



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 2023**

# CONTENTS

## COMPANY

Corporate Information	2
-----------------------	---

## BUSINESS REVIEW AND CORPORATE GOVERNANCE

Chairman's Statement	4
Management Discussion and Analysis	6
Directors and Senior Management	22
Report of the Directors	27
Corporate Governance Report	42
Environmental, Social and Governance Report	55

## FINANCIAL REPORT

Independent Auditor's Report	111
Consolidated Statement of Profit or Loss	117
Consolidated Statement of Profit or Loss and Other Comprehensive Income	118
Consolidated Statement of Financial Position	119
Consolidated Statement of Changes in Equity	121
Consolidated Cash Flow Statement	122
Notes to the Financial Statements	123

## FINANCIAL HIGHLIGHTS

Financial Summary	173
Definitions	174

# 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

Ms. Yu Anne

## AUTHORISED REPRESENTATIVES

Mr. Ge Xiaojun

Ms. Yu Anne

## 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 Accounting and 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

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,

On behalf of the Board, I am honoured to present the annual report of the Group for the financial year ended 31 December 2023.

The year of 2023, despite the recession of the COVID-19 pandemic, was still a year of challenges and hardships. The international political, economic and military situations did not improve during the year, and in some areas even worsened. In terms of the domestic market, as China has put many new large-scale oil-refining units into operation in recent years, in order to avoid surplus in refining capacity, from 2023 onwards, the number of newly commissioned refining units began to decrease, and the total amount of oil refining agents required for the first-time loading decreased accordingly. In the international market, our import business was in an unfavorable position due to the high prices of European raw materials and products caused by the continuing unrest in Europe; and the outbreak of the Sudan civil war in 2023 significantly impacted our export business.

In the face of various unfavorable factors, the Group took the right actions with a positive attitude. The management and all staff worked hard together to overcome the difficulties, as a result, we still achieved many inspiring results, and in some aspects, we even made historical breakthroughs.

In terms of sales, we successfully gained some new domestic private-run customers and foreign customers, as a result, we still recorded a total revenue of approximately RMB186.1 million despite the weak market and the difficulties we encountered in export business. Although the total revenue for the financial year of 2023 was lower than that of 2022, it was still higher than that of other financial years since the Listing of the Company, and as a result of the decrease in income tax expense and the rise in gross profit margin, the Group recorded a total net profit of approximately RMB21.1 million for the financial year of 2023, representing a substantial increase compared with that of 2022.

In terms of production, we completed the transformation into a distributed control system (DCS) for our production process, constructed a centralized control room and carried out the renewal of old facilities such as reactors, so as to improve our production efficiency and reduce safety and environmental risks.

In terms of research and development and intellectual property, we continued to be recognised as a high-new-tech enterprise and obtained a number of new patent rights, including 2 invention patent rights.

In terms of safe production and environmental protection, we improved our energy management and passed the ISO50001 energy management system certification; we further improved our safety facilities and safety management and has been granted the Grade-II Work Safety Standardization accreditation; and after several years of continuous improvement, our Yixing Plant became the first chemical company in Yixing City to be awarded the province-level title of "Green Factory".

In terms of enterprise grade and status, our innovation capacity, professional ability, position in the industry and the degree of refinement of products have been highly recognised by the provincial government and was identified by the relevant government department in 2023 as "Specialized, Refined and Innovative Small or Medium-Sized Enterprise of Jiangsu Province", as a result, we will be entitled to more governmental preferential policies in our future development.

## CHAIRMAN'S STATEMENT

Looking ahead, we are cautiously optimistic about China's oil refining industry in 2024 and beyond. On the one hand, China's refining industry is still on the upswing, and demands for our existing products in the refining industry will continue to be supported. On the other hand, the Chinese government has begun to regulate and control the development of this industry in order to avoid wasteful capacity expansion. At the same time, the development trend of China's oil refining industry to "Produce less fuel oil and more chemicals and specialties" is further strengthened. Therefore, we will not only continue to research and develop new products in oil refining agents and fuel additives according to the needs of our customers, but also follow the megatrend and develop agents and additives for refineries to produce high-end fine chemicals and new materials, as well as start to study the possibilities of launching other businesses in the future.

As the governments around the world continue to attach greater importance to energy security and environmental protection, the petroleum industry will be pushed to develop in a greener, low-carbon direction. On the basis of the newly awarded "Green Factory of Jiangsu Province", the Group's production entity will continue to deepen the green development, further improve the efficiency of production and management, actively promote clean production technologies, strengthen source and in-process management, optimize the use of resources, do better in circular economy, reduce the generation of wastes and the emission of greenhouse gases, and lay a stronger foundation for the Group's high-quality and sustainable development.

In order to give more returns to our investors, the Board will recommend a higher final dividend for the financial year of 2023 as compared to previous years.

Finally, I would like to thank each and every employee of the Group for their hard work and dedication and extend my gratitude to our shareholders and cooperators for their continued trust and support. Let us work together to create a better future!

Yours faithfully,

**Ge Xiaojun**

*Chairman and Chief Executive Officer*

26 March 2024

# 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.

## INDUSTRY OVERVIEW

The total oil refining capacity of the PRC reached 920 million tons per year by the end of 2022 and for the first time, the PRC has surpassed the United States of America and become the world's largest oil refining country. In 2023, the PRC's oil market fully recovered as the COVID-19 pandemic subsided. According to the "Report on the Development of Domestic and Foreign Oil and Gas Industry in 2023" released by China National Petroleum Corporation's Research Institute of Economics and Technology in February 2024, the PRC's oil refining capacity further increased to 936 million tons per year in 2023, securing the first place in the world; for the whole year of 2023, the total domestic petroleum consumption was approximately 756 million tons and the actual crude oil processing volume reached 738 million tons, both of which hit a new record high; and the total consumption of refined fuel oils reached 399 million tons, representing a year-on-year increase of more than 9%.

In 2024, the PRC's economic recovery will be favorable for oil consumption to continue to rise, but the stage of substantial recovery rebound may have ended, therefore, the growth rate of gasoline and diesel consumption may slow down, however, with the increase in per capita income and the further improvement of air transportation facilities, there is still a big room for growth in the PRC's demand for aviation fuel in the future.

By the end of 2023, the number of refineries with 10-million-ton-plus annual processing capacity in the PRC reached 36, of which nearly 70% have become refining-chemical integrated enterprises. In 2024, a number of new refining-chemical integrated projects, such as the Yulong Island Refining-Chemical Integrated Project, will be put into operation, thus supporting the continued increase of the domestic crude oil processing volume, and it is expected that the actual crude oil processing volume of the PRC for the year 2024 will reach 753 million tons.

According to the Announcement on Matters Relating to the Implementation of the National VI Emission Standard for Vehicles\* (關於實施汽車國六排放標準有關事宜的公告) jointly issued by China's Ministry of Ecology and Environment, Ministry of Industry and Information Technology, etc., the Standard B of the National VI Emission Standard has been fully implemented since 1 July 2023, and a ban on the production, importation and sale of vehicles that do not comply with Standard B of the National VI Emission Standard has been initiated at the same time. This will support the domestic market demand for fuel additives.

At the same time, we have noted that the PRC's oil refining capacity is generally in surplus, and the development of new energy vehicles represented by electric cars, will further affect the market demand for fuel oils. In October 2023, China National Development and Reform Commission and three other ministries jointly issued the "Guidance on Promoting Green, Innovative and High-quality Development of the Oil Refining Industry", which focuses on the control of refining capacity, the optimization of production capacity layout and the green, low-carbon and intelligent development of this industry. It has pointed out that by 2025, the domestic primary oil-processing capacity should be controlled within 1 billion tons, while promoting the high-end, intelligent and green development of the oil refining industry. According to the guidance, relevant experts proposed that in the future, domestic oil refining enterprises should deepen the refining-chemical integration, do better in the optimization and balancing among "Producing less fuel oil and more chemicals", "Producing less fuel oil and more specialties" and "Reducing carbon and producing green products", and develop high-end fine chemicals and new chemical materials.

# MANAGEMENT DISCUSSION AND ANALYSIS

We have also noted that the replacement of fuel-oil vehicles by new-energy vehicles is a complex process that will not be smooth, but will face many challenges and uncertainties. For example, the CEO of Mercedes-Benz recently said that there would be “peaks and troughs” in the transition from fuel-oil cars to electric cars, and can produce combustion engine cars well into next decade; and the UK will push back a ban on new petrol and diesel cars and vans to 2035 from 2030.

By comprehensively analyzing the above factors, we believe that market demands for our oil refining agents and fuel additives will still continue for a long time. However, as the megatrend of “Producing less fuel oil and more chemicals and specialties” in the PRC will have a long-term impact on the demand for some of our products in the domestic market, it is necessary for the Group to accelerate the diversification of both its products and business and at the same time, add to its efforts in exploring more channels for selling products overseas.

## BUSINESS OVERVIEW

In recent years, we constantly strengthened our sales force, continued our efforts in customer diversification and cooperated with more international and domestic traders, which have helped us gain many new domestic and overseas customers and supported the sales of our products. However, in 2023, the number of newly commissioned refining units decreased, so the total amount of oil refining agents required for the first-time loading decreased accordingly, which has led to the decrease in the total sales volume of our oil refining agents. In addition, the supply of fuel additives to one of our major customers for a big order was completed in 2022 and we did not receive a similar-size big order in 2023, consequently, there was also a decrease in the total sales volume of our fuel additives. Further, the outbreak of the civil war in Sudan in 2023 which led to the suspension of production of our Sudan customers, has significantly affected, and may continue to affect our export business.

As a result of the above factors, for the year of 2023, the Group’s total revenue dropped to approximately RMB186.1 million, about 27.7% lower than that of last year. However, due to the decrease in income tax expense and the rise in gross profit margin, the Group recorded a total net profit of approximately RMB21.1 million in 2023, about 84.3% higher than that of last year.

In 2023, thanks to the efforts of the Group’s research and development team, we were granted 3 new patent rights. In addition, among a number of new patent right applications we submitted in 2023 to relevant authorities for approval, 2 invention patent right certificates were successfully granted in January and February 2024 respectively.

Our innovation capacity, professional ability, position in the industry and the degree of refinement of products have been highly recognised by the provincial government and our Yixing Plant was identified by the relevant government department in 2023 as “Specialized, Refined and Innovative Small or Medium-Sized Enterprise of Jiangsu Province”, as a result, we are entitled to more government support in our future development.

In 2023, the Group made an important breakthrough in upgrading the “Work Safety Standardization” level of our Yixing Plant. On the basis of the Grade-III Work Safety Standardization, through further improvement and upgrading of our safety facilities and safety management level, our Yixing Plant was granted the Grade-II Work Safety Standardization accreditation by the Department of Emergency Management of Jiangsu Province in March 2023. This indicates that the competent government authority has given higher recognition to the Group’s safety compliance, safety facilities and safety management, which is beneficial to the Group’s production, operation and development in the future.

# MANAGEMENT DISCUSSION AND ANALYSIS

To deeply practice the corporate culture of “To lay priority on safety, waste not and keep building a green enterprise” and perfect our work in Environmental, Social and Governance (ESG), our Yixing Plant has improved its energy management level, passed the audits of relevant organizations and was awarded the ISO50001 Certificate of Energy Management System in June 2023. Through years of continuous improvement in environmental protection and sustainable development, our Yixing Plant finally won the title of “Jiangsu Province Green Factory” issued by the relevant government department at the end of 2023, being the first chemical company in Yixing City to win this special honor.

## Compliance with Key Regulatory Requirements

The following table summarizes the key statutory requirements and our compliance status during the Reporting Period:

### 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 Ordinance for the Administration of Pollutant Discharge Licenses\* (排污許可證管理條例), enterprises and other production operators (pollutant discharging units) who are under the administration of pollutant discharge regulations, shall apply for a pollutant discharge license in accordance with the provisions of this Ordinance, otherwise, they are not allowed to discharge pollutants.

### Compliance status

Aiming at better health, safety and environment 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 related government authority in 2020. During the Reporting Period, our Group has satisfied the conditions for exemption of obtaining the said license.

Our Group complied with such requirement during the Reporting Period.

Our Group complied with such requirement during the Reporting Period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Future Plan and Prospects

In view of the current international and domestic economic situation, industry development trend and government policies, the Group will adopt the following strategies and plans:

- In order to improve the reliability and stability of our production process and avoid safety risks caused by personnel operation errors, in 2023 we completed the transformation to the distributed control system (DCS) which automates control of our production process. In the future, we will make full use of the functions and advantages of DCS system to further improve our production efficiency and product quality.
- Under the situation of intense market competition, we will continue strengthening cost reduction and efficiency enhancement. We will closely follow and study the trend of raw materials' market prices and optimize inventory management, so as to reduce the costs of raw and auxiliary materials. We will fully utilize the newly-built DCS system to realize 100% first-time pass rate in the manufacture of our products. We will deeply implement the concept of "Waste Not" in our corporate culture, to reduce consumption as much as possible. We will take the advantage of the newly granted status of "Specialized, Refined and Innovative Small or Medium-Sized Enterprise of Jiangsu Province" to obtain more preferential and supportive policies from the government in our future development.
- We will keep track of the construction of new refinery units in the PRC and overseas, so as to seize the firsthand business opportunities. We will continue to strengthen our efforts in customer diversification and cooperate with more international and domestic traders in more markets for a wider range of products. We will continue strengthening the cooperation with famous multinational chemical companies in order to sell more of their products in the PRC as a distributor and also sell our own products abroad through the collaboration with them.
- We will continuously follow the development trend of "Producing less fuel oil and more chemicals and specialties" of the oil refining industry and observe and assess its impact on the Group's business. While continuing the development of new products in refining agents and fuel additives according to customers' needs, in line with the development trend of the oil refining industry, we will research and development agents and additives required by refineries for the production of high-end fine chemicals and new chemical materials, and will begin to study the possibility of developing chemical business in non-oil-refining industries.
- We will deeply promote and practice the corporate culture of "To lay priority on safety, waste not and keep building a green enterprise". On the basis of the newly-granted title of "Green Factory", we will continue to develop advanced and applicable clean production technologies and explore the path of green, low-carbon and intelligent development, so as to ensure the long-term sustainable development of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

### Revenue

Our revenue decreased by 27.7% from RMB257.2 million for the year ended 31 December 2022 to RMB186.1 million for the year ended 31 December 2023. The following table sets forth our revenue by products for the years indicated:

	For the year ended 31 December	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Oil refining agents	111,571	151,085
Fuel additives	74,500	106,098
<b>Total revenue</b>	<b>186,071</b>	<b>257,183</b>

Our revenue derived from oil refining agents decreased from RMB151.1 million for the year ended 31 December 2022 to RMB111.6 million for the year ended 31 December 2023, which was mainly due to the decreased number of newly commissioned refining units in the PRC in 2023, as a result, the total amount of oil refining agents required for the first-time loading decreased accordingly, leading to the decrease in the sales volume of our oil refining agents in the PRC, meanwhile, the outbreak of the civil war in Sudan in 2023 suspended the production of our Sudan customers, which has significantly affected the export sales of our oil refining agents. Revenue derived from fuel additives decreased from RMB106.1 million for the year ended 31 December 2022 to RMB74.5 million for the year ended 31 December 2023, which was mainly due to that the supply of fuel additives to one of our major customers for a big order was completed in 2022 and we did not receive a similar-size big order in 2023, consequently, resulted in a decrease in the total sales volume of our fuel additives.

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

	For the year ended 31 December	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Mainland China	185,959	237,562
Sudan	–	17,967
Other countries and regions	112	1,654
<b>Total revenue</b>	<b>186,071</b>	<b>257,183</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue derived from the PRC market decreased from RMB237.6 million for the year ended 31 December 2022 to RMB186.0 million for the year ended 31 December 2023, which was mainly due to the decreased number of newly commissioned refining units in the PRC in 2023, as a result, the total amount of oil refining agents required for the first-time loading decreased accordingly, leading to the decrease in the sales volume of our oil refining agents in the PRC. Besides, the supply of fuel additives to one of our major customers for a big order was completed in 2022 and we did not receive a similar-size big order in 2023, consequently, there was a decrease in the total sales volume of our fuel additives. Revenue derived from the overseas market decreased from RMB19.6 million for the year ended 31 December 2022 to RMB0.1 million for the year ended 31 December 2023, which was mainly due to the outbreak of the civil war in Sudan in 2023 leading to the suspension of production of our Sudan customers, which has significantly affected our export sales.

## Cost of sales

Our cost of sales decreased from RMB203.3 million for the year ended 31 December 2022 to RMB137.4 million for the year ended 31 December 2023. The following table sets forth our cost of sales by products for the years indicated:

	For the year ended 31 December	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Oil refining agents	83,621	116,374
Fuel additives	53,754	86,930
<b>Total cost of sales</b>	<b>137,375</b>	<b>203,304</b>

The cost of sales of oil refining agents decreased from RMB116.4 million for the year ended 31 December 2022 to RMB83.6 million for the year ended 31 December 2023, which was mainly due to less oil refining agents sold in 2023. The cost of sales of fuel additives decreased from RMB86.9 million for the year ended 31 December 2022 to RMB53.8 million for the year ended 31 December 2023, which was mainly due to less fuel additives sold in 2023.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Profit from operations

Our profit from operations decreased from RMB26.2 million for the year ended 31 December 2022 to RMB25.2 million for the year ended 31 December 2023, which was mainly due to the decrease in our products sold. The following table sets forth the profit from operations for the years indicated:

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Gross profit	48,696	53,879
Other income	9,312	4,411
Sales and marketing expenses	(9,187)	(11,760)
General and administrative expenses	(13,718)	(11,793)
Research and development expenses	(8,545)	(8,915)
Impairment loss on trade receivables	(1,353)	383
<b>Profit from operations</b>	<b>25,205</b>	<b>26,205</b>

## Gross profit

For the years ended 31 December 2022 and 2023, our gross profit amounted to RMB53.9 million and RMB48.7 million, respectively. Our gross profit margin was 20.9% and 26.2%, respectively, for the same periods. The table below sets forth our gross profit by product for the years indicated:

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Oil refining agents	27,950	34,711
Fuel additives	20,746	19,168
<b>Total gross profit</b>	<b>48,696</b>	<b>53,879</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

Our gross profit for oil refining agents decreased by 19.5% from RMB34.7 million for the year ended 31 December 2022 to RMB28.0 million for the year ended 31 December 2023, which was mainly due to the decrease of the total sales volume of our oil refining agents. Our gross profit margin of oil refining agents has increased from 23.0% to 25.1% for the same periods, which was mainly due to the decline of the prices of some of our raw materials for oil refining agents in 2023.

Our gross profit for fuel additives increased by 8.2% from RMB19.2 million for the year ended 31 December 2022 to RMB20.7 million for the year ended 31 December 2023, which was mainly due to the decline of the prices of some of our major raw materials for fuel additives in 2023, and due to the same reason, our gross profit margin of fuel additives has increased from 18.1% to 27.8% for the same periods.

## Other income

Our other income increased from RMB4.4 million for the year ended 31 December 2022 to RMB9.3 million for the year ended 31 December 2023, which was mainly due to the increase in interest income on financial assets and more government grants received.

## Sales and marketing expenses

Our sales and marketing expenses decreased from RMB11.8 million for the year ended 31 December 2022 to RMB9.2 million for the year ended 31 December 2023, which was mainly due to the decrease in freight cost and successful tender service fees.

## General and administrative expenses

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

Our general and administrative expenses increased from RMB11.8 million for the year ended 31 December 2022 to RMB13.7 million for the year ended 31 December 2023, which was mainly due to the increase of travel and business entertainment expenses, consulting service charges and afforestation expenses.

## Research and development expenses

Our research and development expenses decreased slightly from RMB8.9 million for the year ended 31 December 2022 to RMB8.5 million for the year ended 31 December 2023. 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 2022 and 2023 was RMB14.7 million and RMB4.1 million, respectively. The decrease in income tax expense was mainly due to less deferred tax recognised by the Group for the year 2023 in respect of the withholding tax for the Company's subsidiary located in PRC to distribute its accumulated earnings to the Company's subsidiary located in Hong Kong SAR. For the years ended 31 December 2022 and 2023, our effective tax rates for the same periods were 56.3% and 16.2%, respectively.

## Profit for the year

As a result of the foregoing, our profit increased by 84.3% from RMB11.5 million for the year ended 31 December 2022 to RMB21.1 million for the year ended 31 December 2023, which was mainly due to the decrease of the 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 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 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	
	2023 RMB'000	2022 RMB'000
<b>Current assets</b>		
Inventories	37,099	33,544
Trade and other receivables	82,907	119,457
Prepayments	1,539	6,454
Cash and cash equivalents	95,204	146,484
<b>Total current assets</b>	<b>216,749</b>	<b>305,939</b>
<b>Current liabilities</b>		
Trade and other payables	24,469	28,172
Contract liabilities	2,210	–
Income tax payable	4,327	5,460
<b>Total current liabilities</b>	<b>31,006</b>	<b>33,632</b>
<b>Net current assets</b>	<b>185,743</b>	<b>272,307</b>

Our current assets decreased from RMB305.9 million as of 31 December 2022 to RMB216.7 million as of 31 December 2023, which was mainly due to the decrease in cash and cash equivalents and trade and other receivables. Our current liabilities decreased from RMB33.6 million as of 31 December 2022 to RMB31.0 million as of 31 December 2023, 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	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables, net of loss allowance	62,313	107,521
Bills receivables	18,052	9,230
Other receivables	2,542	2,706
Financial assets measured at amortised cost	82,907	119,457
<b>Total trade and other receivables, net</b>	<b>82,907</b>	<b>119,457</b>

Our net trade and other receivables decreased from RMB119.5 million as of 31 December 2022 to RMB82.9 million as of 31 December 2023, which was mainly due to the decrease in trade receivables.

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

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	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	50,317	97,705
Over 3 months but within 6 months	8,179	8,961
Over 6 months but within 1 year	663	855
Over 1 year but within 2 years	3,154	–
<b>Total trade receivables, net of loss allowance</b>	<b>62,313</b>	<b>107,521</b>

# 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 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 based on their scale and financial strength.

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 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	
	2023 RMB'000	2022 RMB'000
Trade payables	10,186	11,415
Other payables and accruals	14,283	16,757
<b>Total trade and other payables</b>	<b>24,469</b>	<b>28,172</b>

Our trade and other payables increased from RMB28.2 million as of 31 December 2022 to RMB24.5 million as of 31 December 2023, which was mainly due to the decrease in other payables and accruals. All trade payables are expected to be settled within one year.

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

	As of 31 December	
	2023 RMB'000	2022 RMB'000
Within 3 months	9,729	10,656
Over 3 months but within 6 months	304	703
Over 6 months but within 1 year	145	56
Over 1 year	8	–
<b>Total trade payables</b>	<b>10,186</b>	<b>11,415</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gearing Ratio

Our gearing ratio which is calculated by total borrowings divided by total assets was both nil as of 31 December 2022 and 31 December 2023 as the Group did not have any borrowings.

## Contingent liabilities, guarantees and litigation

As of 31 December 2023 and 2022, we had no contingent liabilities, guarantees and litigation.

## Capital Expenditures and Commitment

For the year ended 31 December 2023, our capital expenditures were spent on upgrading production capacity and oleic acid projects. The following table sets forth our capital expenditures for the years indicated:

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Purchase of property, plant and equipment	7,302	3,424
<b>Total capital expenditures</b>	<b>7,302</b>	<b>3,424</b>

The Group did not have any capital commitments (2022: Nil) outstanding at 31 December 2023 not provided in the financial statements.

## Off-balance Sheet Arrangements

As of 31 December 2023, the Group did not have any off-balance sheet arrangements.

## Charges on the Group's assets

As of 31 December 2023, no asset of the Group was subject to any charges.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Foreign Currency Exposure

The assets, liabilities and transactions of the Group are primarily denominated in Renminbi, Hong Kong dollars, Euros and United States dollars, and therefore exposed to exchange rate fluctuations. During the Reporting Period, the Group did not experience any material negative impacts on its operations due to the fluctuations in currency exchange rates. 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. Our group did not use any derivative financial instruments to the hedge the risk of exchange rate changes for the year ended 31 December 2023.

## 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	
	2023	2022
Return on equity <sup>(1)</sup>	8.0%	3.9%
Return on assets <sup>(2)</sup>	7.0%	3.5%
Current ratio <sup>(3)</sup>	7.0	9.1
Quick ratio <sup>(4)</sup>	5.8	8.1
Gross profit margin	26.2%	20.9%
Net profit margin	11.4%	4.5%

### 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 increased from 3.9% as of 31 December 2022 to 8.0% as of 31 December 2023 primarily because of the increase of our profit for the year and the decrease of the average equity.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Return on assets

Our return on assets reflecting our profitability increased from 3.5% as of 31 December 2022 to 7.0% as of 31 December 2023 primarily because of the increase of our profit for the year and the decrease of our average assets.

## Current ratio

Our current ratio decreased from 9.1 as of 31 December 2022 to 7.0 as of 31 December 2023 primarily because of the decrease in our current assets. It reflected our ability to pay our obligations which are due within one year.

## Quick ratio

Our quick ratio reflecting our liquidity decreased from 8.1 as of 31 December 2022 to 5.8 as of 31 December 2023 primarily because of the decrease in our current assets.

## MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2023, the Group did not have any 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 investments, acquisitions and disposals 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 the instability in the business from Sudan due to frequent civil wars and chaos, the potential impact on the demands for our existing products due to the development of electric vehicles and the “Producing less fuel oil and more chemicals” trend of the domestic oil refining industry as well as the international political unrest in recent years, which have affected or will probably affect 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 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 and achieved certain effects. We will follow up closely with the international political and economic situation, and study and assess our industry, market and business development 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 2023, the utilization of the net proceeds and the remaining balance (approximately HK\$52.5 million) are set out below:

Purposes	Allocation (on a pro-rata basis)	Amount utilized as of 31 December 2023	The remaining balance as of 31 December 2023
To upgrade our Yixing Plant by purchasing new sets of machinery, equipment and analytical instruments	Approximately HK\$42.8 million (Approximately 39%)	Approximately HK\$18.6 million	Approximately HK\$24.2 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	–
<b>Total</b>	<b>Approximately HK\$110.7 million (100%)</b>	<b>Approximately HK\$58.2 million</b>	<b>Approximately HK\$52.5 million</b>

\* The remaining balance of the net proceeds is expected to be used up in 24 months from 31 December 2023.

## AGM

The AGM will be held at the Company's headquarters and principal place of business in the PRC at No. 16 West Kaixuan Road, Economic Development Zone, Yixing, Jiangsu, the PRC on Thursday, 23 May 2024. Notice of the AGM will be published in due course as required under the Listing Rules.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Ge Xiaojun** (葛曉軍), aged 60, 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. Ms. Gu holds 100% interest in Innovative Green Holdings, a controlling shareholder holding 75% interest in the Company, therefore Mr. Ge is also deemed to be interested in the Shares held by Innovative Green Holdings by virtue of the SFO.

**Ms. Gu Jufang** (顧菊芳), aged 60, 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 more than 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 100% interest in Innovative Green Holdings, a controlling shareholder holding 75% interest in the Company.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Huang Lei (黃磊)**, aged 55, is the executive Director and vice general manager of the Company. Mr. Huang is primarily responsible for research and development of our Group, and is currently the executive director of our special team for Environmental, Social and Governance (ESG). Mr. Huang has more than 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 54, 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 25 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 52, is the executive Director and sales manager of the Company. Mr. Fan is primarily responsible for sales of our products. Mr. Fan has nearly 25 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 38, 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 he 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 41, 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. Since May 2021, Mr. Fan serves as chief financial officer of Seyond Holdings Ltd. (previously named: Innovusion Holdings Ltd). Prior to that, Mr. Fan served as vice president of Hailiang Education Group Inc., a company listed on NASDAQ (stock code: HLG) from August 2020 to April 2021. 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 52, 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; (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; (vii) the general manager of Dongyin Chuangfu Technology (Shenzhen) Co. Ltd.\* (東尹創富科技(深圳)有限公司) from June 2019 to April 2021; and (viii) since April 2021 till present, Mr. Guan is the vice general manager of Jiangsu Yixing Tourism Industry Group Co., Ltd.\* (江蘇宜興旅遊產業集團有限公司).

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 47, was appointed as the independent non-executive Director of the Company on 7 March 2018. Ms. Wu has more than 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\* (江蘇荆溪律師事務所) 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 served as an independent non-executive director of Jiangsu Zhongsheng Gaoke Environment Company Limited\* (江蘇中晟高科環境股份有限公司) (previously named 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) from March 2017 to April 2023.

### SENIOR MANAGEMENT

**Mr. Li Jianjun** (李建軍), aged 49, is the financial controller of the Company. Mr. Li is primarily responsible for financial matters of our Group. Mr. Li has more than 25 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 a senior accountant certified by the Ministry of Finance of the PRC.

# DIRECTORS AND SENIOR MANAGEMENT

## Joint Company Secretaries

**Mr. Tan Qian** (談前), aged 53, is one of the joint company secretaries 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 about 25 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. Tan has acquired the skills necessary to carry out the duties of company secretary and the “relevant experience” within the meaning of Note 2 to Rule 3.28 of the Listing Rules and has been granted a waiver by Hong Kong Stock Exchange on 21 April 2021 to act as a company secretary of the Company.

**Ms. Yu Anne** (余安妮) was appointed as one of the joint company secretaries, one of the authorised representatives under Rule 3.05 of the Listing Rules and the process agent of the Company under Chapter 622 of the Hong Kong Companies Ordinance on 26 August 2022.

Ms. Yu is an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited and has over 20 years experiences in corporate secretarial field. Ms. Yu holds a bachelor’s degree from University of Huddersfield in the United Kingdom and a Master of Law degree from The University of Law in the United Kingdom and she is also an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute 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 2023.

## 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 2023 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 2023 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 2023 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 2023 are set out in the section headed "Consolidated Statement of Profit or Loss and Other Comprehensive Income" 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. The number of option shares available for grant under the scheme mandate as at 1 January 2023 and 31 December 2023 was 48,000,000 Shares respectively.

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.

Despite the terms of the Share Option Scheme, any grant of options by the Company will comply with the Chapter 17 of the Listing Rules (as amended from time to time).

## 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 4 years.

No share options have been granted, exercised, canceled or lapsed under the Share Option Scheme since its adoption. As of 31 December 2023, 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 2023, sales to our largest customer accounted for approximately 7.78% of our total revenue, and sales to our five largest customers accounted for approximately 32% of our total revenue.

The following table sets forth the details of the major customer for the year ended 31 December 2023:

Customer	Group company	Major products sold	Credit term	Revenue Contribution <i>RMB'000</i>	Percentage of total revenue %
Customer A	Private-owned	Oil refining agents and fuel additives	Cash against invoice	14,484	7.78

For the year ended 31 December 2023, our purchases from the largest supplier accounted for approximately 37% of the total procurements, and purchases from five largest suppliers accounted for approximately 77% 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 2023:

Rank	Supplier	Major products purchased	Percentage of total purchases
1	Supplier A	Ethanol amines	37
2	Supplier B	Oleic acids	19
3	Supplier C	Oleic acids	11

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 2023 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 2023 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 2023 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

As of 31 December 2023, the aggregate amount of reserves available for distribution to Shareholders was RMB89,062,000.

## DIRECTORS

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

Name	Age	Position	Appointment Date
Mr. Ge	60	Executive Director, chairman and chief executive officer	18 September 2017
Ms. Gu	60	Executive Director	18 September 2017
Mr. Huang Lei	55	Executive Director	18 September 2017
Mr. Jiang Caijun	54	Executive Director	18 September 2017
Mr. Fan Yaqiang	52	Executive Director	18 September 2017
Mr. Gu Yao	38	Non-Executive Director	18 September 2017
Mr. Fan Peng	41	Independent Non-Executive Director	7 March 2018
Mr. Guan Dongtao	52	Independent Non-Executive Director	7 March 2018
Ms. Wu Yan	47	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 LETTERS OF APPOINTMENT

Each of the Directors, including executive Directors, non-executive Director and independent non-executive Directors, has entered into a service contract or an appointment letter 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 or an appointment letter 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" of 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 Reporting Period.

## 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 2023, our Group had 58 (2022: 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 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 board members and senior 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 of the Company. 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 service contracts or letters of appointment, having regard to their performance, our operating results and comparable market statistics. No Directors, or any of their respective associates, was involved in regard to the relevant resolution approving 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 2023 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 emoluments 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 have taken place since the date of the Board meeting approving the annual report of 2022 and up to the date of the Board meeting approving this annual report:

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

The name of the company where Mr. Fan has served as chief financial officer since May 2021 changed its name in 2023 from Innovusion Holdings Ltd. to Seyond Holdings Ltd. Please refer to the section headed "DIRECTORS AND SENIOR MANAGEMENT" of this annual report for the updated details of his information.

Independent non-executive Director, Ms. Wu Yan ("**Ms. Wu**") had the following changes in her information:

Ms. Wu resigned as independent non-executive director of Jiangsu Zhongsheng Gaoke Environment Company Limited\* (江蘇中晟高科環境股份有限公司) (previously named 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), in April 2023. Please refer to the section headed "DIRECTORS AND SENIOR MANAGEMENT" of this annual report for the updated details of her 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 2023, 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 of spouse <sup>(2)</sup>	360,000,000 (L)	75
Ms. Gu	Executive Director	Interest in controlled corporation	360,000,000 (L)	75

*Notes:*

- (1) The letter "L" denotes the entity's/a person's long position in the Shares. The calculation is based on the total number of 480,000,000 Shares in issue as at 31 December 2023.
- (2) Innovative Green Holdings, a beneficial owner of 360,000,000 Shares, is 100% owned by Ms. Gu. Mr. Ge and Ms. Gu are spouses to each other, 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 2023, 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 2023, 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 an entity's/a person's long position in the Shares. The calculation is based on the total number of 480,000,000 Shares in issue as at 31 December 2023.
- (2) Innovative Green Holdings is 100% owned by Ms. Gu. Mr. Ge and Ms. Gu are spouses to each other, 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 2023, 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 annual 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 2023, 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

Details of the related party transactions of the Group during the Reporting Period are set out in note 21 to the consolidated financial statements of this annual report, among which the compensation paid to the Directors constitutes connected transactions of the Company which are fully exempt according to Rule 14A.95 of the Listing Rules.

## 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.

## PERMITTED INDEMNITY PROVISION

During the Reporting Period and up to the date of this annual report, a permitted indemnity provision being in force for the benefit of the Directors of the Company is set out in the Articles of Association of the Company. The Articles of Association is available on the websites of the Stock Exchange and the Company. Directors’ liability insurance has been arranged to cover the Directors of the Company against any potential costs and liabilities arising from claims brought against them.

# 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 annual 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 2023 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 2023, the total sales to these three state-owned conglomerates accounted for approximately 71% (for the year ended 31 December 2022: approximately 54%) of our total revenue. 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 these three state-owned conglomerates. However, following the recent trend in the PRC of opening the oil and gas industries to privately-owned businesses, we have been expanding our customer base as per our customer diversification strategy to diversify our revenue sources, and have achieved eminent effects with decreasing concentration of customers.

### 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 94% of our total cost of sales for the year ended 31 December 2023. 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 to the possible extent 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.

# REPORT OF THE DIRECTORS

## Risks caused by global inflation, regional conflicts and wars

The global inflation, which began in 2021, has gradually eased, yet the current international situation has not improved, regional conflicts have not stopped, and there are still unexpected events happening in international finance, which may still cause significant increases or fluctuations in the prices of our raw and auxiliary materials, and continue to affect our financial performance.

The outbreak of civil war in Sudan in 2023 caused our Sudanese customers to stop production, which significantly affected our export business, and this impact is likely to continue in 2024.

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” in this annual report, no equity-linked agreements were entered into or subsisted by the Company during the Reporting Period.

## CHARITABLE DONATIONS

For the year ended 31 December 2023, our Group made no material charitable and other donations.

## 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 considered relevant. Where required, 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.

A dividend policy was adopted by the Company pursuant to Code Provision F.1.1 of the CG Code.

## FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.02 per Share for the year ended 31 December 2023 (for the year ended 31 December 2022: HK\$0.01 per Share) to shareholders whose names appear on the register of members of the Company on Tuesday, 4 June 2024 (the “**Proposed Final Dividend**”). Subject to the approval of the Shareholders at the Company’s forthcoming annual general meeting to be held on Thursday, 23 May 2024 (the “**AGM**”), the Proposed Final Dividend is expected to be paid on or around Wednesday, 19 June 2024.

# REPORT OF THE DIRECTORS

## CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholder's entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 20 May 2024 to Thursday, 23 May 2024, 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 Friday, 17 May 2024.

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Thursday, 30 May 2024 to Tuesday, 4 June 2024, 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 Wednesday, 29 May 2024.

## EVENTS AFTER THE REPORTING PERIOD

The Board proposed a final dividend of HK\$0.02 per Share for the year ended 31 December 2023 (for the year ended 31 December 2022: HK\$0.01 per Share).

Save as mentioned above and disclosed in note 23 to the consolidated financial statements in this annual report, there are no significant subsequent events after the Reporting Period and up to the date of this annual report.

## 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 2023 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

# REPORT OF THE DIRECTORS

## 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 CG Code 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 code provision C.2.1 of the CG Code which is explained below:

According to code provision C.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.

## TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the company's securities.

## 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 2023 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 2024

# 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 all the code provisions as set out in the CG Code, except for the following deviation from code provision C.2.1 of the CG Code which is explained below:

According to code provision C.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.

## COMPANY'S CULTURE

The Board amended the Company's corporate purpose and culture in 2022 by adding the concept of "To lay priority on safety, waste not, and keep building a green enterprise". Through continuous promotion of our corporate culture, we have achieved significant results. At the end of 2023, our Yixing Plant was honored by the relevant government departments with the title of "Green Plant of Jiangsu Province", becoming the first chemical enterprise in Yixing City to be awarded with this special honor. The Board closely monitors the implementation of corporate governance practices, risk management and internal control systems, as well as the implementation and performance evaluation of the measures relating to Environmental, Social and Governance to ensure that our corporate governance is consistent with the corporate culture.

## THE BOARD

### Board Composition

As of the date of this annual report, the Board comprises nine Directors including 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 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.

The Board regularly reviews whether each Director has devoted sufficient time to the discharge of his or her duties and responsibilities and the contribution he or she has made to the Company.

# CORPORATE GOVERNANCE REPORT

The positions of both chairman of the Board and chief executive officer of the Company are held by Mr. Ge alone. The chairman of the Board is primarily responsible for coordinating and leading the work of the Board and ensuring the effective operation of the board. The chief executive officer is responsible for the overall business development and day-to-day operations of the Group. The reasons why the roles of chairman and chief executive officer are held by the same person are explained in the sub-section headed “Corporate Governance Practices” in this annual report.

## Responsibilities

The Board is responsible for supervising the overall management, overseeing our strategic planning and monitoring 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.

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 Remuneration Committee and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. The Board has also established a special team dedicated to the work of Environmental, Social and Governance (ESG), which carries out its work in accordance with its terms of reference.

The Company has put in place a mechanism to ensure that the Board can always obtain independent views and perspectives. 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.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

As regards to the code provision C.1.5 of the CG Code 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.

# CORPORATE GOVERNANCE REPORT

## 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 2023, 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 judgment.

The Company should also generally not grant any equity-based remuneration with performance-related elements to independent non-executive Directors.

## 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. The Board has reviewed the policy on board diversity during the Reporting Period.

As at the date of this annual report, the Board comprises 9 Directors (2 of whom are female) 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.

## Gender Diversity

The Board currently has two female Directors.

We will also ensure that gender diversity is considered when recruiting staff from mid to senior level, and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female senior management and potential successors to our Board in near future.

The Company plans to offer all-rounded trainings to female employees whom we consider to have the suitable experiences, skills and knowledge of our operation and business, including but not limited to, business operation, accounting and finance, legal and compliance and research and development.

# CORPORATE GOVERNANCE REPORT

As at 31 December 2023, the gender ratio in our workforce for male and female employees were 58.6% and 41.4%, respectively, the details of which have been disclosed in the section headed “Environmental, Social and Governance Report” of this annual report.

## 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 2023 on the topic of Corporate Governance Requirements and Environmental, Social and Governance Consultation Paper provided by our Hong Kong legal advisor and a consulting company.

A summary of trainings received by the Directors for the year ended 31 December 2023 is as follows:

<b>Name of Directors</b>	<b>Attending in-house training dated 26 September 2023</b>
<i>Executive Directors</i>	
Mr. Ge	✓
Ms. Gu	✓
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 or an appointment letter with the Company for a term of three years subject to termination as provided in the service contract or appointment letter.

# CORPORATE GOVERNANCE REPORT

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 or appointment letter 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 of the Company 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 of the Company after appointment. Accordingly, each of Mr. Huang Lei, Mr. Jiang Caijun and Mr. Fan Yaqiang, being eligible, offers himself for re-election at the AGM.

## Anti-corruption Policy

The Company has also established policies and systems that promote and support anti-corruption laws and regulations. We require our employees to follow our employee manual and code of business conduct and ethics, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We also carry out regular on-the-job compliance training to our senior management and employees to maintain a healthy corporate culture and enhance their compliance perception and responsibility. Our staff can anonymously report any suspected corruption incident to the Company.

The anti-corruption policy is reviewed and updated periodically to align with the applicable laws and regulations.

## Whistle-blowing Policy

The Company has established a whistle-blowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, with the Audit Committee or the Board about possible improprieties in any matter related to the Company.

No incident of fraud or misconduct that have material effect on the Group's financial statements or overall operations during the Reporting Period has been discovered or identified.

## 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.

# CORPORATE GOVERNANCE REPORT

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, length of service, and the potential contributions that can be brought to the Board.

## Board Meetings

The Company intends to hold Board meetings regularly at approximately quarterly interval, 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, and reasonable notice will be given for all other Board meetings. A Director may attend the Board meetings in person, or appoint another Director in writing as his/her alternate director 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 C.2.7 of the CG Code during the Reporting Period.

For the year ended 31 December 2023, five Board meetings and one general meeting as well as meetings of the various Board committees were held, and the attendance record of each Director is set out in the table below:

Name of Directors	Attendance/Number of Meetings				
	Board	Nomination Committee	Remuneration Committee	Audit Committee	General meeting(s)
Mr. Ge	5/5	1/1	N/A	N/A	1/1
Ms. Gu	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

# CORPORATE GOVERNANCE REPORT

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix C3 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. The Company is not aware of any incidents of non-compliance with this requirement by any Director or employee of the Company or any director or employee of any subsidiary of the Company during the Reporting Period and up to the date to this annual report.

## Service Contract of Directors and their term of office

Each of the Directors (including executive directors, non-executive directors and independent non-executive directors) has entered into a service contract or an 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 or an appointment letter 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).

## 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 independent professional advice if considered necessary.

### Audit Committee

The Audit Committee comprises three members, namely Mr. Guan Dongtao (chairman), 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 as required under Rule 3.10(2) of the Listing Rules.

# CORPORATE GOVERNANCE REPORT

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, to review remuneration and ensure none of the Directors determine their own remuneration, and to review and/or approve matters relating to the Share Option Scheme pursuant to Chapter 17 of the Listing Rules.

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 their associates was involved in regard to the relevant resolution approving their own remuneration.

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

## Nomination Committee

The Nomination Committee currently comprises three members, including one executive Director, namely Mr. Ge (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 the nomination of 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 REPORT

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions as set out in provision A.2.1 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 service contracts or appointment letter, 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 regard to the relevant resolution approving 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 2023 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).

## RESPONSIBILITIES FOR FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the financial statements for the year ended 31 December 2023 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.

# CORPORATE GOVERNANCE 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. The Audit Committee is responsible for reviewing and supervising our financial reporting process and internal control system. The Board has reviewed the effectiveness of the risk management and internal control system of the Group for the Reporting period to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards.

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;
- 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;
- We implemented relevant policies in relation to our social insurance fund and housing provident fund to ensure compliance; and
- We have implemented an anti-corruption & fraud system and a whistle-blowing system. We require relevant employees to sign a pledge against commercial bribery and corruption, and provide our staff with annual anti-corruption training.

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 semi-annual basis. The Board also regularly reviews and assesses the risk status of the Group in terms of governance structure, strategy, operation (covering sales, cost control, production, quality control, research and development, innovation, safety, environmental protection and employee health protection, etc.), finance, personnel, legal and compliance, etc.

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

# CORPORATE GOVERNANCE REPORT

## 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 2023 was analyzed below:

<b>Service category</b>	<b>Fees RMB</b>
Audit services	
– audit and review services on financial statements of our Group	1,230,000
– statutory audit of a subsidiary	35,000
Non-audit services	
– tax compliance services	29,000
	<hr/>
	1,294,000

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

## JOINT COMPANY SECRETARIES

Mr. Tan Qian (談前) (“**Mr. Tan**”) is one of the joint company secretaries of the Company. Ms. Yu Anne (余安妮) (“**Ms. Yu**”), an assistant manager 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, the other joint company secretary, is the primary corporate contact person of the Company for Ms. Yu.

Both Mr. Tan and Ms. Yu 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.

# CORPORATE GOVERNANCE REPORT

## 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY AND PERFORMANCE

The Group lays great importance on safety, environmental protection, employees' occupational health and sustainable development. Through continuous upgrading of relevant facilities and improvement of management, the Group have been doing well in safe production, energy saving, emission reduction and cutting material consumption. The Group strictly complies with the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix C2 to the Listing Rules. The information on the Group's environmental, social and governance policies and performance during the Reporting Period is set out in the section headed "Environmental, Social and Governance Report" of this annual report.

## COMMUNICATION WITH SHAREHOLDERS

The Group is committed to enhancing long-term shareholder value through regular communication with its shareholders, both individual and institutional. To this end, the Group strives to ensure that all shareholders have ready and timely access to all publicly available information of the Group. The Shareholders Communication Policy sets out the framework the Company has put in place to promote effective communication with shareholders so as to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

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

Shareholder communication has been effective during the Reporting Period as Shareholders can raise questions to the Directors at the AGM and contact details are available for Shareholders to contact the Company directly. The Board reviewed the implementation and effectiveness of the Shareholders Communication Policy and the results were satisfactory.

## CONSTITUTIONAL DOCUMENTS

During the Reporting Period, the Company made amendments to the Memorandum and Articles of Association, which were approved by the Shareholders on the AGM held on 25 May 2023 and became effective on the same day. The amendments were mainly for the purpose of: (i) conforming to the Core Standards for issuers' shareholder protections as required under Appendix A1 to the Listing Rules; (ii) enabling the Company to have general meetings to be held in physical form, hybrid form or electronic form; and (iii) incorporating certain housekeeping changes. The Second Amended and Restated Memorandum and Articles of Association of the Company are available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.jscxsh.cn>), respectively.

## INVESTOR RELATIONS

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 for Shareholders, stakeholders and potential investors to keep abreast of the latest developments of the Company and the market.

## ENQUIRIES TO THE BOARD

The Company encourages Shareholders to attend Shareholders' meetings and make enquiries to the Company by either directly raising questions to the Board and Board Committees at the general meetings or sending written notice of such enquiries 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 (phone number: +86 510 87821777; fax: +86 510 87869777; 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 2023. This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “**Guide**”) under Appendix C2 of the Listing Rules.

### Reporting Standards

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 C2 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 improper misleading to readers’ decision, judgment and choice or causing omission or incorrect reporting format.

### Scope

This report covers the overall performance of our Group in various aspects, including environmental protection, employee protection, safe production and performance of social responsibilities from 1 January 2023 to 31 December 2023. 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.

### Statement of the Board

The Group has integrated environmental, social and governance matters into its core strategy and ensures that positive environmental and social effects are prioritized in its daily operations. The Group is committed to the principles of sustainable development and holds itself accountable to environment, society and all the stakeholders. In recent years, the Board has redefined the mission and culture of the Company, making “ To lay priority on safety, waste not, and keep building a green enterprise” the cornerstone of our corporate culture, and is now actively carrying out the related practical measures. After several years of unremitting efforts, the Group’s production entity, Jiangsu Chuangxin Petrochemical Co. Ltd. (“**Jiangsu Chuangxin**”), was awarded the title of “Green Factory of Jiangsu Province” at the end of 2023. Looking ahead, the Group will continue to maintain and strengthen its environmental protection efforts. The Group has established a special team dedicated to our environmental, social and governance work (the “**ESG Team**”), which is always fully responsible for identifying, evaluating and determining the risks and opportunities faced by the Group in the ESG aspects and reporting to the Board on a regular basis. As a chemical enterprise, safety is the lifeline of the Group. The Group strives to achieve the goal of zero safety incidents and casualties in both the short and long term through continuous improvement of safety facilities and management systems. In aspects of environmental protection and combating climate change, we will further improve our management strategies in energy conservation and resource recycling, and strive to achieve continuous reduction in energy and water consumption, exhaust gas emission, greenhouse gas emission and waste generation, aiming at maximizing economic benefits with minimum resource inputs. In addition, the Group will make long-term investment in the research & development of more oil refining agents and fuel additives, so as to help the oil refining industry and the transportation industry reduce emissions and thereby actively contribute as much as possible to environment protection and climate change response, and assisting our country in achieving its carbon peaking and carbon neutrality targets.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The ESG Team established by the Board consists of totally about 8-10 persons, including an executive director and the relevant department managers or the person in a department with job functions relating to ESG. The executive director of the ESG Team is an executive director of the Company and the secretary of the ESG Team is a company secretary of the Company. The executive director of the ESG Team is to be appointed and removed by the Board, and other members of the ESG team are to be appointed and replaced by the executive director and then filed with the Board for record.

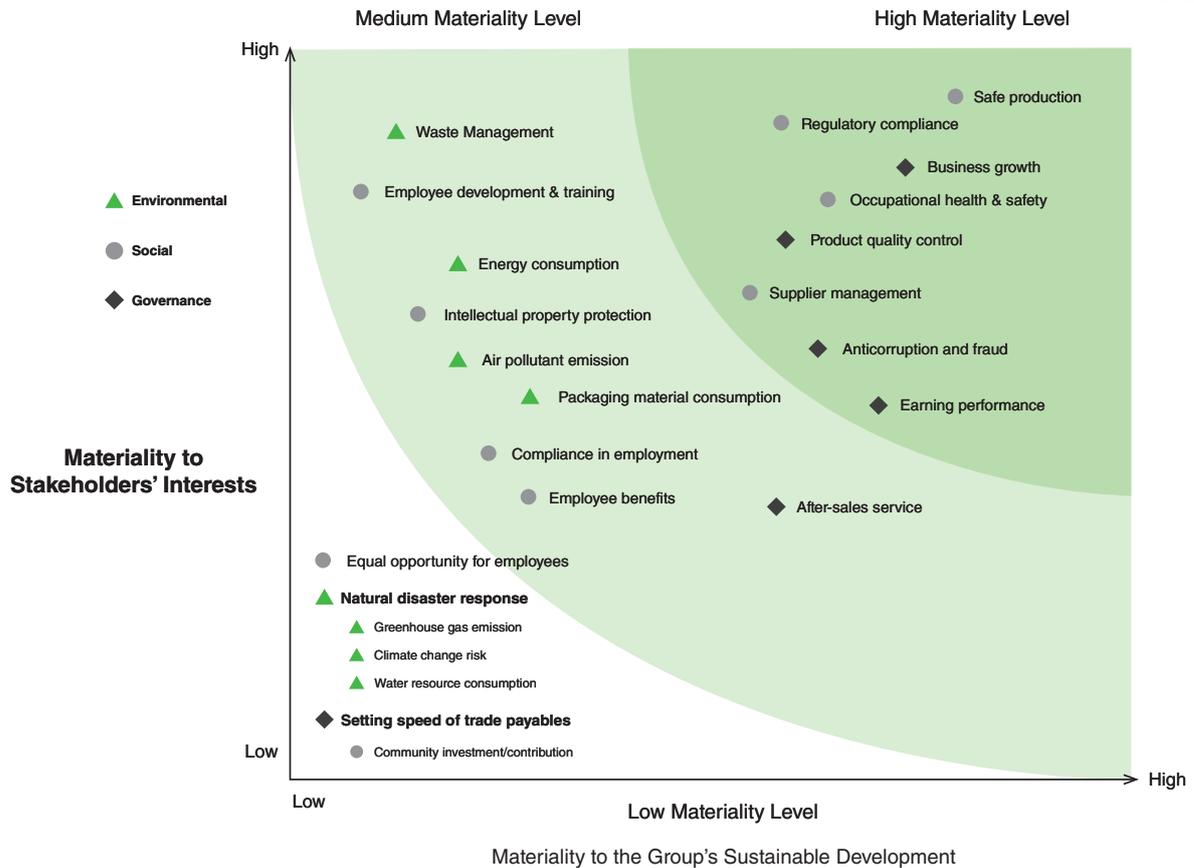
The functions of the ESG Team include: (1) identifying, determining and assessing the Group's risks and opportunities relating to ESG and reporting to the Board; (2) ensuring that there are effective risk management and internal control systems in place to manage ESG risks; (3) identifying, assessing and determining ESG issues of importance to the Group's operations or stakeholders' interests; (4) making recommendations to the Board on the allocation of resources in ESG plans; (5) developing and establishing ESG policies and procedures to guide the implementation of relevant ESG plans; (6) reviewing the Group's ESG policies and procedures to ensure that they are effective and fit for purposes; (7) monitoring and reviewing the Group's operations to ensure that they comply with relevant ESG policies and procedures as well as applicable laws and regulations and international standards; (8) overseeing the implementation of the Group's ESG strategy and plans; (9) setting relevant targets to measure the achievement of ESG plans and developing continuous improvement plans for ESG performance; (10) measuring and evaluating the Group's performance against the ESG targets and reporting to the Board, and making recommendations on necessary actions to improve performance; (11) ensuring that adequate trainings relating to ESG are provided to relevant employees; (12) overseeing the stakeholder engagement and materiality assessment procedures to ensure effective communication and relationship with stakeholders and also to maintain the Group's reputation.

In order to better coordinate the stakeholders' wishes with the Group's sustainable development objectives, further define the management focus of the Group's ESG work and implement the Group's sustainable and high-quality development strategy, the Board has formulated relevant ESG materiality issues with reference to the Guide set out in Appendix C2 of the Listing Rules and discussed and ranked the materiality of the relevant issues with the Group's managerial staff and ordinary employees and the key stakeholders, thereby we worked out the practical matrix of our ESG materiality issues, which serves as the basis for our annual ESG development strategy and the preparation of the ESG report.

The Board has identified issues of high materiality, including safe production, regulatory compliance, business growth, occupational health and safety, product quality control, supplier management, anti-corruption & fraud and earning performance profitability; issues of medium materiality, including waste management, employee development and training, after-sales service, energy consumption, air pollutant emission, packaging material consumption, compliance in employment, employee benefits and intellectual property protection; and issues of low materiality, including equal opportunity for employees, natural disaster response, greenhouse gas emissions, climate change risk, water consumption, community investment/contribution and settling speed of trade payables.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's ESG Materiality Matrix in 2023:



The Group is committed to achieving an overall reduction of approximately 10% in energy and water consumption, exhaust gas and greenhouse gas emissions and waste output over the next five years, with the aim of highest efficiency of resource utilization and maximum economic benefits. For such specific and quantifiable targets, the Board will conduct statistics collection, performance evaluation and adjustment on an annual basis. In our daily business operations and corporate management practices, the Group will vigorously promote and practice the corporate culture of “To lay priority on safety, waste not, and keep building a green enterprise”. The Group will continue to enhance employees’ awareness of energy saving and emission reduction and increase their active participation; strengthen the recovery and recycling of packaging materials; actively promote technological innovation to explore the potentiality for energy saving and consumption reduction; and strive to achieve 100% first-time pass rate of our products to avoid wastage of raw materials, while ensuring the quality of our products and minimizing costs. Further, the Group will make long-term investment in the research & development of more oil refining agents and fuel additives, so as to help the oil refining industry and the transportation industry reduce emissions and thereby actively contribute as much as possible to environment protection and climate change response, and assisting our country in achieving its carbon peaking and carbon neutrality targets.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. ANALYSIS OF ENVIRONMENTAL PERFORMANCE OF OUR GROUP

The Group is primarily engaged in the development, production and sale of oil refining agents and fuel additives, of which oil refining agents include desulfurizers, metal passivators, corrosion inhibitors, anti-scaling agents, etc., fuel additives include diesel lubricity improver, gasoline stability additives, etc. These series of oil refining agents and fuel additives are intended for effectively reducing harmful emissions, enhancing the efficiency of the oil refining process, inhibiting equipment corrosion, extending equipment life, improving engine combustion efficiency, reducing exhaust emissions, and thereby realizing the full use of resources and environmental protection and conforming to the increasingly stringent national environmental protection regulations. In response to our country's call to improve fuel quality and reduce harmful exhaust emissions and to protect the environment, the Group has successfully developed a new-type automotive gasoline detergent (carbon deposit remover) by utilizing the funds raised in the capital market. This product is able to keep the engine's fuel supply and combustion systems clean and lubricated to ensure optimal engine performance, thereby reducing fuel consumption and emissions. The Group is committed to environmentally friendly production, actively advocating energy saving and carbon reduction, and strictly abide by the international standards of the "Quality Management System", the "Environmental Management System" and the "Occupational Health and Safety Management System". Throughout the whole course of raw material procurement, control of the production process and the delivery of the products, we implement stringent quality monitoring and management on each and every link, so as to ensure that the "high standard and strict requirement" principle is always followed in the Group's work relating to safe production and environmental protection.



New-type automotive gasoline detergent (carbon deposit remover) developed by the Group

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group takes scientific and technological innovation as its core driving force to promote green and low-carbon development. The Group continuously strengthens the construction of technological innovation system and consolidates its leading position in the field of oil refining agents and fuel additives, and provides solid technological support for the development of the modern industrial system as well as the goal of building environmentally friendly enterprises. In 2023, the Group was once again awarded the certificate of “High and New Technology Enterprise” by the Department of Science and Technology of Jiangsu Province, the Department of Finance of Jiangsu Province and the State Administration of Taxation Jiangsu Bureau, and was recognised as a “Specialized, Refined and Innovative Small or Medium-Sized Enterprise of Jiangsu Province” by the Department of Industry and Information Technology of Jiangsu Province.



The Group was once again awarded the certificate of “High and New Technology Enterprise”



The Group passed the certification of “Specialized, Refined and Innovative Small or Medium-Sized Enterprise of Jiangsu Province”

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Policies and Regulations	Date of issuance and Issuer	Main content
Opinions on Accelerating the Establishment of a Product Carbon Footprint Management System* (關於加快建立產品碳足跡管理體系的意見)	13 November 2023, National Development and Reform Commission, Ministry of Industry and Information Technology, State Administration for Market Regulation, etc.	By 2025, the national level government will issue about 50 rules and standards for carbon footprint accounting for key products; the carbon footprint background database will be initially completed for a number of key industries; the national product carbon labeling certification system will be basically established; the application scenarios of carbon footprint accounting and labeling in the fields of production, consumption, trade and finance will be significantly expanded; the carbon footprint accounting rules, standards and carbon labeling of a number of key products will have been mutually recognized internationally.
National Climate Change Adaptation Strategy 2035* (國家適應氣候變化戰略 2035)	7 June 2022, Ministry of Ecology and Environment, National Development and Reform Commission, Ministry of Science and Technology, etc.	By 2035, a climate-resilient society will be basically completed. Specific measures are proposed in four areas: strengthening climate change monitoring and warning and risk management, enhancing the capacity of natural ecosystems to adapt to climate change, strengthening the capacity of economic and social systems to adapt to climate change, and building a regional pattern of adaptation to climate change.
Guidance on Coordinating and Enhancing the Work Related to Climate Change and Ecology Environment Protection* (關於統籌和加強應對氣候變化與生態環境保護相關工作的指導意見)	11 January 2021, Ministry of Ecology and Environment	By the year of 2030, the overall synergy between climate change prevention and ecology environment protection shall be fully exerted. The ecological and environmental governance system and governance capacity shall be steadily improved, which shall support the fulfillment of the peak carbon dioxide emission target and the prospect of carbon neutrality and help build a beautiful China.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 PRC 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	To protect and improve the environment, prevent and control air pollution, safeguard public health, speed up the construction of ecological civilization, and promote sustainable economic and social development.
Law of the PRC 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Policies and Regulations	Date of issuance and Issuer	Main content
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 endeavors in the forthcoming three years, in turn to significantly improve the air quality and obviously enhance the happiness of citizens with 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

#### *Total amount and density of 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 2023, our Group emitted nitrogen oxides of 119.48 kilograms, sulfur oxides of 0.22 kilogram and particulate matter of 11.45 kilograms during the course of its production and operation.

The Group's amounts and density of exhaust gas emissions in the year of 2023 are shown by type in the table below:

Type of exhaust gas	Emissions (Unit: kilograms)	Emission density (Unit: kilograms/ RMB million)
Nitrogen oxides (NOx)	119.48	0.639
Sulfur oxides (SOx)	0.22	0.001
Suspended particulate matter (PM)	11.45	0.061
<b>Total</b>	<b>131.14</b>	<b>0.701</b>

*Note:* Exhaust emissions mainly include exhaust gases from the Group's own vehicles.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Total amount and density of emission of greenhouse gas*

The greenhouse gases emitted by the Group mainly originate from the combustion of fuels in its own vehicles and machinery, as well as greenhouse gas emissions such as carbon dioxide generated from the consumption of electricity in its daily operations. The Group's amount of greenhouse gas emissions consists of two parts: direct emissions, which are greenhouse gases directly released into the atmosphere by the Group's production activities; and indirect emissions, which are mainly greenhouse gas emissions generated from the purchase and use of external electric power. The Group emitted a total of approximately 209.66 tons of carbon dioxide equivalent of greenhouse gases in the year of 2023, with an emission intensity of 1.12 tons of carbon dioxide equivalent/million RMB.

As of December 31, 2023, the Group's greenhouse gas emissions are shown in the table below:

<b>Type of greenhouse gas</b>	<b>Direct emission (Unit: ton of carbon dioxide equivalent)</b>	<b>Indirect emission (Unit: ton of carbon dioxide equivalent)</b>
Carbon dioxide (CO <sub>2</sub> )	35.41	168.62
Methane (CH <sub>4</sub> )	0.08	0.04
Nitrous oxide (N <sub>2</sub> O)	4.72	0.80
<b>Total</b>	<b>40.21</b>	<b>169.46</b>

*Note:* Direct greenhouse gas emissions mainly include the greenhouse gases generated by the Group's own vehicles and equipment. Indirect emissions include greenhouse gas emissions indirectly generated by the Group, such as purchase of electricity, etc.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Total amount and density of discharged wastewater and solid wastes*

In the course of its operations, the Group strictly complies with national laws and regulations on the management of pollutant discharge and actively responds to the requirements of the local government's environmental protection policies. In order to ensure the compliance and safety of the discharges, the Group not only continuously holds and regularly renews a valid pollutant discharge license, but also takes a series of proactive measures to strengthen the environmental protection management, including hiring professional wastewater and waste treatment companies with professional qualifications to carry out decontaminating treatment of industrial wastewater and wastes discharged by the Group. Through the implementation of the above measures, the Group has not only ensured the minimization of the impact of its operations on the environment, but also demonstrated the Group's social responsibility and commitment.



The Group always holds a valid pollutant discharge license

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The waste discharged by the Group mainly includes industrial wastewater, waste organic solvents, industrial cleaning articles, used activated carbon and waste paper. In the year of 2023, 585 tons of wastewater was discharged by the Group in 2023, with an emission density of approximately 3.1 tons per million RMB; hazardous wastes generated by the Group included 0.86 tons of waste organic solvents, 0.43 tons of industrial cleaning articles and approximately 1.72 tons of waste activated carbon; and the non-hazardous waste generated by the Group was 0.47 tons of waste paper. Among them, all industrial wastewater generated by the Group has been delivered to the sewage treatment plant for proper treatment and discharged in compliance with the relevant standard; professional waste treatment companies were engaged by the Group to treat the discharged waste organic solvents, industrial cleaning articles and used activated carbon. In 2023, the Group adopted transfer orders with traceable numbers and QR codes when handing over wastes to professional waste treatment companies, which allow the Group to view the flow of hazardous waste in all stages and realize the full-cycle management of hazardous wastes. Paper consumption in 2023 was mainly office paper mostly as tender documents and submissions to government. To reduce paper consumption, the Group's internal non-confidential documents was mainly transmitted through WeChat and email, and paperless office has been implemented. The Group continued encouraging double-sided printing in 2023, and the amount of waste paper generated was 10% of the total paper consumed. At the same time, improving our business operation efficiency and environmental monitoring was the strong measures taken by the Group to further minimize negative impacts to the environment. As of 31 December 2023, the Group's waste charge amount and density are shown in the table below:

Type of waste	Amount of discharge (ton)	Density of discharge (ton/RMB million)
<b>Hazardous Liquid Waste</b>	0.86	0.005
Waste Organic Solvents	0.86	
<b>Non-hazardous Liquid Waste</b>	585.00	3.128
Industrial Wastewater	585.00	
<b>Hazardous Solid Waste</b>	2.15	0.011
Industrial Cleaning Supplies	0.43	
Used Activated Carbon	1.72	
<b>Non-hazardous Solid Waste</b>	0.47	0.003
Waste Paper	0.47	
<b>Total</b>	<b>588.48</b>	<b>3.147</b>

*Note:* Industrial cleaning articles include rags etc. with hazardous materials adhered to them; as the gases adsorbed by the used activated carbon may contain environmentally hazardous substances, the Group categorized them as hazardous waste from 2023 onwards and handed them over to professional waste treatment companies for treatment.

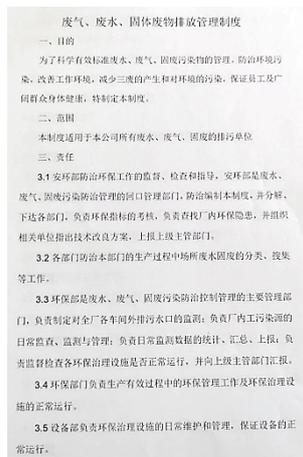
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.2.2 Our Emission Reduction Targets and Measures

### *Emission reduction targets set by the Group and measures implemented*

Benefiting from the adjustments to the Group's production program and the optimization of production processes for products with higher electricity consumption, the total electricity consumption in 2023 dropped significantly, correspondingly, the Group's greenhouse gas emission intensity dropped by approximately 39% year-on-year, meeting the target of a 2% year-on-year reduction in greenhouse gas emission intensity set for the year. Also, the Group's actual wastewater discharge was 585 tons in 2023, meeting the target of reducing wastewater discharge by approximately 3% set at the beginning of the year.

The Group abides by national laws and regulations such as the Environmental Protection Law of the PRC\* (中華人民共和國環境保護法), the Law of the PRC on Prevention and Control of Environmental Noise Pollution\* (中華人民共和國環境雜訊污染防治法) and the Comprehensive Emission Standards for Air Pollutants\* (大氣污染物綜合排放標準), as well as the specific environmental protection and emission requirements of the local government, and has set up a series of corresponding systems to ensure that environmental protection objectives will be realized. These systems include the Management System for Waste Gas, Waste Water, Solid Waste Discharge, which aims to regulate all aspects of hazardous waste generation, collection, storage and transportation, and to provide special trainings to relevant personnel to enhance their professional competence in environmental protection management.



Management System for Waste Gas, Waste Water, Solid Waste Discharge

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group actively responded to the voluntary clean production for Energy Conservation, Emission Reduction & Clean Production Audit, and successfully passed the audit and received the Certificate of Clean Production Audit in March 2020, which is valid for 5 years. In 2023, the Group was awarded the ISO50001 Energy Management System Certification, and granted the honorary title of “Green Factory of Jiangsu Province” by Jiangsu Provincial Department of Industry and Information Technology, becoming the first chemical enterprise in Yixing City to be granted this honor.



Clean production audit certificate



ISO50001 Energy Management System Certificate



Certificate of Green Factory of Jiangsu Province

In addition, the Group has engaged a professional organization to conduct tests on noise, wastewater and exhaust gas of the Yixing Plant, and the test reports showed that all the indicators were in compliance with the relevant standards. In addition, the Yixing plant has installed a number of environmental protection online monitoring equipment, including air VOCs monitoring equipment, COD monitoring equipment, etc., which have not found any item out of the standard limits.



Wastewater and exhaust gas test reports by professional organizations



The plant is equipped with air VOCs monitoring equipment

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has adopted a safe and reliable closed process in its production and has implemented strict monitoring and management for all stages of production to ensure that greenhouse gas emissions are minimized during the production process. In order to further control and minimize possible emissions, the Group has installed a high-efficiency activated carbon gas absorption system in its workshops, which is specifically designed to capture and purify any trace gases that may have escaped. In 2023, the Group upgraded its gas absorption equipment and increased the frequency of activated carbon replacements, so as to safeguard the cutting-edge status and high efficiency of its emission control measures and thereby minimize the impact on the environment.



Workshops equipped with activated-carbon gas absorption system

*Wastewater and solid waste treatment methods and the targets and measures to reduce the amount of waste generation*

- Professional companies engaged to treat wastes

In order to prevent the risk of pollution and ensure that the sites and facilities are kept clean, environmentally friendly and hygienic, the Group properly collects and stores solid wastes in special warehouses qualified for environmental protection in strict accordance with the relevant national regulations; the Group has set up a comprehensive record-keeping ledger system to record in detail the sources, types and quantities of wastes and their disposal. The Group entrusts professional companies with appropriate qualifications to treat solid wastes in a safe and environmentally friendly manner so as to minimize their potential impact on the environment. The Group has engaged Yixing Water Quality Monitoring Center Company Limited to conduct stringent tests on the wastewater discharged by the Group on a regular basis, covering key indicators such as PH value, chemical oxygen demand, ammonia nitrogen content, total phosphorus content and total nitrogen content. Up to the end of 2023, the wastewater discharged by the Group was all in compliance with the relevant environmental protection standards and had not caused any adverse impact on the surrounding environment.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Tankcontainers instead of packing barrels

In the course of cargo transportation, the Group mainly uses tankcontainer trucks for transportation operations and strongly recommends suppliers to use as first choice high standard tankcontainer trucks, which are non-leakage, non-toxic, ageing-resistant, impact-resistant, corrosion-resistant and have a longer service life, to replace traditional packaging containers. The aim is to reduce the waste generated by packaging materials, especially for the transportation of chemical liquids and products, for which tankcontainer trucks can provide a safer, more efficient and environmentally friendly transportation solution. Therefore, the Group's adoption of tankcontainer trucks to replace packaging containers not only saves packaging costs, but also achieves the dual objectives of improving transportation safety and protecting the environment. In 2024, the Group will continue to expand the coverage of the use of tankcontainer trucks for cargo transportation and actively promote the adoption of reusable tankcontainer trucks by its suppliers in replacement of packaging drums, thereby further consolidating our commitment to environmental protection and resource conservation.

- Steam condensate and rainwater as circulating cooling water

The Group is committed to the efficient use of water resources and environmental protection. Through a well-designed system that collects and utilizes steam condensate and rainwater as recycled cooling water, high-temperature condensate discharged from the steam system is efficiently recycled and reintroduced into the production process for cooling purposes. This measure significantly reduced the need for cooling water in the production process and eminently lowered the consumption of water resources.

- Harmonized recycling of wastes by suppliers

In order to actively respond to the environmental protection policies and reduce the consumption of packaging materials and the output of wastes, the Group has signed a series of cooperation agreements with its partners on the recycling and reuse of packaging materials, which require packaging suppliers to be responsible for the recycling of all the used packaging materials and reprocessing or reuse them, so as to reduce packaging costs and optimize the allocation of resources. The Group strictly requires its suppliers to comply with environmental regulations throughout their production process to ensure that wastes are handled in a timely, reasonable and standardized manner. We encourage our suppliers to adopt effective waste management strategies to promote waste separation, recycling and reuse, so as to achieve a win-win result in terms of environmental and economic benefits.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Newly built high-purity oleic acid production plant

The Group is committed to the development and production of environmentally friendly products. The Group utilized the proceeds from the IPO and invested in the establishment of high-purity oleic acid production facility, being first in China without wastewater discharge, which has substantially reduced the Group's water consumption and significantly alleviated the impact of industrial wastewater on the environment, and pushed the Group forward towards the goal of zero wastewater discharge. This high-purity oleic acid production facility is not only a key component of the Group's sustainable development strategy, but also an important manifestation of the Group's green corporate image, reflecting the Group's strong commitment to ecological protection and the philosophy of sustainable operation.

- Posting of emission reduction targets in prominent spots

In order to further enhance the Group's employees' awareness and practice of environmental protection, the Group has posted simplified "Quality and Environment Policy" and "Quality, Environment and Occupational Health and Safety Targets" in prominent spot in every production area, so as to ensure that employees bear in mind the Group's firm commitment to energy conservation, emission reduction and clean production. We have posted the simplified "Quality and Environment Policy" and "Quality, Environment and Occupational Health and Safety Targets" at the locations to ensure that employees remember the Group's firm commitment to energy conservation and clean production. The Group's core policy on waste discharge is to "keep water, gas and solid wastes 100% within the limits". Through these measures, the Group strives to minimize the negative impact on the environment by implementing waste reduction in our daily production activities.

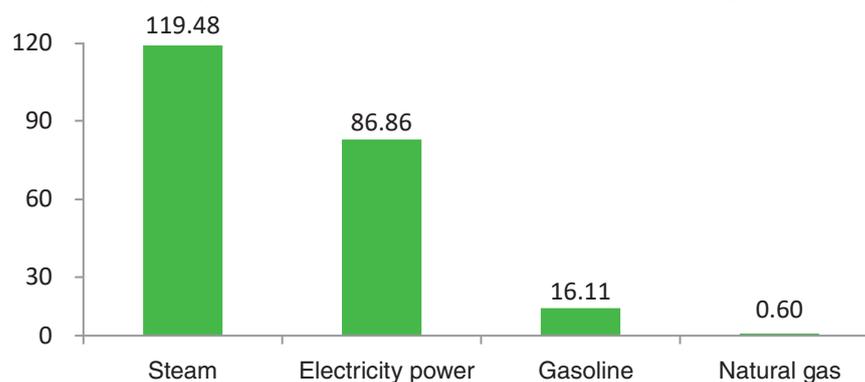
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.3 ANALYSIS OF USE OF RESOURCE BY THE GROUP

### 2.3.1 Main Energy Consumption Structure of the Group

In 2023, the total energy consumed by the Group in its operation is approximately 223.05 tons of standard coal equivalent, with an energy consumption intensity of approximately 1.19 tons of standard coal/RMB million, of which 53.6% was steam, 38.9% was electricity, 7.2% was gasoline and 0.3% was natural gas.

**Comparison of Different Types of Energy Consumed  
by the Group in 2023**  
(Unit: tons of standard coal equivalent)



In 2023, our Group consumed a total of approximately 15.0 thousand liters of gasoline, 215,000 KWH of electric energy, 625.0 cubic meters of natural gas, 1,230.0 tons of steam and 6,800.0 tons of water resources.

The resource consumption of the Group in 2023 is shown by type in the following table:

Type of energy	Unit	Consumption amount
Gasoline	Litre	15,000.0
Electric energy	Kilowatt-hour	215,000.0
Natural gas	cubic meter	625.0
Steam	ton	1,230.0
Water	ton	6,800.0

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

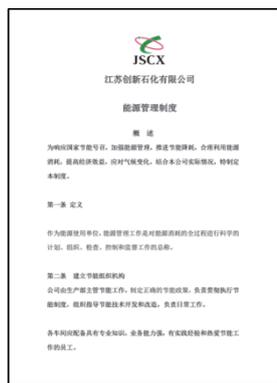
Resource consumption density of our Group in 2023 is shown in the following table:

Type of energy	Unit	Consumption density
Gasoline	Litre/RMB million	80.2
Electric energy	Kilowatt-hour/RMB million	1,149.7
Natural gas	cubic meter/RMB million	3.3
Steam	ton/RMB million	6.6
Water	ton/RMB million	36.4

## 2.3.2 Energy Efficiency Targets and Measures Taken

In the year of 2023, the Group strictly complied with the Energy Conservation Law\* (中華人民共和國節約能源法) and other relevant laws and regulations of the PRC, and continued to enhance the efficiency of energy utilization. In order to achieve rational use of energy, reduce consumption and enhance the efficiency of energy and resource utilization, the Group implemented the following measures: (1) formulated the “Energy Management System” to carry out scientific planning, organization, inspection, control and supervision of the entire energy consumption process by establishing an energy conservation management team, launching energy conservation education, managing energy use and energy-intensive equipment and measuring and supervising energy consumption; (2) established a three-level energy measurement system to implement energy measurement and management; through the installation of independent power meters in each workshop to ensure that the power factor does not fall below 0.95; through a reward and punishment mechanism to put the responsibility of energy conservation into the workshops and individuals; standardized the energy use process of each workshop; and promoted the improvement of energy-use efficiency in the production process; In 2023, the Group passed the audit to the energy management system conducted by a professional organization and obtained the ISO50001 energy management system certificate; (3) the Group posted the simplified “Quality and Environment Policy” and “Quality, Environment and Occupational Health and Safety Objectives” at prominent spots in the factory, which clearly requires to keep “water, gas, sound and solid wastes 100% within the limits”, so as to continuously raise the employees’ awareness of environmental protection and their behavioral norms; (4) following the replacement made in recent year of the lighting in workshops and on the roads with LED lamps, which are environmentally friendly and have a longer lifespan and consume less energy, the Group further replaced the road lighting with solar lamps in 2023; during 2022-2023, the Group also replaced some of the existing electric motors with high-efficiency and energy-saving explosion-proof electric motors to further conserve electricity; (5) In 2023, the Group upgraded the production technology of some of its products and adopted piped steam provided by a nearby cogeneration power plant in place of the original natural gas, which significantly enhanced the safety of the production process and effectively reduced the consumption of natural gas resources, thus bringing about positive effects to the environment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



Energy Management Policy



Simplified Quality/Environment Policy and Health and Safety Objectives

At the beginning of 2023, the Group set relevant energy use efficiency targets, including reducing total electricity consumption by approximately 3% and total water consumption by approximately 3% per annum calculated on the basis of equal product sales volume. In 2023, the Group undertook a series of targeted technological and management improvement measures to improve energy efficiency and sustainability. In detail, the measures included redesigning the production technology for some products to reduce energy consumption; fine-tuning and optimizing the production process of products with high energy consumption, and carrying out DCS (distributed control system) upgrades in production process to improve automation and control precision and reduce energy waste. In addition, through the in-depth application of refined management tactics, the Group further explored its energy-saving potentiality and effectively reduced its overall energy consumption. Due to the collective effects of these measures, the Group's total electricity consumption significantly dropped, which outperformed the energy saving and emission reduction targets set by the Group, and at the same time, the total water consumption was also effectively controlled and reduced.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *2.3.3 Method of Water Taking, Plan for Improvement of Water-use Efficiency and the Results Achieved*

In the year of 2023, the Group utilized water resources in strict accordance with the Regulations on Water Taking and Levy of Water Resource Fees\* (取水許可和水資源費徵收管理條例) and all relevant laws and regulations and the requirements of local governments, and adopted various measures to improve water use efficiency and reduce water consumption. Specific measures include: (1) to save water in the production process, the Group successfully developed the first high-purity oleic acid production plant in China that produces no wastewater, which does not discharge wastewater during its operation, thereby effectively avoids the impact of traditional wastewater treatment on the environment, reduces water consumption, lowers wastewater treatment cost of the Group, and helps the Group achieve its long-term environmental protection goals and stable operation; (2) in order to improve the efficiency of water use, the Group has installed automatic-sensor water-saving flushing devices in some of its restrooms, which solves the problem of water leakage that may occur with traditional flushing devices and reduces the waste of water resources; (3) the Group has also fully utilized wastewater in other aspects, for example, collecting steam condensate for use as recycled cooling water, which not only reduces wastewater discharge but also improves the operational efficiency of the equipment; the Group also collects rainwater for use as fire-fighting water, which ensures sufficient backup water sources and rationalizes the use of water. Through the implementation of such comprehensive measures as said above, the Group has achieved good results in water resource management and the total water consumption in 2023 declined comparing with 2022, playing a positive role in improving water utilization.

## *2.3.4 Total Volume of Packaging Materials Consumed for Finished Products and the Unit Consumption*

The packaging materials for the Group's products are mainly plastic barrels and metal barrels. The total volume of packaging materials used by the Group for finished products in 2023 was approximately 157.0 tons, with a consumption intensity of approximately 0.8 tons per million RMB, of which 92.0 tons of plastics were consumed with a consumption intensity of approximately 0.5 tons per million RMB and 65.0 tons of metals were consumed with a consumption intensity of approximately 0.3 tons per million RMB.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.4 ANALYSIS ON ENVIRONMENT AND NATURAL RESOURCES

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

The Group conducts its business operation in compliance with the relevant laws and regulations such as the 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) and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes\* (中華人民共和國固體廢物污染環境防治法), etc., and implements strict control over all types of emissions and pollutants. In its operations, the impact of the Group's business activities on the environment and natural resources is mainly reflected in the consumption of resources, emissions of exhaust gases and greenhouse gases, as well as the discharge of wastes. In order to follow the national environmental protection policies, the Group strictly enforces safety and environmental protection standards in its production activities and ensures that all emissions and pollutants are properly treated. Through meticulous testing and recording of emissions and pollutants, the Group ensures that all indicators comply with national environmental protection laws and regulations as well as emission standards, minimizing its negative impacts on the environment and natural resources and fulfilling its responsibility for environmental protection.

The Group holds a valid ISO14001 Environmental Management System Certificate and operates in strict accordance with the requirements of the system. The Group integrates environmental protection into corporate management to ensure its effective implementation in the process of product production. By strengthening environmental education and publicity and enhancing employees' awareness of environmental protection, the Group has established a set of target responsibility system from the senior management to the grassroots teams, forming a complete management network. The Group ensures that responsibilities are clearly defined and rewards and penalties are clearly delineated as a means to minimize potential harm to the environment and human health due to production activities, and have actively adopted an environmentally friendly and resource-saving development model. The Group's relevant measures to minimize negative impacts on the environment and natural resources include:

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## – *Energy management system in place*

In order to actively respond to the national call for energy conservation and emission reduction, the Group has carried out an overall enhancement of its energy management, aiming to promote the rationalization of energy (electricity, steam, gasoline, etc.) consumption and actively respond to the challenges of climate change. Based on the Group's actual operating conditions, the Group has formulated an Energy Management System and successfully obtained the certification of ISO50001 Energy Management System. The Group has formulated a series of detailed specifications and standards to address the specific needs of each department in energy management, including but not limited to reducing material consumption, eliminating wastes and improving the efficiency of energy use. The production department, as the leader of the energy saving work, is responsible for establishing scientific energy saving strategies, ensuring the effective implementation of energy saving policies and leading the research and development of energy saving technologies and the system modification work, so as to ensure that the energy management work is comprehensively promoted and efficiently implemented.

## – *Energy saving and consumption reduction in the production process*

In respect of raw and auxiliary materials, the Group adheres to the concept of resources saving and strictly monitors the production process to ensure that the quality of products meets the highest standards, with a passing rate close to 100%. In the past three years, there has not been any return of sold products due to quality defects, effectively avoiding the waste of resources.

In respect of electricity, the Group replaced road lighting with solar lights and replaced some electric motors with energy efficient and explosion-proof motors in 2022-2023, so as to conserve energy as much as possible and improve the efficiency of energy use.

In terms of water resource, the Group has adopted water-saving production processes. For example, in the production of high-purity oleic acid, the Group has established the first zero-wastewater production plant in China, which not only significantly reduces water consumption, but also meets the environmental standard of zero wastewater discharge. In addition, the Group has optimized water recycling by using steam condensate and rainwater as recycled cooling water and collecting rainwater for fire-fighting purposes, further enhancing the comprehensive utilization efficiency of resources.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

– *Control of emissions and waste discharge*

The Group adopts a closed production process to minimize the emission of exhaust gases during production. On this basis, the Group has deployed high-efficiency activated-carbon exhaust gas treatment units in the core production areas, and in 2023, the Group upgraded these units and increased the replacement frequency of activated carbon. Relying on the powerful adsorption capacity of activated carbon and its convenient maintenance characteristics, the units effectively adsorb various complex exhaust gas components and further reduces the exhaust gas emissions. In order to have real time data about the quality of the atmospheric environment, the Group installed VOCs online monitoring equipment in 2022, realizing continuous monitoring of the atmospheric conditions. In terms of solid and liquid waste management, the Group has implemented a strict system of separate collection, and all wastes are stored in designated safe warehouses. For wastes that may cause harm to the environment or human health, the Group engages professional organizations with appropriate qualifications to safely dispose of them in accordance with the regulations on hazardous waste treatment. Meanwhile, the Group commissions professional testing organizations to conduct quality tests on sewage on a regular basis to ensure that it meets the discharge standards before it is treated by the cooperating sewage treatment plants.

– *Participation in voluntary clean production audit*

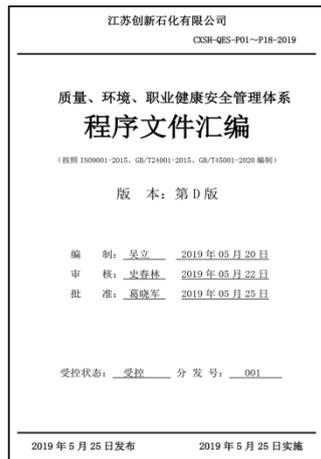
The Group actively participated in the voluntary clean production audit & acceptance program sponsored by the Leading Team Office for Clean Production Audit under the Leading Team of Wuxi City for Energy Conservation and Emission Reduction, and under the professional guidance, assistance and supervision of the authoritative institutions, we successfully passed the audit and was awarded the Certificate of Clean Production Audit. The Group is determined to become a clean production model enterprise by continuously promoting the green development strategy, abiding by the environmental protection and energy saving operation norms, and fully implementing green production management system, which was highly recognized by Jiangsu Province Government and was awarded the title of “Green Factory of Jiangsu Province” in 2023, becoming the first chemical enterprise in Yixing City to be awarded with this honor.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.4.2 Analysis on the Responses to Climate Change

### *Analysis on the measures to cope with climate change*

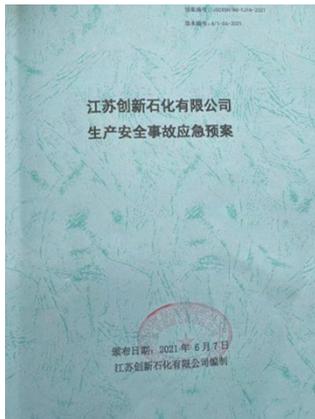
The Group always takes environmental protection as a priority in its daily operation, and has formulated a Procedural Manual for Quality, Environment and Occupational Health and Safety Management System as a guiding document, which involves procedures such as record control, identification and evaluation of environmental factors, and control of environmental operation, and is mandatory for all the Company's departments and projects, as well as for all employees. Regarding significant climate change, the Group has established a comprehensive workflow and response strategy to conduct in-depth evaluation while systematically identifying the key climate change factors that are controllable by the Group in its operational activities, products and services, so as to define important environmental factors and to ensure that relevant information is updated in real time. As of 2023, the Group has not identified any climate-related risks that may have a significant impact on the Group. Besides, the Group's customers are all large-scale enterprises with strong resilience to natural disasters and climate change, and therefore are not expected to have significant impact on our business due to natural disasters or climate change.



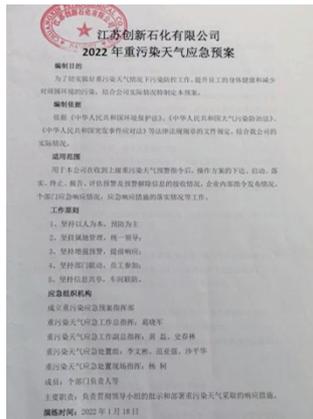
Procedural Manual for Quality, Environment and Occupational Health and Safety Management System

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Based on the geographical location and product characteristics of the Group, it is expected that climate change (rising temperatures, catastrophic weather, etc.) will have a limited impact on the Group's operations. Notwithstanding this, the Group has formulated and implemented an emergency response plan for natural disasters, which has been incorporated into the emergency response plan system for work safety accidents. Due to the Group's favorable geographical location, climatic factors have not yet had a significant impact on its production and operating activities since its establishment. Apart from the production reduction measures that might be taken in case of heavy pollution weather, there are no other PRC governmental and local policies, supervision, technology or market trends that may have a significant impact on the Group's financial operations. Heavy pollution weather is relatively rare in this region, in the event that it does occur, the Group will follow the government's pollution control directives and take necessary production reduction measures. In addition, the Group has set up public signboards in the production area for heavy pollution weather warning and emergency response to ensure that it can respond promptly to unexpected weather events and natural disasters.



Emergency plan for safety accidents in production



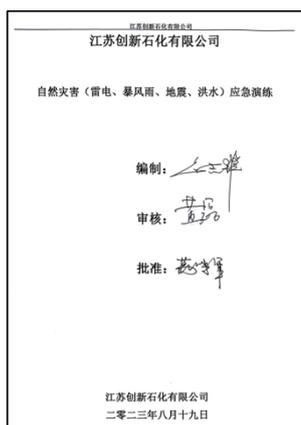
Emergency plan for heavy pollution weather



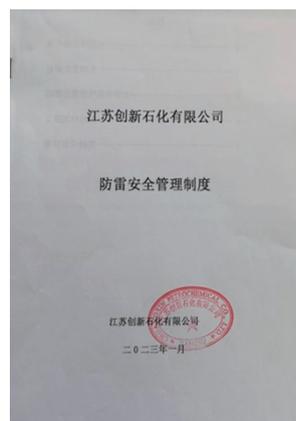
Public signboard for heavy pollution weather emergency response and control

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With reference to the professional guidance of relevant government departments, the Group has formulated and implemented a set of emergency response plans for possible natural disasters. This set of plans covers emergency response and rescue operations for a wide range of natural disasters such as earthquakes, typhoons and rainstorms, and is complemented by a full range of safety and security measures, including transportation, public security, medical, logistical and financial measures. The Group conducts regular safety training and drills to enhance the ability of employees to respond to emergencies. Meanwhile, although lightning strikes are extremely rare in this region, the Group has also formulated a specialized lightning safety management system and an emergency plan to ensure that the lives and properties of the Group and its employees are not threatened.



Natural Disaster Emergency Drill Plan



Lightning Safety Management System

## 3 ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY

### 3.1 ANALYSIS ON CURRENT EMPLOYMENT SITUATION

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

The Group strictly complies with the Labor Law of the PRC\* (中華人民共和國勞動法), the Labor Contract Law of the PRC\* (中華人民共和國勞動合同法) and other labor laws and regulations, and has formulated a Human Resources and Talent Management System. The Group reasonably sets job posts according to the needs of production and operation, formulates the responsibilities of the posts and the standards of employment, selects the right person for each post, matches persons with jobs, carries out open and fair recruitment to select employees on merit, treats all the job applicants equally, eliminates gender and geographical discrimination. The Group always adopts the standard version of labor contracts provided by the Human Resources and Social Security Bureau of the local government.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As of 31 December 2023, the details of the Group's employees in service were as follows:

	Number of employees at the end of 2023	Percentage
<b>By employment type</b>		
Full Time	58	100.0%
Part Time	0	0.0%
<b>By gender</b>		
Male	34	58.6%
Female	24	41.4%
<b>By academic qualification</b>		
University and above	12	20.7%
College	16	27.6%
Technical school	19	32.8%
High school	8	13.8%
Junior middle school	3	5.2%
<b>By age group</b>		
≤25	0	0.0%
26-30	4	6.9%
31-35	8	13.8%
36-40	3	5.2%
41-45	4	6.9%
46-50	15	25.9%
51-55	16	27.6%
≥56	8	13.8%
<b>By departments</b>		
Production Department	17	29.3%
R&D Department	13	22.4%
Administration Department	11	19.0%
Marketing Department	7	12.1%
Finance & Accounting Department	6	10.3%
Quality Control Department	2	3.4%
Procurement Department	2	3.4%
<b>By job location</b>		
Jiangsu Province	58	100.0%
Outside Jiangsu Province	0	0.0%

As of 31 December 2023, the total number of employees of the Group was 58, all of whom were full-time employees and were working in Jiangsu Province.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

By gender, the number of male employees is 34 (58.6%) and the number of female employees is 24 (41.4%). In order to maintain the work-life balance of female employees, the Group makes every effort to ensure that female employees are entitled to various types of leaves and insurance in accordance with the law. 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, and that female employees can enjoy favorable treatment during pregnancy, childbirth and breastfeeding in accordance with national and local regulations. In addition, the Group actively organizes various cultural activities to enrich the amateur life of employees and create a more harmonious working environment.

By age group, 20.7% of employees were 35 years old or younger, 37.9% were aged 36-50, 27.6% were aged 51-55 and 13.8% were aged 56 or above. The Group's workforce is diversified in terms of age distribution, with employees of different age groups playing important roles in their respective fields and working together to drive the Group's development.

By academic qualifications, as a high and new technology enterprise, the Group has 48.3% of staff with college degree or above and 32.8% of staff graduated from technical schools, meanwhile, it owns a number of senior engineers and senior experts, and its high-quality talent team provides strong support and guarantee for the Group's sustainable development and innovation.

By functional departments, there are 17 employees in our Production Department, 13 in our R&D Department, 11 in our Administration Department, 6 in our Finance & Accounting Department, 7 in our Marketing Department, 2 in our Quality Control Department, and 2 in our Procurement Department, totaling 58 employees, of which 51.7% are in the Production and R&D Departments, which shows that the Group attaches great importance to the production and research and development activities. All departments of the Group work closely together to provide the necessary support and services for the overall operation of the Company.

### *Employee turnover by major indicators*

During the Reporting Period ended 31 December 2023, the Group had a total turnover of 8 employees, representing approximately 13.8% of the total number of employees in service. The Group's employee turnover was mainly from the Production Department and Administration Department, accounting for a total of 62.5%, while no employee turnover happened in Finance & Accounting Department in 2023.

By age groups, among the employees quitted, 25.0% was aged 26 to 30; 37.5% was aged 51-55; 12.5% was for each of the age groups of 31 to 35, 36 to 40 and 56 or above; and none of them were under the age of 25 or between the ages of 41 and 50.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As of 31 December 2023, the Group's employee turnover was as follows:

	Employee Turnover in 2023	Percentage
<b>By employment type</b>		
Full Time	8	100.0%
Part Time	0	0.0%
<b>By gender</b>		
Male	4	50.0%
Female	4	50.0%
<b>By departments</b>		
Production Department	2	25.0%
Administration Department	3	37.5%
Marketing Department	1	12.5%
Quality Control Department	1	12.5%
Finance & Accounting Department	0	0.0%
Others	1	12.5%
<b>By age group</b>		
≤25	0	0.0%
26-30	2	25.0%
31-35	1	12.5%
36-40	1	12.5%
41-45	0	0.0%
46-50	0	0.0%
51-55	3	37.5%
≥56	1	12.5%
<b>By job location</b>		
Jiangsu Province	8	100.0%
Outside Jiangsu Province	0	0.0%

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## *Employee benefits and talent incentives*

Our Group explicitly states the rights and benefits of its employees in the employee handbook. The Group follows the national principles of “Equal pay for equal work, more pay for more work” and “Prioritizing performance and taking into account fairness” in the distribution of remuneration. Taking into account the operational characteristics and economic performance of the Group, we provide employees with remunerations including basic salary, performance salary & bonus and various types of subsidies, including meal subsidies, high temperature subsidies, business trip subsidies and seniority subsidies, etc. Besides, the Group also provides employees with benefits such as labour protection appliances, holiday supplies and free medical examination. In addition, in strict accordance with the requirements of the Labor Law of the PRC, the Group pays on time and in full for social insurance such as housing provident fund, pension insurance, medical insurance, unemployment insurance, etc., and enables employees to enjoy statutory salaries, welfares and vacations, and such leaves as work injury leave, sick leave, marriage leave, maternity leave, etc.

The Group has formulated a comprehensive and reasonable Human Resources and Talent Management System, which includes a comprehensive talent incentive mechanism. Through various levels of talent assessment, employee career development planning and remuneration and benefits, this system implements a variety of talent incentive policies, including but not limited to share option incentives, rewards for outstanding employees and multi-skill posts, etc. For employees with outstanding performance, the Group provides annual cash rewards and more opportunities for promotion. For employees who are both proficient in their own posts and skillful for other posts, we will provide corresponding incentives through salary raise, position promotions, etc., so as to promote their professional growth and enhance their personal values.



The Group awards outstanding employees with certificate of merit and cash bonus

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.1.2 Overview of Employees' Health and Safety Assurance

Under the guidance of the Law of the PRC on Safe Production\* (中華人民共和國安全生產法) and the Law of the PRC on Prevention and Control of Occupational Diseases\* (中華人民共和國職業病防治法) and other laws and regulations, the Group continuously strengthens the protection of employees' health and safety, and our production entity, Jiangsu Chuangxin, continuously holds valid "Certificate of Environmental Management System" and "Certificate of Occupational Health and Safety Management System", which proves that the management systems of the Group in terms of the environment and occupational health and safety comply with the international standards, which effectively prevents and controls occupational risks and safeguards the health of employees. Meanwhile, Jiangsu Chuangxin strictly follows the requirements of the government's safety supervision department for safety production, and has been continuously awarded the certificate of the work safety standardization system, and in March 2023, it passed the Grade-II Work Safety Standardization accreditation by the Department of Emergency Management of Jiangsu Province.



Environment Management System Certificate



Occupational Health & Safety Management System Certificate

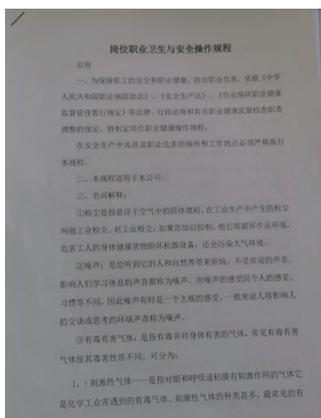


Grade-II Work Safety Standardization Rating by Emergency Management Dept. of Jiangsu Province

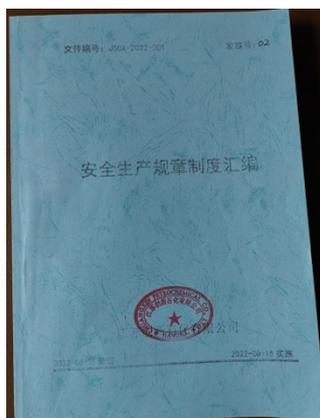
19	林博气体(泰兴)有限公司	危险化学品	泰州
20	森田新源材料(泰兴)有限公司	危险化学品	泰州
21	宿迁鑫耀新材料有限公司	危险化学品	宿迁
22	南京美惠新材料有限公司	化工	南京
23	南京齐泰化工有限公司	化工	南京
24	江苏中蓝新材料科技股份有限公司	化工	无锡
25	江苏海云天新材料有限公司	化工	无锡
26	江苏创新石化有限公司	化工	无锡
27	新沂市永成化工有限公司	化工	徐州
28	江苏航泰新材料有限公司	化工	徐州
29	常州新泰化工发展有限公司	化工	常州
30	巴斯夫(中国)有限公司	化工	南通
31	常州制药厂有限公司	医药	常州
32	浙博(南通)制药有限公司	医药	南通
33	江苏福康康药止有限公司	医药	宿迁
34	湘潭天瑞化工有限公司(矿山单元)	金属非金属 矿山	淮安
35	江苏中蓝智能工程技术有限公司	机械	南京
36	国电南京自动化股份有限公司	机械	南京
37	南京国电南自新能源工程技术有限公司	机械	南京
38	南京立达电力设备有限公司	机械	南京

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

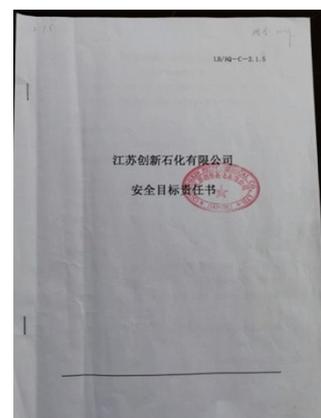
In order to prevent and reduce safety accidents in production and avoid occupational hazards to employees, the Group has formulated a series of systems related to occupational health protection and hygiene management, including the Occupational Health and Safety Operation Procedures for each post, the Workers' Occupational Health Monitoring System and its file management system, the Three-item Simultaneous Management System for Occupational Disease Prevention Facilities, as well as the System for Publicity, Education and Training for Prevention and Treatment of Occupational Diseases, etc., and will continuously perfecting these systems for the health and safety of its employees. The Compilation of Rules and Regulations on Safety in Production formulated by the Group also contains detailed provisions on the employee safety management system, including the management of rewards and penalties and expenses for work safety, the management of signs and labeling, emergency rescue, accountability, etc. On this basis, the Group has publicized the "Employee Safety Duties" in all production areas, with specific requirements including participating in safety activities, learning technical knowledge in safety, strictly abiding by all production safety rules and regulations, and checking the status of equipment and safety measures of the post before handing over between shifts. In addition, the Group's "Procedure Documents of Quality, Environment and Occupational Health and Safety Management System" also stipulates the occupational health and safety control procedures, which requires to record the health and safety information of the personnel in each department and post, for which the Group's Administration Office is the competent department and each functional department is for implementation and file-keeping and is responsible for labeling, protection and filing of the occupational health and safety records in their corresponding departments. Meanwhile, the Group has set up a leading group for the construction of a healthy enterprise, headed by the Chief Executive Officer, which is responsible for all aspects of the management of employees' occupational health. Relevant management personnel and employees are required to sign a production safety target responsibility statement, and the Group carries out regular assessment, reward and punishment.



Occupational Health and Safety  
Procedures for Work Posts



Compilation of Regulations  
on Safety in Production



Safety Target Responsibility  
Statement

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Regular occupational safety inspections are an important work of the Group's management of employees' occupational health. The Group holds regular meetings on production safety and conducts regular safety inspections to eliminate potential accidents and hazards, the Group also inspects testing devices to prevent abnormality. At the same time, the Group employs professional organizations to conduct regular inspections of possible occupational hazards (dust, noise, gas, etc.) in the workplace, and provides regular medical examinations for employees every year. In terms of hygiene inspections, the Group appoints specialized occupational hygiene control managers to conduct regular inspections and fill in occupational hygiene checklists, so as to ensure that all indicators comply with the relevant occupational hygiene requirements.

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.

	2021	2022	2023
Number of work-related deaths	0	0	0
Number of working days lost due to work-related injuries	0	0	0
Total number of employees at the end of the year	59	59	58

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The following are the major measures taken by the Group in the year of 2023 to ensure the health and safety of its employees:

- *Upgrading the Information management platform for safety in production*

In 2023, the Group carried out an upgrading to its production units and adopted a distributed control system (DCS) with the function of instantaneous and automatic shutdown of the relevant production equipment in the event of a safety accident; in addition, on the basis of the original five-in-one production safety information management platform, the Group constructed a centralized control room, which allows for better safety monitoring and control of the plant and workshops, and realizes real-time transmission of video surveillance images and monitoring data and communication within the Group and with the relevant governmental departments. Further, the Group has joined the Jiangsu Province Enterprise Informatization Association, so as to achieve closed-loop transparent management of the whole process from patrol, equipment repair and maintenance, special operation, hidden danger investigation to education and training.



Distributed Control System



Central Control Room



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## – Safety facilities and protective equipment management

The Group implements strict management specifications for the safety facilities of its production plant, covering alarming systems, explosion-proof pressure relief devices, overload protection systems for electrical equipment and eyewash devices. The Group assigns dedicated personnel to be responsible for the periodic inspection and maintenance of the safety facilities to ensure the stable operation of the equipment and to prevent any accidents that may lead to personal injury or equipment damage. The Safety and Environmental Protection Section of the Group is responsible for the management, supervision and inspection of the distribution of labor protection supplies. Each department or section equips its workers with a full set of safety protection supplies according to the specific needs of their production duties, including self-absorbing gas masks, standard protective masks, acid-proof (anti-static) uniforms, acid & alkaline-resistant gloves, helmets, protective eyewear, face protection devices, special welding gloves and anti-smash rubber shoes, etc., so as to comprehensively safeguard the occupational safety and health of the employees. In order to respond to possible safety emergencies, the Group has installed alarm systems and fire-fighting facilities in all the production workshops and work areas to enable timely response in case of emergencies and to protect the lives of employees.



Workshops and warehouses are equipped with eye washers



Fire-fighting equipment in workshops

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

– *Safety training and emergency drills*

In order to strengthen and standardize safety education and training and to improve the safety qualification of employees, the Group continues to update and improve the Compilation of Rules and Regulations on Safety in Production and refine the safety management requirements on employees. According to the departmental hierarchy, the Group's Safety and Environmental Protection Section, workshops and work teams are responsible for the safety training and education of employees at the company level, workshop level and team level, and employees who have not passed the exams following safety training and education shall not be allowed to work. In terms of training hours, the Group requires the main person in charge and the production safety management personnel to have an initial safety training time of not less than 48 hours, followed by an annual re-training time of not less than 16 hours; the safety training time for new employees before they start work is not less than 72 hours followed by an annual re-training time of no less than 20 hours, which compulsorily guarantees that the employees possess the knowledge and ability of production safety. In terms of training content, the Group trains its employees annually on preventive measures against occupational hazards, and conducts emergency drills as per schedule. In 2023, the Group organized about 30 safety skill trainings and drills, which included education and training on occupational health and environmental protection, safety standardization assessment, safety production laws and regulations, knowledge of hazardous chemicals, as well as emergency response drills for leakage accidents, fire-fighting drills, emergency rescue drills, emergency drills for responding to poisoning and asphyxiation accidents, comprehensive emergency drills for fire and electric shock accidents, etc., which strongly safeguard the health of the Group's employees and safe production.



Emergency drill for leakage accident

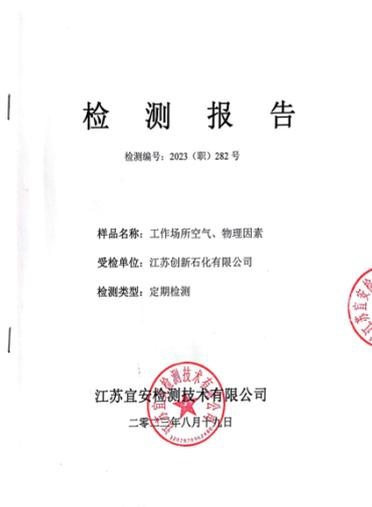


Fire-fighting drill in storage tank area

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## – Occupational disease prevention measures for employees

The Group regards the prevention, control and elimination of occupational diseases and hazards as an important part of its daily management. On the one hand, the Group vigorously carries out publicity and training on occupational health and hygiene, and provides its employees with protective facilities and personal protective equipment in compliance with the requirements on prevention and control of occupational diseases as well as annual medical check-up programs, so as to prevent the employees from serious diseases caused by prolonged exposure to factors such as dust, radioactive substances and other poisonous and harmful substances. On the other hand, the Group regularly commissions qualified testing organizations to test the concentration (intensity) of occupational hazards at workplaces every year, and the test results show that the passing rate of dust, toxic substances, noise and other factors at each testing point is always 100%. In addition, the Group's Leading Team for Healthy Enterprise Construction actively implements the target work program for the prevention and treatment of occupational diseases, coordinates between departments and acquires funds, and at the same time, establishes and maintains the Group's occupational health management records, which effectively protects the health, related rights and interests of the employees



Inspection report on hazardous factors relating to occupational diseases

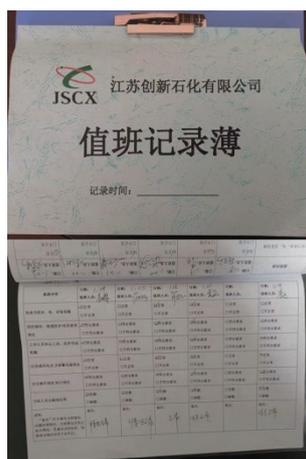


Employee medical examination reports

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

– *Management leaders’ watch-keeping in shifts and management of outsiders*

The Group has implemented a 24-hour watch-keeping system for management leaders to direct and supervise safety, environmental protection and personal protection matters. Group leaders, including the Chairman of the Board, the executive Directors and the senior management, shall be on watch on a 24-hour shift basis to ensure safe production. For outsiders, the Group requires them to obtain a “temporary access card” from the Production Department by passing the safety education and examination, to enter and exit the second gate of the production area with the “temporary access card”, and to comply with our safety, environmental protection and occupational health requirements during their stay in the Group.



Records of management leaders’ 24-hour watch-keeping in shifts

### 3.1.3 Overview of Employee Development and Training

The Group attaches great importance to the growth of employees, and the improvement of employees’ personal abilities is tightly bound to the development of the Group. The Group has formulated and is continuously perfecting its Human Resource and Talent Management System and the employee handbook. The Group reasonably sets the salary of employees according to their job responsibilities, labor skills and work performance, and decide on their promotion or demotion according to their comprehensive performance such as morality, ability, diligence and results. The Group appoints senior and middle-ranked managers at all levels as the responsible persons for talent cultivation, who are obliged to provide counseling and guidance for the talents in their departments. For key posts, we adopt the cultivation principle of “internal development as the basis, supplemented by recruitment from outside” and the system of “old teaching new”, and take a “rolling” approach for cyclical talent cultivation. We include excellent employees into our talent reserve and give them a broader space for development.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

According to the Group's Human Resource and Talent Management System and the Employee Handbook, the Group has established a multi-level and comprehensive employee training system. In accordance with the regulations of the government, the Group fully appropriates the education funds for employees for the post and career development training of employees and talents. The Group's current employee education and training system mainly includes new-employee induction training, on-the-job skill training or career development training. For new employees, the group's training program includes the introduction of labor law, the safety knowledge for each post, the explanation of company rules and regulations and the employee handbook, and the explanation of operating procedures, etc. At the same time, through the "old teaching new" system, we help new employees get familiar with business knowledge. For employees with certain work experiences, the Group arranges reasonable job skill or career development trainings to help them further improve their professional abilities. Among them, for technical personnel, financial & accounting personnel, production safety personnel, special equipment operators, etc., the Group's administration department reminds and urges them to participate in annual training and examinations. The production Department and the Safety and Environmental Protection Section conduct regular trainings and emergency drills for safety and environmental protection personnel; For directors and senior executives, the Group employs qualified professional organizations to conduct training at least once a year to enhance their management capabilities and awareness of responsibility. In addition, the Group encourages employees to improve themselves in their spare time, and rewards employees who obtain important qualifications through self-study during their employment. As per our "4 new" (new technologies, new materials, new devices and new processes) program, the Group actively carries out technical training and learning exchange activities to help employees continuously improve their technical quality.

In addition to the monthly workshop safety education activities and managerial-department safety trainings, in 2023, the Group also conducted comprehensive drills as per the emergency plan on such topics as on-the-spot treatment for accidents and environmental pollution. The Group also held various special trainings, such as written and practical trainings for laboratory inspectors, anti-corruption training for related employees and continuous professional development training for the company secretary. All of the 58 employees of the Group participated in all the corresponding trainings organized by the Group in 2023, with 100% attendance rate. The total number of hours of training received, based on the participated person-time, was 1,456, of which 34 were male with an average of about 27.6 hours of training, and 24 were female with an average of about 21.5 hours of training. By employees' positions, all the 14 senior management employees participated in the relevant training, with an average training duration of about 25.1 hours; and the average training duration of the 44 ordinary employees was about 25.1 hours. By employees' functions, 14 senior management staff participated in the training, with an average training duration of about 25.1 hours; 19 administrative staff participated in the training, with an average training duration of about 25.1 hours; 11 technical staff participated in the training, with an average training duration of about 25.2 hours; and 14 production staff participated in the training, with an average training duration of approximately 25.1 hours.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the year ended 31 December 2023, the trainings received by the Group's employees were as follows:

	Number of employees participating in training	Total hours of training received (hour)	Average training hours attended (hours/person)
<b>Total number of employees trained</b>	58	1,456	25.1
<b>By gender</b>			
Male	34	940	27.6
Female	24	516	21.5
<b>By type of employees</b>			
Senior management	14	351	25.1
Ordinary employee	44	1,105	25.1
<b>By employees' job function</b>			
Senior management	14	351	25.1
Administrative staff	19	477	25.1
Technical staff	11	277	25.2
Production staff	14	351	25.1

### 3.1.4 Guidelines and Measures to Prevent Child Labor or Forced Labor

The Group strictly complies with all labor laws and regulations and the requirements of the local government, adopts the standard version of labor contracts from the local Human Resources and Social Security Bureau. The Group is committed to eliminating the use of child labor and forced labor, and expressly prohibits such practices in the Human Resources and Talent Management System, with a zero-tolerance stance. The Group adheres to the principle of equal employment, respects the legitimate rights and interests of every employee, and strictly examines the age and qualifications of candidates in the recruitment process to ensure that labor protection regulations are not violated. At the same time, the Group undertakes not to force anyone to work by means of violence, threats or deprivation of personal freedom, and thereby ensures compliance and maintains ethical standards in the Group's business operation.

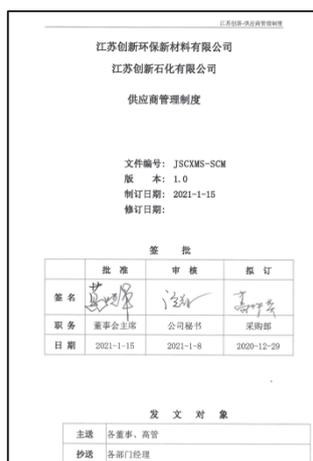
According to the Group's Human Resource and Talent Management System, the Administration Department is responsible for protecting the labor rights and interests of employees and handling related complaints and reports, and that employees can report any labor protection-related misconduct to the Administration Department or directly to the managing director when necessary. Further, the Group has revised its supplier management system to ensure that new suppliers are rigorously examined regarding the use of child labour or forced labour as an important part in the assessment of new suppliers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.2 ANALYSIS OF CURRENT STATUS OF OPERATIONAL MANAGEMENT

### 3.2.1 Overview of Supply Chain Management

In 2021, the Group implemented our “Supplier Management System”, which clearly stipulates the processes of supplier selection, evaluation and supervision, with a view to carrying out supplier management in a more systematic and professional manner, so as to achieve the goal of purchasing goods of higher quality and sufficient quantity at lower prices, while taking into account the requirements related to energy conservation and environmental protection. After repeated screening, the current suppliers with which the Group are cooperating have achieved high standards in their industries in terms of legal compliance, corporate qualifications, product quality, price competitiveness, delivery efficiency and service capability.



Supplier Management System

Pursuant to the Group’s Supplier Management System, the Group’s Procurement Department (also known as the Supply Department) is responsible for the management of suppliers and reporting to the general manager on a regular basis, while the Quality Control Department (also known as the Quality Inspection Department) assists and cooperates with the Procurement Department in the evaluation and assessment of suppliers. The main duties of the Procurement Department include searching for suppliers, establishing and perfecting the supplier directory, purchasing goods or services, entering into purchasing contracts, supervising the delivery of goods or services and evaluating suppliers, etc. The Quality Control Department, on the other hand, is required to work with other departments to ascertain the quality standards and specifications of materials needed by the Group and to ensure that the purchased materials comply with the requirements by means of testing, acceptance check and sample retention for re-inspection, and to work with the Procurement Department in selecting, assessing and review the suppliers, so as to select high-quality suppliers for the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's supplier selection process strictly follows six key steps: (1) the procurement department conducts extensive searches for potential suppliers of materials and services using a combination of online and offline methods; (2) the procurement department collects information on the profiles of potential suppliers by means of communications such as telephone, facsimile and e-mail and conducts a preliminary screening process in accordance with the Group's basic criteria, and finally identifies approximately three suppliers as candidates; (3) the procurement department conducts on-site surveys to the candidate suppliers, focusing on the production facilities, production capacity, technical ability, traffic and transportation conditions, safety & environmental-protection status, willingness to cooperate, etc. among them, logistics service providers are mainly examined in terms of their vehicles, storage conditions and drivers' qualifications, etc.; (4) for suppliers found satisfactory through the on-site surveys, evaluation forms for new suppliers will be prepared and reported to the department manager for review; (5) after the procurement department has reviewed and approved the suppliers, the procurement department shall discuss on their conditions with the quality control department, the technical department and the production department; for the potential suppliers that have passed the discussion, all the related department managers shall sign the form which will be submitted to the general manager for approval, and then the procurement department shall establish and maintain the filing for the qualified new suppliers; (6) the procurement department is responsible for establishing and updating the list of qualified suppliers in a timely manner, and conducting daily supervision and regular performance assessment of them to ensure the stability and efficient operation of the supply chain.

## *Supplier classification and selection*

As of 31 December 2023, the Group had 22 suppliers, including 19 domestic suppliers, accounting for approximately 86.4% and 3 overseas suppliers, accounting for approximately 13.6%. The majority of the domestic suppliers are located in Jiangsu province. There are totally 10 suppliers in Jiangsu province, accounting for 45.5% of the total number of suppliers, while other suppliers are located in Zhejiang, Liaoning and Anhui, etc.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The geographical distribution of the Group's suppliers as of 31 December 2023 is as follows:

<b>Supplier location</b>	<b>Number of vendors (number)</b>	<b>Proportion (%)</b>
<b>In mainland China</b>	<b>19</b>	<b>86.4%</b>
Jiangsu	10	45.5%
Zhejiang	2	9.1%
Liaoning	2	9.1%
Anhui	1	4.5%
Other areas	4	18.2%
<b>Outside mainland China</b>	<b>3</b>	<b>13.6%</b>

When selecting suppliers, the Group not only pays attention to their product quality and supply capability, but also examines and evaluates their safety, environmental and health management systems, as well as their pollutant discharge license and other related qualifications. In addition, the Group requires that they have not had any major safety, environmental or health incidents in the past three years, have not been listed by the market supervision authority as defaulting enterprises, are not currently a defendant or an entity subject to enforcement in a major litigation case, and none of the members of their core management team has any criminal records in the past three years. Under the same conditions of product quality and cost performance, priority will be given to those suppliers that have done a good job in safety management, health management, environmental protection, employee welfare protection and fulfillment of social responsibility, for example, those who can provide the certificates of environmental management system, occupational health and safety management system, safe production standardization, energy efficiency management system and charitable donation, etc. and those who focus on energy conservation and use recyclable or reusable packaging materials. Where applicable, the Group enters into used packaging recycling agreements with suppliers and requires them to recycle used packages. To encourage suppliers to use more environment-friendly products and services, the Group requires suppliers to use tank containers instead of barrels to save packaging materials, and also requires package suppliers to recall and reuse packages.

At present, the Group monitors the use of environmentally friendly products and services by suppliers through telephone and in-person inquiries, requesting material safety data sheets (MSDS) from suppliers, and conducting appropriate tests on whether the goods supplied contain ingredients that are harmful to the environment or health.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The procurement department of the Group is responsible for establishing and timely updating the list of qualified suppliers, and shall not purchase from non-qualified suppliers without the permission of the general manager. For the selection of foreign suppliers, or the selection of suppliers involving tight commodities urgently needed by the Group, the requirements may be appropriately reduced or lowered with the consent of the general manager, so as to obtain a higher cost performance ratio, provided that it does not involve any impact on the safety of production and environmental protection.

## *Supplier review and assessment*

The Group conducts annual review and assessment of suppliers. The Procurement Department is responsible for summarizing supplier information and the effects of cooperation, while the Quality Control Department provides quality records for reference. When necessary, the Group will assign professional teams to the suppliers' sites to conduct on-site inspections of their quality control systems and environment & safety management systems. The assessment criteria include multiple aspects such as qualification documents, product quality and conformity, quality complaint response, price, delivery speed, transportation service, after-sales service, packaging, delivered quantity, correctness of shipping documents, product performance in use, adverse effects of products, etc., and the assessment results are presented in the form of comprehensive scoring. Based on the scoring results, the suppliers will be graded into three levels: qualified, average, and unqualified. For qualified suppliers, the Group will continue to purchase their products; for suppliers with average scores, we may request them to make rectification while purchasing from them; for unqualified suppliers, we will suspend purchase and request rectification within a certain period of time. Upon completion of the rectification, the suppliers will be reassessed as per the effects of the rectification. Meanwhile, for excellent key suppliers, the Group will arrange annual face-to-face business and technical exchange meetings to enhance communication and collaboration and jointly promote business development.

If a supplier has had a major safety, environmental or health incident, or is penalized by government authorities in safety, environmental or social aspects (including the use of child or forced labor), the Group will immediately re-assess the supplier upon learning of the incident or penalty. If the assessment reveals that the problem is serious, the Group will take decisive measures, including but not limited to suspending or cancelling the supplier's qualification. If the quality defects of the goods supplied by a supplier causes the Group to be claimed by customers or causes safety and environmental accidents, the Group will take stringent measures to permanently revoke the supply qualification of the relevant supplier. In addition, if a logistics service provider uses unqualified vehicles or drivers, causing the Group to delay in delivery and be claimed, the Group will permanently stop the cooperation with this logistic service provider, and will seek compensation through negotiation or legal proceedings.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

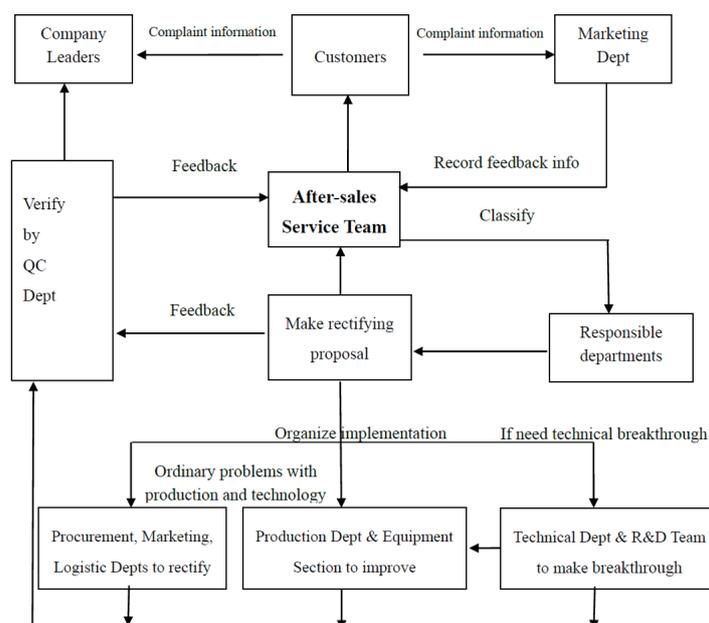
## 3.2.2 Product Liability Overview

In order to strengthen the after-sales service, meet the changing needs of customers and improve customer satisfaction, the Group has formulated “Measures and Commitments for After-sales Service”, established an after-sales service system and a strict management system covering the four major aspects of “Service response, on-site follow-up, expert Q&A and technical training”, and hired petrochemical experts as representatives of after-sales service to solve all kinds of problems raised by customers, providing a strong guarantee for the Group’s after-sales service. The Group promises to provide timely technical consultation whenever a problem occurs during the use of our products; if on-site service is required, the Group’s technical service personnel can arrive at the site to solve the problem within 24 hours after receiving the notice from the buyer or the owner. Further, the Group conducts an annual customer satisfaction survey, in which the after-sales service team distributes customer satisfaction questionnaires to our customers in the proportion of 100%, 10% and 1%, in order to improve and enhance the Group’s management and service level. In 2023, there was no case of recall of products sold or shipped by the Group due to safety and health issues, and no one of our customers raised any recall request, and the Group did not receive any complaints about its products or services during the year.

The group has established a customer service working team headed by the general manager, with the vice general manager for technology and the vice general manager for marketing as deputies, and comprises members from key departments such as the technology department, the quality control department and the production department, among which the technology department is responsible for the execution of specific matters. This team is equipped with a service hotline to ensure barrier-free communication between customers and the Group. The Group’s technical and sales staff timely respond to and solve customers’ questions and problems relating to technology and product use. In case of complaints, the Group’s after-sales service team will respond within 2 hours. For product quality complaints, the technical department will promptly study and resolve the customer’s concerns and complaints based on the customer complaint information collected by the after-sales service team. For the products under complaint, the technical department will immediately test the samples retained in the Group’s laboratory and at the same time take samples from the customer’s site to be tested in our laboratory. If there is any dispute, the samples will be sent to a qualified third party laboratory for testing. If the product quality is confirmed to be defective, after obtaining the consent of the customer, the Group will promptly take technical remedial measures, including replacement with qualified products of good effects, and at the same time, the Group will bear the cost for recalling the defective products. We will conduct in-depth analysis of the defective products and propose corresponding rectification measures to prevent the recurrence of the same kind of problems. For the complaints of quantity shortage, the technical department will cooperate with the production department and the finished product warehouse keeper to find out the cause and put forward rectification suggestions or plans. For complaints about product transportation, the Group’s procurement department and technical department will find out and measure the problems of the outsourced transporters and work out corrective

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

measures. In addition, the Group also implements regular visits to our major product users to provide technical support and solve problems arising during the use, so as to ensure the best user experience.



The Group's Customer Complaint Handling Procedures

### *Intellectual property management*

In order to fully protect the Group's trademarks and intellectual property rights, the Group has formulated a detailed Intellectual Property & Trademark Management System in accordance with the Patent Law of the PRC\* (中華人民共和國專利法) and the Implementation Rules of the Patent Law of the PRC\* (中華人民共和國專利法實施細則) and other relevant regulations, which mainly specifies the trademark management process, the patent management process, the preservation of documents and the division of related responsibilities and powers, etc. This system is to be updated on a five-year cycle in accordance with market conditions and the Group's business development, so as to guarantee the high effectiveness and adaptability of the Group's management on intellectual property and trademark. The Group's technical department is responsible for the management of intellectual property rights, while the administration department provides necessary support and assistance. The technical department carries out a series of work, such as the application, maintenance, updating and renewal of patent rights and trademarks, and shall make sure that all relevant documents and data are properly kept. In recent years, the Group has obtained and maintained numerous national patent rights in China, while actively expanding into the international market and registering overseas trademarks, so as to protect the Group's business reputation and market competitiveness

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

in all aspects. In addition, the Group respects and protects the intellectual property and technical secrets of its cooperating partners, and establishes honest and harmonious cooperative relationships with its partners.



Trademarks registered in China



Madrid International Trademark Certificate

Indonesia Trademark Certificate

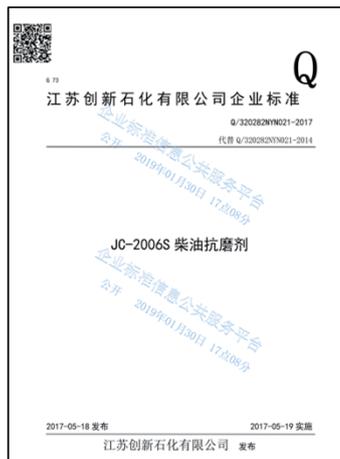


Samples of some patent rights obtained during 2023-2024

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Product quality management and inspection

The Group has formulated corresponding company standards for all of its products, including diesel lubricity improver, multi-functional metal passivators, etc. Our company standards are usually slightly higher than the national and industry standards to ensure that the quality of our products is always at the leading level in the same industry. The Group conducts product quality inspection and appraisal in strict accordance with high standards, and no substandard products are allowed to be delivered. The Group has always maintained its own laboratory at an advanced level and had it certified by CNAS (China National Accreditation Service for Conformity Assessment) in 2022, which means that the inspection data and testing results of the Group's laboratory are widely recognised nationally and internationally. In addition, the Group regularly sends its products to qualified third-party inspection institutions in China for independent testing and retesting to further ensure the objectivity and accuracy of the Group's internal testing results. Through the external audit mechanism, the Group has continuously optimized its internal testing process and upgraded its testing technology, so as to ensure the stability and reliability of the quality of its products.



Company Standard of JC-2006S  
Diesel Lubricity Improver



Our lab is certified by CNAS

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group implements stringent quality control procedures for the raw and auxiliary materials purchased. Our quality control department has formulated detailed laboratory inspection procedures, which set out the standards for the inspection and testing of incoming materials, the main technical requirements on raw and auxiliary materials, the in-process inspection & testing and the final inspection & testing. Upon the arrival of raw and auxiliary materials at the factory, the warehouse will issue an inspection request slip and inform the quality control department to collect and test samples. For raw materials and technical indexes that the Group is able to test, the quality control department conducts tests in accordance with our internal testing procedures or relevant national standards. For raw materials with testing results meeting the Group's Technical Requirements for Major Raw and Auxiliary Materials, the quality control department will issue a raw material quality inspection pass to notify the warehouse to weigh and accept the raw materials. For raw materials and technical indexes that the Group is not able to test, the quality control department will verify the product name, specifications, manufacturer, production date, outer package labels and intactness of packages. For raw materials that meet all the requirements, the quality control department will issuing a raw material verification inspection pass and notify the warehouse for weighing and storage. If the products do not meet the requirements, regardless of whether we have the testing capability or not, they will be treated in accordance with the provisions in the Control Procedures for Non-conforming Products in the Group's Procedural Manual for Quality, Environment and Occupational Health and Safety Management System.

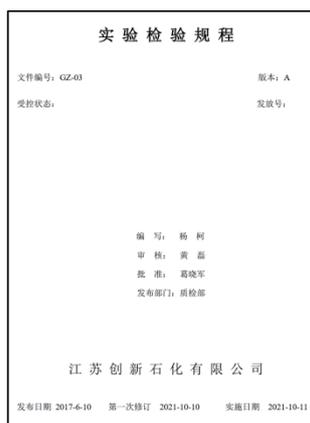
New suppliers are required to submit samples for evaluation by the Group's quality control, technical, research & development departments prior to supply. This evaluation will be done by conducting a small trial in a laboratory environment according to the production technologies. If the trialed product meets the expected standards, the technical and research & development departments will prepare a report on the trial and send it to other relevant departments. In addition, the quality control department, independently or in collaboration with other departments, will conduct occasional assessments of the suppliers' production and testing capabilities, so as to check their quality assurance system, which, combined with our trial use results, will provide a basis for the selection of qualified suppliers. In case of any unqualified testing results or product verification results, the quality control department must immediately report to the senior management of the company so that corresponding countermeasures can be adopted.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to raise the overall level of health, safety and environmental protection of the Group, we have gradually reduced the amount of hazardous chemicals used in the production process, as a result, we no longer need a License for the Safe Use of Hazardous Chemicals after being audited by the relevant authorities. Meanwhile, the Group has complied with the relevant provisions of the Measures for the Administration of License for Trading in Hazardous Chemicals and holds a valid License for Dealing in Hazardous Chemicals. In order to ensure the safety and compliance in the use of our products, the Group has compiled a Material Safety Data Sheet for each product, which provides clear procedures and guidance on handling, storage, transportation, use, environment protection, waste disposal, emergency response, and personal protection, etc. relating to the product.



The Group holds a valid license for dealing in hazardous chemicals



Laboratory Testing Procedures – Raw and Auxiliary Materials



Material Safety Data Sheets (MSDS)

## Customer data and privacy protection policy

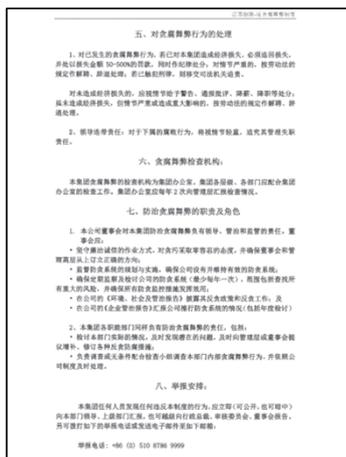
The Group attaches great importance to the confidentiality of customer information. Relevant data are mainly stored in the Group's file room and encrypted computer system, and the Group has arranged dedicated personnel to keep the files and has formulated a "Computer Network Management System" to strictly manage customer information stored in computers, so as to ensure the security of customer information. To ensure the security of computer systems and networks, the Group purchases and uses genuine operating systems and office software, and installs anti-virus software on each computer. The Group performs a comprehensive virus scan for all the computers on the 25th of each month, and immediately remove any virus found to ensure that customer information is not compromised. In addition, no external data storage devices are allowed to be used without the approval of the manager. After approval is granted, a valid virus detection program must be run before operation. For critical software, the Group audits user accounts and access settings every six months to ensure that they are in compliance with our regulations and to protect the privacy of customer information. In case any abnormality occurs, we will immediately trace the causes, and if any misconduct is found, penalties will be imposed in accordance with management system. For sensitive files, the Group has implemented

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

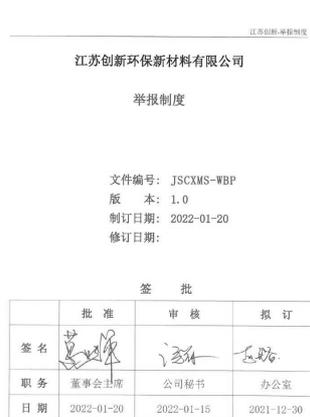
separate password protection measures to safeguard the confidentiality of data. In terms of data backup, the Group performs monthly data backup to ensure the completeness and security of customer information.

### 3.2.3 A Brief Analysis of Corporate Anti-corruption Measures

The Group has formulated and implemented a series of anti-corruption systems, including the Anti-corruption & Fraud Policy, the Whistle-blowing Policy, the Code of Conduct and Compliance for Employees and the Employees' Handbook, in which the duties and roles of the Board and each department in the prevention of corruption and fraud are clearly set out, and relevant personnel are required to sign an Anti-Bribery & Corruption Pledge to ensure their compliance with the Group's rules and regulations. The Group has provided a detailed list of definitions, categories and specific manifestations of corruption and fraud, and prohibits any personnel from engaging in any form of bribery, acceptance of bribes, embezzlement, misappropriation of funds, financial and personnel malpractice and infringement of business secrets, which are in violation of professional ethics and laws and regulations. To further enhance employees' awareness of integrity and self-discipline, the Group conducts annual anti-corruption-related training for directors, executives and relevant employees; our induction training for new employees includes employee conduct code; and new employees are required to sign an Anti-Bribery & Corruption Pledge. The Group is determined to prevent and combat any corruption and malpractice, safeguard the corporate reputation and long-term development interests, and proactively build a corporate environment of integrity, fairness and transparency. In 2023, the Group did not identify or receive any reports of corruption, and there have not been any litigation cases relating to corruption or bribery.



Anti-corruption & fraud policy



Whistle-blowing Policy



Anti-bribery & corruption pledge

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

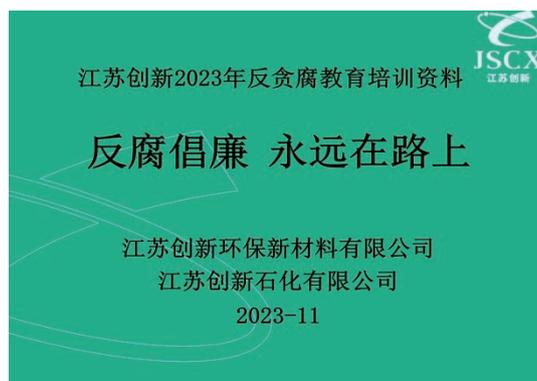
The Group's Administration Office ("**Group Office**") is primarily responsible for the monitoring of the anti-corruption work, and all management levels and departments of the Group shall actively cooperate in the relevant work with the Group Office, and is subject to regular inspections by the Group Office. The Group Office shall report to the management twice a year on the findings of inspections. All the functional departments are also required to undertake an obligation to prevent and combat corruption, including conducting ongoing reviews of the operation of respective departments, identifying risk spots, and making recommendations to management or the Board for improving anti-corruption policies and procedures. In addition, every department is responsible for investigating or unconditionally assisting the monitoring team in investigating corruption within the department, and promptly taking appropriate actions in accordance with the Group's regulations. According to the policies of the Group, any corrupt practices found should be reported immediately, in an open or anonymous manner, to the head of the department or higher level management, or directly to the Chief Executive Officer, the audit committee, the Board, or by calling the hotline or sending emails for timely corrective actions.

The Group implements closed-loop management of reporting matters, and the Group Office is responsible for the handling, tracking, recording and filing of reported matters. After receiving the report information, the Group Office shall promptly report to the corresponding department head or the Group's management; Major or management personnel related reports shall be submitted directly to the Group's board committees or the Board. After analysis, the board committee or the Board shall form an investigation team to conduct an investigation and then write an investigation report. For verified violations, the Group shall punish the responsible persons in accordance with internal rules and regulations; For suspected violation of laws or criminal acts, the Group will promptly report to the state law enforcement agencies. In addition, the Group will keep confidential the personal information of anonymous whistleblowers and provide personal protection when necessary; At the same time, the Group will provide reasonable spiritual or material rewards to whistleblowers as appropriate; The Group also encourages its employees to inform stakeholders, such as customers, of the reporting methods, so as to have joint supervision from within and outside the Group, and provide timely feedback on the results of punishment.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For corruption and fraud happened within the Group, we have clearly defined the corresponding punishment mechanism: for acts that have caused economic loss, the loss must be recovered, and depending on the amount of loss, the responsible person shall be imposed a financial penalty of 50% to 500% of the amount of loss. In the case of particularly serious circumstances, the labor contract of the responsible person will be terminated according to the provisions of the labor law. If the act has violated the criminal law, it will be handed over to the judicial authorities. In the case that no economic loss has been caused, a warning, a public notice of criticism, a salary cut, a demotion, etc. shall be given according to the circumstances; in the case that no economic loss is caused but the violation is very serious or can cause significant impact to the Group, dismissal shall be made according to the labor law. In addition, for the corrupt behavior of subordinates, the leader shall bear joint responsibilities and be held responsible for management negligence depending on the severity of the circumstances.

In November 2023, the Group conducted an anti-corruption training for all relevant employees. Combined with actual cases, the training explained the relevant laws and regulations, common causes and risk points of corporate corruption, and provided in-depth analysis in terms of the construction of corporate anti-corruption system, supervision, inspection, as well as reward and punishment mechanisms. Through systematic trainings, the Group has not only enhanced the awareness of law-abiding among its employees, but also strengthened their ability to identify and prevent potential corruption risks.



Anti-corruption training materials

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.3 OVERVIEW OF COMMUNITY INVESTMENT

In the year of 2023, the Group adhered to the modern spirit of mutual assistance and cooperation, and took the responsibility of promoting the common prosperity of the enterprise and the society, and fully supported the development of community welfare while pursuing business growth. The Group is mindful of the people in the community and visits poor families in the community it belongs to and provides them with daily necessities every year. In addition, the Group actively participates in the charity sale of paintings and calligraphy artworks organized by the community to aid the community's public welfare, and takes this opportunity to carry forward the cultural heritage of the community as the hometown of the famous painter Mr. Xu Beihong.

The Group is committed to repay the community, and has invested relevant funds every year. In the past, the annual amount of investment was about RMB20,000 to 100,000. In the event of serious natural disasters in the community, the Group will further increase capital investment and provide necessary material and human support to help the community restore normal life. On 6 January, 2023, our executive director and general manager, together with the community's party service staff, visited and condoled with the poor families in the Benma Community to understand their difficulties and demands in their daily lives, and donated daily necessities including rice and edible oil to them, and conveyed the Group's sincere New Year greetings and best wishes to them.



Donating daily necessities to the community

# 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 117 to 172, which comprise the consolidated statement of financial position as at 31 December 2023, 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, comprising material accounting policy information and other explanatory information.

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 2023 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 pages 136 to 138.	
<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

<b>Revenue recognition</b>	
Refer to note 3 to the consolidated financial statements and the accounting policies on pages 136 to 138.	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
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 HKSAs 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.

# INDEPENDENT AUDITOR'S REPORT

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.
- 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.

## INDEPENDENT AUDITOR'S REPORT

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.

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 2024

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2023

(Expressed in Renminbi (RMB) Yuan)

	Note	2023 RMB'000	2022 RMB'000
<b>Revenue</b>	3	<b>186,071</b>	257,183
Cost of sales		(137,375)	(203,304)
<b>Gross profit</b>		<b>48,696</b>	53,879
Other income	4	9,312	4,411
Sales and marketing expenses		(9,187)	(11,760)
General and administrative expenses		(13,718)	(11,793)
Research and development expenses	5(c)	(8,545)	(8,915)
Impairment loss on trade receivables	20(a)	(1,353)	383
<b>Profit from operations</b>		<b>25,205</b>	26,205
Finance costs	5(a)	(13)	–
<b>Profit before taxation</b>	5	<b>25,192</b>	26,205
Income tax	6	(4,071)	(14,747)
<b>Profit for the year</b>		<b>21,121</b>	11,458
<b>Earnings per share</b>	9		
Basic and diluted (RMB cents)		4.40	2.39

The notes on page 123 to 172 form part of these financial statements.

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

for the year ended 31 December 2023

(Expressed in Renminbi Yuan)

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Profit for the year</b>	<b>21,121</b>	11,458
<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>1,236</b>	8,180
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	<b>(399)</b>	(4,777)
<b>Other comprehensive income for the year</b>	<b>837</b>	3,403
<b>Total comprehensive income for the year</b>	<b>21,958</b>	14,861

The notes on page 123 to 172 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2023  
(Expressed in Renminbi Yuan)

	Note	2023 RMB'000	2022 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	39,743	37,993
Right-of-use assets	11	2,904	3,004
Deferred tax assets	18(b)	–	543
		<b>42,647</b>	41,540
<b>Current assets</b>			
Inventories	13	37,099	33,544
Trade and other receivables	14	82,907	119,457
Prepayments		1,539	6,454
Cash and cash equivalents	15	95,204	146,484
		<b>216,749</b>	305,939
<b>Current liabilities</b>			
Trade and other payables	17	24,469	28,172
Contract liabilities	16	2,210	–
Income tax payable	18(a)	4,327	5,460
		<b>31,006</b>	33,632
<b>Net current assets</b>		<b>185,743</b>	272,307
<b>Total assets less current liabilities</b>		<b>228,390</b>	313,847
<b>Non-current liabilities</b>			
Deferred tax liabilities	18(b)	2,637	13,368
		<b>2,637</b>	13,368
<b>NET ASSETS</b>		<b>225,753</b>	300,479

The notes on page 123 to 172 form part of these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

(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 18(c)	Note 18(d)	Note 18(e)	Note 18(f)	Note 18(g)		
<b>Balance at 1 January 2022</b>	3,873	92,034	79,938	24,274	2,646	86,727	289,492
Profit for the year	-	-	-	-	-	11,458	11,458
Other comprehensive income	-	-	-	-	3,403	-	3,403
<b>Total comprehensive income</b>	-	-	-	-	3,403	11,458	14,861
Appropriation to reserve	-	-	-	2,433	-	(2,433)	-
Dividends approved in respect of the previous year (note 18(b))	-	(3,874)	-	-	-	-	(3,874)
<b>Balance at 31 December 2022 and 1 January 2023</b>	3,873	88,160	79,938	26,707	6,049	95,752	300,479
Profit for the year	-	-	-	-	-	21,121	21,121
Other comprehensive income	-	-	-	-	837	-	837
<b>Total comprehensive income</b>	-	-	-	-	837	21,121	21,958
Appropriation to reserve	-	-	-	1,914	-	(1,914)	-
Dividends approved in respect of the previous year (note 18(b))	-	(4,223)	-	-	-	(92,461)	(96,684)
<b>Balance at 31 December 2023</b>	3,873	83,937	79,938	28,621	6,886	22,498	225,753

The notes on page 123 to 172 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2023

(Expressed in Renminbi Yuan)

	Note	2023 RMB'000	2022 RMB'000
<b>Operating activities:</b>			
Cash generated/(used in) from operations	15(b)	62,273	(3,539)
Income tax paid	18(a)	(15,392)	(1,183)
<b>Net cash generated/(used in) from operating activities</b>		<b>46,881</b>	<b>(4,722)</b>
<b>Investing activities:</b>			
Payment for the purchase of property, plant and equipment		(7,302)	(3,424)
Proceeds from disposal of property, plant and equipment		2	3
Payment for investments in wealth management products		(66,000)	(401,000)
Proceeds from investments in wealth management products		66,155	403,217
Interest received		4,736	720
<b>Net cash used in investing activities</b>		<b>(2,409)</b>	<b>(484)</b>
<b>Financing activities:</b>			
Proceeds from other borrowings	15(c)	4,740	-
Repayment of other borrowings	15(c)	(4,740)	-
Interest paid		(13)	-
Dividends paid to equity shareholders of the Company	15(c)	(96,684)	(3,874)
<b>Net cash used in financing activities</b>		<b>(96,697)</b>	<b>(3,874)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(52,225)</b>	<b>(9,080)</b>
<b>Effect of foreign exchange rate changes</b>		<b>945</b>	<b>3,505</b>
<b>Cash and cash equivalents at beginning of the year</b>	15(a)	<b>146,484</b>	<b>152,059</b>
<b>Cash and cash equivalents at end of the year</b>	15(a)	<b>95,204</b>	<b>146,484</b>

The notes on page 123 to 172 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 MATERIAL 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**”) 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**”). Material 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 sale of oil refining agents and fuel additives that are applied to reduce undesirable emissions.

The consolidated financial statements for the year ended 31 December 2023 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 MATERIAL 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 new and amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 17, Insurance contracts
- Amendment to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
- Amendment to HKAS 1, Presentation of financial statements and HKFRS Practice Statements 2, Making materiality judgements: Disclosure of accounting policies
- Amendment to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to HKAS 12, Income taxes: International tax reform – Pillar Two model rules

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 MATERIAL 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised 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.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

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 it 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 any accumulated impairment losses (see note 1(h)(ii)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

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, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the resulting asset. Otherwise, it is recognised in profit or loss as incurred. Capitalised development expenditure is subsequently measured at cost less accumulated amortisation and any accumulated impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

### (g) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. This is the case 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 leases that have a short lease term of 12 months or less and leases of low-value items. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss 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 recognised 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 are charged to profit or loss 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 adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and 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, 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)(ii)).

Refundable rental deposits are accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in non-equity securities carried at amortised cost. Any excess of the nominal value over the initial fair value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL 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, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will 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 lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification 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 rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 MATERIAL 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 rates if the effect 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.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs: these are losses that result from all possible default events over the expected lives of the items to which the ECL model applies.

The group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 MATERIAL 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*

When determining whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The group considers a financial asset to be in default when:

- the debtor 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
- the financial asset is 180 days past due.

The group considers a financial instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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 MATERIAL ACCOUNTING POLICIES (continued)

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

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

##### *Credit-impaired financial assets*

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 being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties of the issuer.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 MATERIAL ACCOUNTING POLICIES (continued)

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

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

##### *Credit-impaired financial assets (continued)*

##### (i) Write-off policy

The gross carrying amount of a financial asset is written off 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.

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

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or Groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset, or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

### (i) Inventories

Inventories are measured 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 realisable 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.

### (j) Trade and other receivables

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

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost (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 ECL (see note 1(h)(i)).

### (l) Contract liabilities

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 MATERIAL ACCOUNTING POLICIES (continued)

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

### (n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with note 1(t).

### (o) Employee benefits

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

Short-time employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (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.

### (p) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income (“OCI”).

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

### (q) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

### (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.

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

#### (i) Revenue from contracts with customers

The group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

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 such as value added tax or other sales taxes.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1 MATERIAL ACCOUNTING POLICIES (continued)

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

#### (i) Revenue from contracts with customers (continued)

##### (a) Sale of goods

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

The Group offers warranties for its goods for up to eighteen months from the date of sale. A related provision is recognised in accordance with note 1(q).

The Group typically offers customers of good rights of return. Such rights of return give rise to variable consideration. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of goods, the Group recognises revenue after taking into account adjustment to transaction price arising from returns as mentioned above. A refund liability is recognised for the expected returns and rebates, and is included in other payables. A right to recover returned goods and corresponding adjustment to cost of sales are also recognised for the right to recover goods from customers. This right to recover returned goods is measured at the former carrying amount of the inventory less any expected costs to recover goods (including potential decreases in the value of the returned goods).

##### (b) Service income

Service income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer.

#### (ii) Revenue from other sources and other income

##### (a) Interest income

Interest income is recognised using the effective interest method. The "effective interest rate" is 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. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

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

#### (ii) Revenue from other sources and other income *(continued)*

##### (b) 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.

### (s) Translation of foreign currencies

Transaction in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in OCI and accumulated in the exchange reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests (“**NCI**”) shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in Renminbi Yuan unless otherwise indicated)*

## 1 MATERIAL ACCOUNTING POLICIES *(continued)*

### (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.
- (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 MATERIAL 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

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 realisable 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 realisable 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

	2023 RMB'000	2022 RMB'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Sales of oil refining agents	111,571	151,085
Sales of fuel additives	74,500	106,098
Total	<b>186,071</b>	257,183

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

For the year ended 31 December 2023, there was no single customer who contributed 10 percent or more of the Group's revenue. 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 2022 presented as below:

	2023 RMB'000	2022 RMB'000
Customer A	*	26,880

\* Less than 10 percent of the Group's revenue for the corresponding reporting period.

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 2023, substantially all specified non-current assets were physically located in the PRC.

	2023 RMB'000	2022 RMB'000
Chinese Mainland	185,959	237,562
Sudan	–	17,967
Other countries and regions	112	1,654
Total	186,071	257,183

#### (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(a) 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 and fuel additives that had an original expected duration of one year or less.

### (b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by our Group's most senior executive management for the purpose of resources allocation and performance assessment. On this basis, 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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Service income	147	119
Government grants	2,215	58
Net foreign exchange gain	1,974	1,049
Interest income on financial assets measured at amortised cost	4,736	720
Income from wealth management products	155	2,217
Scrap sales	423	287
Net loss on disposal of property, plant and equipment	(332)	(3)
Others	(6)	(36)
<b>Total</b>	<b>9,312</b>	<b>4,411</b>

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on other borrowings	13	–

### (b) Staff costs

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Salaries, wages and other benefits	8,053	7,183
Contributions to defined contribution retirement plans (i)	371	365
<b>Total</b>	<b>8,424</b>	<b>7,548</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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 5 PROFIT BEFORE TAXATION (continued)

### (c) Other items

	2023 RMB'000	2022 RMB'000
Cost of inventories (i) (note 13(b))	142,552	209,350
Depreciation of property, plant and equipment (note 10)	5,355	5,297
Depreciation of right-of-use assets (note 11)	100	100
Impairment losses of trade receivables recognised/(reversed) (note 20(a))	1,353	(383)
Auditors' remuneration		
– audit services	1,265	1,265
– tax services	29	27
	<b>1,294</b>	<b>1,292</b>

(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.

	2023 RMB'000	2022 RMB'000
Staff costs	2,147	2,049
Depreciation and amortisation	2,532	2,593
Research and development expenses	5,177	6,046

## 6 INCOME TAX

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

	2023 RMB'000	2022 RMB'000
<b>Current tax:</b>		
Provision for current income tax for the year (note 18(a))	3,050	3,577
Over-provision in prior years (note 18(a))	(329)	(23)
	<b>2,721</b>	<b>3,554</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences (note 18(b))	1,350	11,193
	<b>4,071</b>	<b>14,747</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:

	2023 RMB'000	2022 RMB'000
<b>Profit before taxation</b>	<b>25,192</b>	26,205
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	6,047	6,902
Tax effect of preferential tax rate (ii)	(2,837)	(2,764)
Over-provision in prior years	(329)	(23)
Tax effect of non-deductible expenses	491	327
Tax losses not recognised	–	7
Additional deduction for qualified research and development costs (iii)	(1,112)	(1,142)
Withholding tax on distributable profits (iv)	1,811	11,440
<b>Actual income tax expense</b>	<b>4,071</b>	14,747

(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 has renewed the qualification of High and New Technology Enterprise on 6 December 2023 with an effective period of three years from 2023 to 2025, and therefore it was entitled to the preferential income tax rate of 15%.

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

(iv) According to the PRC Corporate Income Tax Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated after 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. During the years ended 31 December 2023 and 2022, the Group has recognised deferred tax liabilities for withholding tax of PRC entities' distributable profits at 10%.

# 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 2023

	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	-	205	128	9	342
Ms. Gu	-	299	-	-	299
Mr. Huang Lei	-	183	100	9	292
Mr. Jiang Caijun	-	183	100	9	292
Mr. Fan Yaqiang	-	106	80	9	195
<b>Non-executive director</b>					
Mr. Gu Yao	109	-	-	-	109
<b>Independent non-executive directors</b>					
Mr. Fan Peng	109	-	-	-	109
Mr. Guan Dongtao	109	-	-	-	109
Ms. Wu Yan	109	-	-	-	109
	<b>436</b>	<b>976</b>	<b>408</b>	<b>36</b>	<b>1,856</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 7 DIRECTOR'S EMOLUMENTS (continued)

Year ended 31 December 2022

	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	–	206	80	8	294
Ms. Gu Jufang	–	150	80	–	230
Mr. Huang Lei	–	184	50	8	242
Mr. Jiang Caijun	–	184	50	8	242
Mr. Fan Yaqiang	–	106	50	8	164
<b>Non-executive director</b>					
Mr. Gu Yao	103	–	–	–	103
<b>Independent non-executive directors</b>					
Mr. Fan Peng	103	–	–	–	100
Mr. Guan Dongtao	103	–	–	–	100
Ms. Wu Yan	103	–	–	–	100
	412	830	310	32	1,584

Mr. Fan Peng, Mr. Guan Dongtao and Ms. Wu Yan were retired and re-appointed as Independent non-executive directors of the Company on 25 May 2023.

Mr. Ge Xiaojun and Ms. Gu Jufang were retired and re-appointed as executive directors of the Company on 26 May 2022.

Mr. Gu Yao was retired and re-appointed as non-executive director of the Company on 26 May 2022.

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 (2022: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2022: one) individuals are as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Salaries, allowance and benefits in kind	156	156
Discretionary bonuses	80	50
Retirement scheme contributions	9	8
Total	245	214

The emoluments of the one (2022: one) individuals with the highest emoluments are within the following band:

	2023 <i>Number of individuals</i>	2022 <i>Number of individuals</i>
Nil – HK\$1,000,000	1	1

## 9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB21,121,000.00 (2022: RMB11,458,000) and 480,000,000 ordinary shares (2022: 480,000,000 ordinary shares) in issue during the year, calculated as follows:

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

	2023	2022
Shares in issue on 1 January and 31 December	480,000,000	480,000,000
Weighted average number of ordinary shares	480,000,000	480,000,000

There were no dilutive potential ordinary shares for the years ended 31 December 2023 and 2022; 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>	Total <i>RMB'000</i>
<b>Cost:</b>					
<b>At 1 January 2022</b>	31,892	39,792	5,885	7,098	84,667
Additions	–	–	130	3,101	3,231
Disposals	–	–	–	(62)	(62)
<b>At 31 December 2022 and 1 January 2023</b>	31,892	39,792	6,015	10,137	87,836
Additions	4,551	2,815	23	50	7,439
Disposals	–	(899)	(2,551)	(226)	(3,676)
<b>At 31 December 2023</b>	36,443	41,708	3,487	9,961	91,599
<b>Accumulated depreciation:</b>					
<b>At 1 January 2022</b>	(16,925)	(16,648)	(4,718)	(6,311)	(44,602)
Charge for the year	(1,434)	(2,783)	(354)	(726)	(5,297)
Written back on disposals	–	–	–	56	56
<b>At 31 December 2022 and 1 January 2023</b>	(18,359)	(19,431)	(5,072)	(6,981)	(49,843)
Charge for the year	(1,424)	(2,784)	(313)	(834)	(5,355)
Written back on disposals	–	814	2,324	204	3,342
<b>At 31 December 2023</b>	(19,783)	(21,401)	(3,061)	(7,611)	(51,856)
<b>Net book value:</b>					
<b>At 31 December 2023</b>	16,660	20,307	426	2,350	39,743
<b>At 31 December 2022</b>	13,533	20,361	943	3,156	37,993

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 11 RIGHT-OF-USE ASSETS

	Leasehold land RMB'000
<b>Cost:</b>	
At 1 January 2022 and at 1 January and 31 December 2023	3,404
<b>Accumulated depreciation:</b>	
At 1 January 2022	(300)
Charge for the year	(100)
At 31 December 2022 and 1 January 2023	(400)
Charge for the year	(100)
At 31 December 2023	(500)
<b>Net book value:</b>	
At 31 December 2023	2,904
At 31 December 2022	3,004

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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Raw materials	27,743	23,537
Work in progress	5,089	4,493
Finished goods	3,426	2,024
Consignment goods	841	3,490
	<b>37,099</b>	<b>33,544</b>

# 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:

	2023 RMB'000	2022 RMB'000
Carrying amount of inventories sold	137,283	203,143
Write-down of inventories	92	161
Cost of inventories directly recognised as research and development expenses	5,177	6,046
	<b>142,552</b>	<b>209,350</b>

## 14 TRADE AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables, net of loss allowance (note (a))	62,313	107,521
Bills receivables (note (b))	18,052	9,230
Other receivables	2,542	2,706
	<b>82,907</b>	<b>119,457</b>
Financial assets measured at amortised cost	82,907	119,457
	<b>82,907</b>	<b>119,457</b>

All of the trade and other receivables 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:

	2023 RMB'000	2022 RMB'000
Within 3 months	50,317	97,705
After 3 months but within 6 months	8,179	8,961
After 6 months but within 1 year	663	855
After 1 year but within 2 years	3,154	–
Trade receivables, net of loss allowance	<b>62,313</b>	107,521

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

### (b) Bills receivables

Bills receivables represent 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 receivables to suppliers as part of the treasury management.

As at 31 December 2023, the Group endorsed undue bills receivable of RMB3,070,585 (2022: RMB1,893,500) to its suppliers to settle trade payables of the same amount and derecognised these bills receivable and payables to suppliers in their entirety from balance sheet as the Group's management considered that the risks and rewards of ownership of these undue bills have been substantially transferred.

As at 31 December 2023, 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 RMB3,070,585 (2022: RMB1,893,500).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 15 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cash at banks and on hand	95,204	146,484

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

	<i>Note</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit before taxation		25,192	26,205
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	5,355	5,297
Depreciation of right-of-use assets	11	100	100
Write-down of inventories	13(b)	92	161
Finance costs	5(a)	13	–
Interest income	4	(4,736)	(720)
Income from wealth management products	4	(155)	(2,217)
Foreign exchange differences		(310)	219
Net loss on disposal of property, plant and equipment	4	332	3
Changes in working capital:			
(Increase)/decrease in inventories		(3,647)	2,564
Decrease/(increase) in trade and other receivables		36,550	(41,085)
Decrease/(increase) in prepayment		4,915	(1,522)
(Decrease)/increase in trade and other payables		(3,638)	7,456
Increase in contract liabilities		2,210	–
Cash generated from operations		62,273	(3,539)

# 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

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Other borrowings <i>RMB'000</i>	Interests payables <i>RMB'000</i>	Dividends payable <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2022	-	-	-	-
Changes from financing cash flows:				
- Dividends paid to equity shareholders of the Company	-	-	(3,874)	(3,874)
Total changes from financing cash flows	-	-	(3,874)	(3,874)
Other changes:				
- Dividends approved in respect of the previous year ( <i>note 19(b)</i> )	-	-	3,874	3,874
Balance at 31 December 2022 and 1 January 2023	-	-	-	-
Changes from financing cash flows:				
- Proceeds from other borrowings	4,740	-	-	4,740
- Repayment of other borrowings	(4,740)	-	-	(4,740)
- Interest paid	-	(13)	-	(13)
- Dividends paid to equity shareholders of the Company	-	-	(96,684)	(96,684)
Total changes from financing cash flows	-	(13)	(96,684)	(96,697)
Other changes:				
- Dividends approved in respect of the previous year	-	-	96,684	96,684
- Interest expenses ( <i>note 5(a)</i> )	-	13	-	13
Balance at 31 December 2023	-	-	-	-

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 16 CONTRACT LIABILITIES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Made-to-order manufacturing arrangements		
– Billings in advance of performance	2,210	–

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.

### Movements in contract liabilities

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Balance at 1 January	–	–
Increase in contract liabilities as a result of billing in advance of manufacturing activities	5,609	3,634
Decrease in contract liabilities as a result of recognising revenue during the year	(3,399)	(3,634)
Balance at 31 December	2,210	–

All of the other contract liabilities are expected to be recognised as income within one year.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17 TRADE AND OTHER PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables ( <i>note (a)</i> )	10,186	11,415
Other payables and accruals	14,283	16,757
<b>Trade and other payables</b>	<b>24,469</b>	<b>28,172</b>

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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	9,729	10,656
Over 3 months but within 6 months	304	703
Over 6 months but within 1 year	145	56
Over 1 year	8	–
<b>Trade payables</b>	<b>10,186</b>	<b>11,415</b>

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

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Balance at 1 January	5,460	3,089
Provision for current income tax for the year ( <i>note 6(a)</i> )	3,050	3,577
Transfer from deferred tax liabilities ( <i>note 18(b)</i> )	11,538	–
Over-provision in prior years ( <i>note 6(a)</i> )	(329)	(23)
Payment made during the year	(15,392)	(1,183)
<b>Balance at 31 December</b>	<b>4,327</b>	<b>5,460</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	Withholding tax on dividends available for distribution RMB'000	Total RMB'000
Balance at 1 January 2022	80	11	452	(2,175)	–	(1,632)
Charged to profit or loss (note 6(a))	(57)	24	33	247	(11,440)	(11,193)
Balance at 31 December 2022 and 1 January 2023	23	35	485	(1,928)	(11,440)	(12,825)
Charged to profit or loss (note 6(a))	210	14	(11)	248	(1,811)	(1,350)
Transfer to current taxation (note 18(a))	–	–	–	–	11,538	11,538
Balance at 31 December 2023	233	49	474	(1,680)	(1,713)	(2,637)

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

	<b>2023</b> <b>RMB'000</b>
Net deferred tax assets recognised in the consolidated statements of financial position	<b>756</b>
Net deferred tax liabilities recognised in the consolidated statements of financial position	<b>(3,393)</b>
	<b>(2,637)</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 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>	Share premium <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	(Accumulated losses)/ Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2022	3,873	92,034	3,091	(5,517)	93,481
Loss for the year	-	-	-	(1,364)	(1,364)
Other comprehensive income	-	-	8,181	-	8,181
Total comprehensive income	-	-	8,181	(1,364)	6,817
Dividends approved in respect of the previous year	-	(3,874)	-	-	(3,874)
Balance at 31 December 2022 and 1 January 2023	3,873	88,160	11,272	(6,881)	96,424
Profit for the year	-	-	-	104,467	104,467
Other comprehensive income	-	-	3,131	-	3,131
Total comprehensive income	-	-	3,131	104,467	107,598
Dividends approved in respect of the previous year	-	(4,223)	-	(92,461)	(96,684)
Balance at 31 December 2023	3,873	83,937	14,403	5,125	107,338

# 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

	2023 RMB'000	2022 RMB'000
Interim dividend declared and paid of HK\$0.21 per Ordinary share (2022: Nil)	92,461	–
Final dividend proposed after the end of the reporting Period of HK\$0.02 per ordinary share (2022: HK\$0.01 per ordinary share)	8,711	4,223
	<b>101,172</b>	<b>4,223</b>

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

	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.01 per share (2022: HK\$0.01 per share)	4,223	3,874

### (c) Share capital

#### Authorized and issued share capital

	Par value HK\$	No. of shares '000	HK\$ '000
Ordinary shares, issued and fully paid At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	0.01	480,000	4,800
RMB equivalent ('000)			<b>3,873</b>

# 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 2023, the Group had no bank loans as at 31 December 2023 and 2022. The Group had bank deposits and cash balance as at 31 December 2023 amounting to RMB95,204,000 (31 December 2022: RMB146,484,000).

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.

There was no net debt for the Group as at 31 December 2023 and 2022.

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, which the Group considers to represent 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 2023, 1.91% (2022: 15.9%) of the total trade receivables were due from the Group's largest customer and 27.19% (2022: 24.4%) 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:

	2023		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	0.09%	53,746	52
1-180 days past due	0.30%	8,645	26
181-365 days past due	2.75%	-	-
1-2 years past due	8.32%	-	-
More than 3 years past due	100.00%	-	-
		<b>62,391</b>	<b>78</b>
Credit – impaired assessed individually	100.00%	1,426	1,426
		<b>63,817</b>	<b>1,504</b>

# 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)

	2022		
	Expected loss rate	Gross carrying amount <i>RMB'000</i>	Loss allowance <i>RMB'000</i>
Current (not past due)	0.11%	95,481	108
1-180 days past due	0.35%	12,191	43
181-365 days past due	2.83%	–	–
1-2 years past due	9.20%	–	–
More than 3 years past due	100.00%	–	–
		107,672	151

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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Balance at 1 January	151	534
Impairment losses recognised/(reversed) during the year	1,353	(383)
Balance at 31 December	1,504	151

# 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 2023			
	Contractual undiscounted cash outflow			Carrying amount
	Within 1 year or on demand	More than 1 year but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	24,469	–	24,469	24,469

	As at 31 December 2022			
	Contractual undiscounted cash outflow			Carrying amount
	More than Within 1 year or on demand	1 year but less than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	28,172	–	28,172	28,172

# 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)	
	2023 RMB'000	2022 RMB'000
Cash and cash equivalents	52,464	37,818
Trade and other receivables	1,127	6,474
Trade and other payables	–	(77)
	<b>53,591</b>	<b>44,215</b>

	Exposure to EUR (expressed in RMB)	
	2023 RMB'000	2022 RMB'000
Cash and cash equivalents	117	5,971

# 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)

	Exposure to HKD (expressed in RMB)	
	2023 RMB'000	2022 RMB'000
Cash and cash equivalents	801	350

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:

	2023		2022	
	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%	2,278	5%	1,879
	-5%	(2,278)	-5%	(1,879)
EUR	5%	5	5%	254
	-5%	(5)	-5%	(254)
HKD	5%	34	5%	15
	-5%	(34)	-5%	(15)

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

For the investment in wealth management product issued by banks which are categorized into Level 2 of fair value hierarchy, the Group performs valuations and analyse changes in fair value measurement at each interim and annual reporting date.

During the years ended 31 December 2022 and 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

#### (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 2023 and 2022.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 21 MATERIAL RELATED PARTY TRANSACTIONS

As at 31 December 2023, the Group had no balances with related parties (31 December 2022: Nil). During the year ended 31 December 2023, the Group did not have material related party transactions (2022: 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:

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Short-term employee benefits	<b>2,056</b>	1,758
Post-employee benefits	<b>45</b>	40
	<b>2,101</b>	1,798

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 22 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
<b>Non-current assets</b>			
Investment in a subsidiary	(note i)	(*)	(*)
Amounts due from subsidiaries		57,320	56,648
		57,320	56,648
<b>Current assets</b>			
Other receivables		147	197
Cash and cash equivalents		51,480	40,870
		51,627	41,067
<b>Current liabilities</b>			
Other payables		1,609	1,291
Amount due to a subsidiary		(*)	(*)
		1,609	1,291
<b>Net current assets</b>		<b>50,018</b>	<b>39,776</b>
Total assets less current liabilities		<b>107,338</b>	<b>96,424</b>
<b>NET ASSETS</b>		<b>107,338</b>	<b>96,424</b>
<b>EQUITY</b>			
Share capital		3,873	3,873
Reserves		103,465	92,551
<b>TOTAL EQUITY</b>		<b>107,338</b>	<b>96,424</b>

(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)

## 23 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

## 24 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2023, 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.

## 25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, Presentation of financial statements: Classification of liabilities as current or non-current (“ <b>2020 Amendments</b> ”)	1 January 2024
Amendments to HKAS 1, Presentation of financial statements: Non-current liabilities with covenants (“ <b>2022 amendments</b> ”)	1 January 2024
Amendments to HKFRS 16, Leases: Lease liability in a sale and Leaseback	1 January 2024
Amendments to HKAS 7, Statement of cash flows and HKFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements	1 January 2024
Amendments to HKAS 21, The effects of changes in foreign exchange Rates: Lack of exchangeability	1 January 2025

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 2019, 2020, 2021, 2022 and 2023.

	Year ended 31 December				
	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
<b>RESULTS</b>					
Profit from operations	34,445	23,276	12,918	26,205	<b>25,205</b>
Profit before tax	34,414	23,223	12,901	26,205	<b>25,192</b>
Income tax expense	(7,468)	(1,171)	(1,243)	(14,747)	<b>(4,071)</b>
Net profit and total comprehensive income for the year	26,946	22,052	11,658	11,458	<b>21,121</b>
<b>ASSETS AND LIABILITIES</b>					
Total assets	296,007	305,607	315,344	347,479	<b>259,396</b>
Current liabilities	23,020	20,064	23,677	33,632	<b>31,006</b>
Total equity	268,536	283,120	289,492	300,479	<b>225,753</b>

## 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 Thursday, 23 May 2024
“Articles” or “Articles of Association”	the amended and restated articles of association of the Company as amended from time to time
“Audit Committee”	the audit committee of the Company
“Board” or “Board of Directors”	the board of directors of the Company
“CG Code”	Corporate Governance Code contained in Appendix C1 to the Listing Rules
“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
“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)
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to 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
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited

## DEFINITIONS

“Innovative Green Holdings”	Innovative Green Holdings Limited, incorporated in British Virgin Islands, which is 100% owned 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 Date”	28 March 2018, being the date on which dealing in the Shares first commenced 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
“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 C3 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 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
“Nomination Committee”	the nomination committee of the Company
“Prospectus”	the prospectus of the Company dated 19 March 2018 in connection with the Hong Kong Public Offering (as defined therein)
“R&D”	Research and development
“Remuneration Committee”	the remuneration committee of the Company
“Reporting Period”	the period for the year ended 31 December 2023
“RMB”	Renminbi, the lawful currency of the PRC
“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

## DEFINITIONS

“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.