in PRC. Further, a number of large-scale private refining/petrochemical projects are under construction or have been lately put into operation and consequently, these factors will lead to more demands for oil refining agents and fuel additives. However, the gasoline and diesel oil consumption in PRC has been suffering negative impacts as a result of the travel restrictions and the drop in consumer spending due to the outbreak of COVID-19 pandemic since January 2020, correspondingly, the sales and profit of our refining agents and fuel additives have also been affected during the Reporting Period.

Business Overview

We are among the earliest of our peers to enter the PRC oil refining agents and fuel additives industry and formed long-standing business relationships with various affiliates of three state-owned conglomerates, namely China Petrochemical Corporation* (中國石油化工集團公司) (“**Sinopec**”), China National Offshore Oil Corporation* (中國海洋石油集團) (“**CNOOC**”) and China National Petroleum Corporation* (中國石油天然氣集團公司) (“**CNPC**”).

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

As of the date of this announcement, we own numerous national patents and technology-related copyrights. Our research & development centre is now a certified Province-Level Industrial-Enterprise Technical Centre* (省級工業企業技術中心). For the six months ended 30 June 2020, we recorded a total revenue of RMB73.4 million compared to a total revenue of RMB82.1 million for the six months ended 30 June 2019. The drop of revenue was mainly due to the impact of the COVID-19 pandemic since January 2020.

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory requirements and our compliance status for the six months ended 30 June 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 Measures for the Administration of Pollutant Discharge Permit (Trial)* (排污許可管理辦法(試行)), a pollutant discharge unit shall hold a pollutant discharge permit and discharge pollutants in accordance with the provisions of the pollutant discharge permit.

Compliance status

Our Group has complied with such requirement for the six months ended 30 June 2020.

Our Group has complied with such requirement for the six months ended 30 June 2020.

Our Group has complied with such requirement for the six months ended 30 June 2020.

Future Plan and Prospects

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

- The first phase project for upgrading our production capacity had been completed and put into production in 2019. We will follow up closely with the developments of the market and study and judge the market situations and trend, and will continue to upgrade the production capacity of our plant in Yixing City, PRC at the right time to meet the demands of customers.
- The new series of products, vehicle fuel additives (gasoline detergents) with the newest 6th-generation formula, which we have been working on, have been trial-produced at the end of 2019. During the Reporting Period, due to the outbreak of COVID-19 pandemic since January 2020, the travel of people has eminently decreased, which temporarily suppressed consumers' demands and buying 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 our work is still going on. 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 continue to expand our customer base to diversify our revenue sources by such means as: reaching out to more non-state-owned oil refineries, cooperating with capable traders to develop potential overseas customers, selling the newly-developed vehicle fuel additives (gasoline detergents) directly to end consumers.
- The first phase 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 cost advantage, we will endeavor to expand the sales channels of this major product. Meanwhile, we will closely follow up with and observe the market trend, and invest more capital at the right time to expand the production capacity of this key raw material.
- During the Reporting Period, we continued strengthening our safety management and putting more efforts in the construction of safety-protection facilities and the safety education and training of employees. In the future, we will make continuous efforts to improve our safety management and perfect and upgrade our safety-protection facilities, so as to make sure the safety management of the Group is always maintained at a high level.

Financial Overview

Revenue

Our revenue has decreased by 10.6% from RMB82.1 million for the six months ended 30 June 2019 to RMB73.4 million for the six months ended 30 June 2020. The following table sets forth our revenue by products for the periods indicated:

	For the six months ended 30 June	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Oil refining agents	42,100	47,649
Fuel additives	31,330	34,483
Total revenue	73,430	82,132

The revenue which has derived from oil refining agents has decreased from RMB47.6 million for the six months ended 30 June 2019 to RMB42.1 million for the six months ended 30 June 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 operating rate and 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. Due to the same causes, the revenue derived from fuel additives has decreased from RMB34.5 million for the six months ended 30 June 2019 to RMB31.3 million for the six months ended 30 June 2020.

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	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	66,030	80,525
Overseas		
Sudan	6,369	643
Other ⁽¹⁾	1,031	964
Total revenue	73,430	82,132

Note:

- (1) Other overseas countries and regions in which we had sales of our products for the six months ended 30 June 2019 and 2020 included Chad and 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 decreased from RMB80.5 million for the six months ended 30 June 2019 to RMB66.0 million for the six months ended 30 June 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 operating rate and 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. The revenue derived from the overseas market has increased from RMB1.6 million for the six months ended 30 June 2019 to RMB7.4 million for the six months ended 30 June 2020, which was mainly due to the increase of goods delivered to a major Sudanese customer.

Cost of sales

Our cost of sales has decreased from RMB53.9 million for the six months ended 30 June 2019 to RMB49.5 million for the six months ended 30 June 2020. The following table sets forth our cost of sales by products for the periods indicated:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Oil refining agents	27,837	33,639
Fuel additives	21,663	20,286
Total cost of sales	<u>49,500</u>	<u>53,925</u>

The cost of sales of oil refining agents has decreased from RMB33.6 million for the six months ended 30 June 2019 to RMB27.8 million for the six months ended 30 June 2020, which was mainly due to the decrease of the sales volume for our oil refining agents and the drop of purchase price of some of our major raw materials. The cost of sales of fuel additives has increased from RMB20.3 million for the six months ended 30 June 2019 to RMB21.7 million for the six months ended 30 June 2020, which was mainly due to the increase of purchase price of major raw materials for our fuel additives.

Gross profit

For the six months ended 30 June 2019 and 2020, our gross profit amounted to RMB28.2 million and RMB23.9 million, respectively. Our gross profit margin was 34.3% and 32.6%, 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Oil refining agents	14,263	14,010
Fuel additives	9,667	14,197
Total gross profit	<u>23,930</u>	<u>28,207</u>

Our gross profit of oil refining agents has increased slightly from RMB14.0 million for the six months ended 30 June 2019 to RMB14.3 million for the six months ended 30 June 2020. Our gross profit margin of oil refining agents has increased from 29.4% to 33.9% for the same period, which was mainly due to the decrease of our purchase price of some of our major raw materials and the increase of export sales with higher gross profit ratio. Our gross profit of fuel additives has decreased by 31.9% from RMB14.2 million for the six months ended 30 June 2019 to RMB9.7 million for the six months ended 30 June 2020, which was mainly due to the decrease of the total sales volume and the increase of the total costs for our fuel additives. Our gross profit margin of fuel additives has decreased from 41.2% to 30.9% for the same period, which was mainly due to the drop of the average selling price and the rise of the major raw material price of fuel additives.

Other income

Our other income has increased from RMB1.1 million for the six months ended 30 June 2019 to RMB2.3 million for the six months ended 30 June 2020, which was mainly due to the increase of government grants we received in relation to research & development and income from selling some production wastes.

Income tax expense

Our income tax expense for the six months ended 30 June 2019 and 2020 was RMB2.3 million and RMB3.1 million, respectively. The increase 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, for the year 2019, Jiangsu Chuangxin is not entitled to the preferential corporate income tax rate of 15% as it was in 2018, and is instead subject to the statutory corporate income tax rate of 25%. Please refer to our announcements dated 31 December 2019 and 13 March 2020 respectively for details.

During the Reporting Period, Jiangsu Chuangxin has submitted to the related government authority the application of High and New Technology Enterprise* (高新技術企業) qualification for 2020. If the application is approved, Jiangsu Chuangxin will be entitled to the preferential corporate income tax rate of 15% for 3 years from 2020. As the approving result of this application is not yet known, the income tax for the Reporting Period is calculated at the rate of 25%. For the six months ended 30 June 2019 and 2020, our effective tax rate for the same periods were 13.6% and 21.6%, respectively.

Profit for the period

As a result of the foregoing, our profit has decreased by 19.9% from RMB14.3 million for the six months ended 30 June 2019 to RMB11.4 million for the six months ended 30 June 2020, which was mainly due to the decrease in total gross profit and the increase of income tax expense.

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 RMB146.7 million as of 31 December 2019 and RMB147.0 million as of 30 June 2020, generally remain unchanged.

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 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 increased from RMB73.9 million as of 31 December 2019 to RMB85.3 million as of 30 June 2020, which was mainly due to the increase of advances to suppliers and the increase of trade receivables for goods exported to Sudan and goods sold to other two domestic customers.

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 decreased from RMB19.3 million as of 31 December 2019 to RMB14.1 million as of 30 June 2020, which was mainly due to the settlement of trade payables for raw materials and other payables for equipment. 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 2019 and 30 June 2020.

Contingent liabilities, guarantees and litigation

As of 30 June 2020, the Group had no contingent liabilities, guarantees and litigation against us.

Capital expenditures

For the six months ended 30 June 2020, our capital expenditures were spent on upgrading production capacity and oleic acid projects. The following table sets forth our capital expenditures for the periods indicated:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment	<u>2,053</u>	<u>10,706</u>
Total capital expenditures	<u>2,053</u>	<u>10,706</u>

Related party transactions

During the six months ended 30 June 2020, the Group did not have any related party transactions.

Connected transactions

During the six months ended 30 June 2020, the Group did not have any connected transactions.

Off-balance sheet arrangements

During the six months ended 30 June 2020, the Group did not have any off-balance sheet arrangements.

Material investments, acquisitions and disposals

For the six months ended 30 June 2020, 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 of the temporary decline in the business from Sudan and the impact on the economy of the international trade war as well as the outbreak of the COVID-19 pandemic since January 2020, we slowed down the progress of our original plan on the use of the proceeds from Listing, in order to ensure that the intended results from the use of the proceeds can be achieved. Up to the date of this announcement, we have only completed a part of the investment in the projects for upgrading our Yixing plant and building production facilities for the manufacturing of an important raw material, high-purity oleic acid, which have been put into commercial production. We will evaluate the effects of the commercial production of the 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.

Since the Listing Date and up to 30 June 2020, the utilization of the net proceeds and remaining balance (approximately HK\$60.1 million) are set out below:

Purposes	Allocation on a pro-rata basis	Amount utilized as of 30 June 2020	The remaining balance as of 30 June 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\$11.0 million	Approximately HK\$31.8 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\$50.6 million	Approximately HK\$60.1 million

EMPLOYMENT AND EMOLUMENTS

As of 30 June 2020, our Group had 69 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 2020.

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 2020 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 2020 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, 26 August 2020

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

* *For identification purpose only*