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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

2018

Interim Report

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DEFINITIONS

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

"Articles of Association"	the amended and restated articles of association of the Company as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"Company"	Jiangsu Innovative Ecological New Materials Limited (江蘇創新環保新材料有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 6 July 2017, the Shares of which are listed on the Main Board (stock code: 2116)
"China" or "PRC"	the People's Republic of China, but for the purpose of this interim report and for geographical reference only and except where the context requires, references in this interim report to "China" and "PRC" do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
"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 Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Innovative Green Holdings"	Innovative Green Holdings Limited, which is owned as to 50% by Mr. Ge and 50% by Ms. Gu, and is directly interested in approximately 75% of the issued Shares
"Listing"	The listing of the Shares on the Main Board of the Stock Exchange on 28 March 2018
"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"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with GEM of the Hong Kong Stock Exchange

DEFINITIONS

"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Mr. Ge"	Mr. Ge Xiaojun (葛曉軍)
"Ms. Gu"	Ms. Gu Jufang (顧菊芳)
"ppm"	parts per million, a unit of measurement commonly used to denote concentration
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"Reporting Period"	the period for the six months ended 30 June 2018
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"US\$" or "USD"	U.S. dollars, the lawful currency of the United States of America
"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
"%"	per cent.

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 Directors

Mr. Gu Yao

Independent Non-executive Directors

Mr. Fan Peng
Mr. Guan Dongtao
Ms. Wu Yan

AUDIT COMMITTEE

Mr. Guan Dongtao (*Chairman*)
Mr. Fan Peng
Ms. Wu Yan

REMUNERATION COMMITTEE

Ms. Wu Yan (*Chairwoman*)
Mr. Guan Dongtao
Ms. Gu Jufang

NOMINATION COMMITTEE

Mr. Ge Xiaojun (*Chairman*)
Ms. Wu Yan
Mr. Guan Dongtao

JOINT COMPANY SECRETARIES

Mr. Tan Qian
Mr. Wong Yu Kit (appointed on 11 June 2018)
Ms. Ko Nga Kit (appointed on 10 April 2018
and resigned on 11 June 2018)
Mr. Yong Ho Kee Bernard (resigned on 10 April 2018)

AUTHORISED REPRESENTATIVES

Mr. Ge Xiaojun
Mr. Wong Yu Kit (appointed on 11 June 2018)
Ms. Ko Nga Kit (appointed on 10 April 2018
and resigned on 11 June 2018)
Mr. Yong Ho Kee Bernard (resigned on 10 April 2018)

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 THE PRC

No. 16 West Kaixuan Road
Economic Development Zone
Yixing, Jiangsu
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight
No. 248 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

LEGAL ADVISERS TO OUR COMPANY

Stephenson Harwood (as to Hong Kong law)
Jiangsu Roadxiu Law Firm (as to PRC law)

COMPLIANCE ADVISER

Orient Capital (Hong Kong) Limited

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, Jiangsu
PRC

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

Bank of Communications Co., Ltd.
Yixing Dongshan Sub-Branch
No. 217, East Jiefang Road
Yicheng Road
Yixing, Jiangsu
PRC

Wing Lung Bank Limited
45 Des Voeux Road
Central
Hong Kong

COMPANY'S WEBSITE

<http://www.jscxsh.cn>

STOCK CODE

2116

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Shares were listed on the Main Board of the Stock Exchange on 28 March 2018 (the “**Share Offer**”).

INDUSTRY OVERVIEW

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

On 18 December 2013, the government of the PRC promulgated the “China V” Fuel Quality Standard (第五階段車用汽油國家標準), which sets stricter emissions and fuel quality requirements than the “China IV” Fuel Quality Standard (第四階段車用汽油國家標準) previously in force. The “China V” Fuel Quality Standard mandates that by 31 December 2017, members of the petrochemical industry must lower sulfur levels in fuels from 50 ppm as required under the “China IV” Fuel Quality Standard to 10 ppm, a reduction of 80%. The government of the PRC will implement even more stringent fuel quality requirements under the “China VI” Fuel Quality Standard.

The volume of application of oil refining agents and fuel additives is highly correlated to crude oil consumption and fuel quality standards in China. With oil consumption in China continuing to increase over the past decades, the country’s oil refining agents and fuel additives industry has likewise continued to grow at a steady pace.

The PRC oil refining agents and fuel additives industry is relatively fragmented. In recent decades, producers of oil refining agents in China experienced a period of relatively rapid growth alongside major players located mostly in Jiangsu Province. Jiangsu Province is surrounded by a number of large-scale refinery plants. The oil refining agents and fuel additives manufacturers located in Jiangsu Province gain a great advantage over competitors that are located elsewhere by being able to maintain lower logistical costs.

BUSINESS OVERVIEW

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

As of the date of this report, we owned three invention patents and 15 utility model patents and have been qualified as a “High and New Technology Enterprise” (高新技術企業) since 2013. For the six months ended 30 June 2018, we recorded total revenue of RMB81.2 million compare to total revenue of RMB79.2 million for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Compliance with Key Regulatory Requirements

The following table summarizes the key statutory requirements and our compliance status for the six months ended 30 June 2018:

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 and the amount of their consumption of hazardous chemicals has reached the quantitative standards of hazardous chemicals shall obtain the License for the Safe Use of Hazardous Chemicals (危險化學品安全使用許可證).

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 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 stop their business activities.

According to the Interim Measures for the Administration of Pollutants Discharge Licenses (排污許可證管理暫行規定), enterprises directly or indirectly discharging industrial wastewater into water must obtain a pollutant discharge license.

Compliance status

Our Group complied with such requirement for the six months ended 30 June 2018.

Our Group complied with such requirement for the six months ended 30 June 2018.

Our Group complied with such applicable requirement for the six months ended 30 June 2018.

Future Plan and Prospects

We intend to further strengthen our core competitive strengths and enable us to capture rising business opportunities by the following strategies:

- Increase our production capacity to meet rising customer demand by upgrading the production capacity of our plant in Yixing;
- Expand our product mix to create new market opportunities while continuing to enhance the quality of our existing products and technologies;
- Expand our customer base to diversify our revenue sources by reaching out to non-state-owned oil refineries and potential customers overseas;
- Extend our upstream reach and produce certain key raw materials to lower procurement costs and exercise greater control over product quality by building up production facilities; and
- Continue enhancing our research and development capabilities to develop innovative, high-quality oil refining agents and fuel additives.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, we did not experience any significant change in our pricing and there was no material change in our cost of principal raw materials. Further, to the best of the Directors' knowledge, there was no development in our industry which may materially and adversely affect our business.

FINANCIAL OVERVIEW

Revenue

Our revenue increased by 2.6% from RMB79.2 million for the six months ended 30 June 2017 to RMB81.2 million for the six months ended 30 June 2018. The following table sets forth our revenue by products for the periods indicated:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Oil refining agents	51,552	56,829
Fuel additives	29,683	22,368
Total revenue	81,235	79,197

Revenue derived from oil refining agents decreased from RMB56.8 million for the six months ended 30 June 2017 to RMB51.5 million for the six months ended 30 June 2018 mainly due to the decrease of consumption as a result of the downtime for the overhaul of the customer in Sudan and some of the customers from Sinopec. Revenue derived from fuel additives increased from RMB22.4 million for the six months ended 30 June 2017 to RMB29.7 million for the six months ended 30 June 2018 mainly due to the large demands for fuel additives of a customer from CNPC.

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
China	76,888	68,417
Sudan	3,698	8,828
Others ⁽¹⁾	649	1,952
Total revenue	81,235	79,197

Note:

- (1) Other countries and regions in which we had sales for the six months ended 30 June 2017 and 2018 included Chad and Niger in Africa. We sell our products to certain of our customers in these countries and regions through their designated agents.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue derived from the PRC market increased from RMB68.4 million for the six months ended 30 June 2017 to RMB76.9 million for the six months ended 30 June 2018 mainly due to the increase of demands of domestic customers. Revenue derived from the Sudan market decreased from RMB8.8 million for the six months ended 30 June 2017 to RMB3.7 million for the six months ended 30 June 2018 mainly due to the decrease of consumption for our refining agents as a result of the downtime for the overhaul of the customer in Sudan.

Cost of sales

Our cost of sales increased from RMB49.9 million for the six months ended 30 June 2017 to RMB56.6 million for the six months ended 30 June 2018. The following table sets forth our cost of sales by products for the periods indicated:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Oil refining agents	37,114	34,616
Fuel additives	19,504	15,305
Total cost of sales	56,618	49,921

The cost of sales of oil refining agents increased from RMB34.6 million for the six months ended 30 June 2017 to RMB37.1 million for the six months ended 30 June 2018 mainly due to the increase of the price of raw materials. The cost of sales of fuel additives increased from RMB15.3 million for the six months ended 30 June 2017 to RMB19.5 million for the six months ended 30 June 2018 mainly due to the increase of the sales volumes for our fuel additives.

Profit from operations

Our profit from operations decreased from RMB19.8 million for the six months ended 30 June 2017 to RMB10.7 million for the six months ended 30 June 2018 mainly due to the professional service fees in relation to the Listing. The following table sets forth the other income for the periods indicated:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Gross profit	24,617	29,276
Other income	4,140	917
Sales and marketing expenses	(3,399)	(3,693)
General and administrative expenses	(10,704)	(3,885)
Research and development expenses	(3,961)	(2,829)
Total	10,693	19,786

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

For the six months ended 30 June 2017 and 2018, our gross profit amounted to RMB29.3 million and RMB24.6 million, respectively. Our gross profit margin was 37% and 30%, respectively, for the same periods. The table below sets forth our gross profit by products for the periods indicated:

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Oil refining agents	14,438	22,213
Fuel additives	10,179	7,063
Total gross profit	24,617	29,276

Our gross profit of oil refining agents decreased by 35.0% from RMB22.2 million for the six months ended 30 June 2017 to RMB14.4 million for the six months ended 30 June 2018 mainly due to the decrease of the consumption as a result of the concentrated overhaul of the customers from Sinopec and Sudan for the six months ended 30 June 2018. Our gross profit of fuel additives increased by 44.1% from RMB7.1 million for the six months ended 30 June 2017 to RMB10.2 million for the six months ended 30 June 2018 mainly due to the increase of the sales volumes for our fuel additives.

Other income

Our other income increased from RMB0.9 million for the six months ended 30 June 2017 to RMB4.1 million for the six months ended 30 June 2018 mainly due to the increase of government grants and interest income from bank deposits.

General and administrative expenses

Our general and administrative expenses mainly include the labor and welfare costs, taxes, depreciation and amortization, travel expenses, office and vehicles expenses and hospitality and entertainment costs.

Our general and administrative expenses increased from RMB3.9 million for the six months ended 30 June 2017 to RMB10.7 million for the six months ended 30 June 2018 mainly due to the increase of RMB6.6 million in professional service fees in relation to the Listing.

Income tax expense

Our income tax expense for the six months ended 30 June 2017 and 2018 was RMB2.9 million and RMB0.7 million, respectively. We are entitled to preferential income tax rate of 15% since we are qualified as "High and New Technology Enterprise". For the six months ended 30 June 2017 and 2018, our effective tax rate for the same periods were 14.5% and 6.5%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period

As a result of the foregoing, our profit decreased by 42.8% from RMB16.9 million for the six months ended 30 June 2017 to RMB9.7 million for the six months ended 30 June 2018 mainly due to the increase of RMB6.6 million in professional service fees in relation to the Listing. Our gearing ratio was nil as of 30 June 2017 and 2018, which was calculated by total borrowings divided by total assets.

Cash and cash equivalents

Cash and cash equivalents primarily consist of our cash at banks and on hand. We had cash and cash equivalents of RMB26.0 million as of 31 December 2017 and RMB118.7 million as of 30 June 2018. Such increase was mainly due to the net proceeds from the Share Offer.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the Listing Date 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, our Directors believe that our current cash and cash equivalents, together with available credit facilities and expected cash flows from operations, will be sufficient to satisfy our current requirements and able to fulfill our business obligations.

Selected items of the statements of financial position

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

	As of	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Current assets		
Inventories	32,510	15,746
Trade and other receivables	88,447	91,954
Cash and cash equivalents	118,697	25,973
Total current assets	239,654	133,673
Current liabilities		
Bank loan	—	18,000
Trade and other payables	30,405	27,839
Income tax payable	3,570	4,038
Total current liabilities	33,975	49,877
Net current assets	205,679	83,796

Our current assets increased from RMB133.7 million as of 31 December 2017 to RMB239.7 million as of 30 June 2018 mainly due to the net proceeds from the Share Offer. Our current liabilities decreased from RMB49.9 million as of 31 December 2017 to RMB34.0 million as of 30 June 2018 mainly due to the repayment of the bank loan.

MANAGEMENT DISCUSSION AND ANALYSIS

Inventories

Our inventories consist of raw materials, work in progress, finished goods and consignment goods. Our inventories increased from RMB15.7 million as of 31 December 2017 to RMB32.5 million as of 30 June 2018 mainly because we purchased more raw materials for a large order which will be delivered in the second half of the year. The following table sets forth our inventories as of the dates indicated:

	As of	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Raw materials	25,322	11,012
Work in progress	1,374	349
Finished goods	5,453	4,206
Consignment goods	361	179
Total	32,510	15,746

Our raw materials increased from RMB11.0 million as of 31 December 2017 to RMB25.3 million as of 30 June 2018 mainly because we purchased more raw materials for a large order which will be delivered in the second half of the year.

Our finished goods increased from RMB4.2 million as of 31 December 2017 to RMB5.5 million as of 30 June 2018 mainly due to an increase in the inventory level of desulfurizing agents which has not been delivered yet.

Bank loan

On 9 May 2018, the one-year bank loan of RMB18.0 million as of 31 December 2017 was repaid by our Group.

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 receivables that entitle our Group to receive the full face amount from banks 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	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Trade receivables	74,621	79,831
Bills receivables	3,283	3,550
Total Trade and bills receivables	77,904	83,381
Other receivables	6,661	3,591
Deposits and prepayments	3,882	4,982
Total Trade and other receivables, net	88,447	91,954

MANAGEMENT DISCUSSION AND ANALYSIS

Our total trade and bill receivables decreased from RMB83.4 million as of 31 December 2017 to RMB77.9 million as of 30 June 2018 mainly due to the decrease of the trade receivables.

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

	As of	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Within 3 months	53,173	41,781
After 3 months but within 6 months	4,690	27,725
After 6 months but within 1 year	15,912	9,967
After 1 year but within 2 years	846	350
After 2 years	—	8
Total	74,621	79,831

Credit periods and trade receivables

We set credit periods ranging from 30 to 90 days for our PRC customers, calculated from the dates that our invoices are issued. As most of our customers are affiliates of the three state-owned conglomerates, they generally have longer payment periods, which our Directors believe is due to longer internal approval processes. We employ a favorable credit policy towards our customers due to their scale and financial strength. We did not have any material bad debts during the Reporting Period.

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

Trade and other payables

Our trade and other payables primarily consist of trade payables from purchases of raw materials from our suppliers, other payables and accruals. Our other payables and accruals mainly include salary payments, payments for social insurance and housing provident funds, payment 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	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Trade payables	16,598	9,171
Other payables and accruals	13,807	18,668
Total Trade and other payables	30,405	27,839

MANAGEMENT DISCUSSION AND ANALYSIS

Our trade and other payables increased from RMB27.8 million as of 31 December 2017 to RMB30.4 million as of 30 June 2018 mainly due to the increase of the purchase of raw materials. 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	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Within 3 months	14,778	7,401
After 3 months but within 6 months	341	1,251
After 6 months but within 1 year	1,123	163
After 1 year but within 2 years	356	356
Total	16,598	9,171

Contingent liabilities

On 11 July 2018, we received a cautionary letter dated 29 June 2018 ("**Cautionary Letter**") issued by the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**"). It states that OFAC decided to address the matter raised in the voluntary self-disclosure, which was submitted by the Company in light of the potential violations on 19 September 2017, by issuing the Cautionary Letter to give us a cautionary reminder instead of pursuing a civil monetary penalty. For more details, please refer to the announcement of the Company dated 13 July 2018. As of 30 June 2018, we had no contingent liabilities.

Capital expenditures

For the six months ended 30 June 2018, our capital expenditures were spent on the purchase of environment protection facilities, safety facilities, transportation equipment, storage facilities and analytical equipment and instruments. The following table sets forth our capital expenditures for the periods indicated:

	For the six months	
	ended 30 June	
	2018	2017
	RMB'000	RMB'000
Purchase of property, plant and equipment	626	87
Total capital expenditures	626	87

MANAGEMENT DISCUSSION AND ANALYSIS

Related party transactions

As of 30 June 2018, we did not have any related party transactions.

Connected transaction

As of 30 June 2018, we did not have any connected transaction.

Off-balance sheet arrangements

As of 30 June 2018, we did not have any off-balance sheet arrangements.

Material Investments, Acquisitions and Disposals

For the six months ended 30 June 2018, there were no material investments, acquisitions and disposals. Other than bank loans and repurchase financing which we may consider, we do not expect to have any plan for material investment and sources of funding in the short time.

USE OF PROCEEDS FROM THE SHARE OFFER

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date with net proceeds received by the Company from the Share Offer of approximately HK\$110.7million (after deducting underwriting commissions and other estimated expenses in connection with the Share Offer). The net proceeds received from the Share Offer will be used in the manner consistent with that disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 19 March 2018.

Since the Listing Date and up to the date of this report, the utilization of the net proceeds and remaining balance as of 30 June 2018 as set out below:

Purposes	Allocation	Amount utilized as of 30 June 2018	The remaining balance as of 30 June 2018
To upgrade our Yixing plant by purchasing new sets of machinery, equipment and analytical instruments	Approximately HK\$42.8 million	—	Approximately HK\$42.8 million
To build production facilities for the manufacturing of a lower-cost raw material substitute, high-purity oleic acid, for the production of lubricity improvers	Approximately HK\$53.9 million	—	Approximately HK\$53.9 million
General business operations and working capital	Approximately HK\$8.8 million	Approximately HK\$8.8 million	—
To repay bank borrowings	Approximately HK\$5.2 million	Approximately HK\$5.2 million	—
Total	Approximately HK\$110.7 million	Approximately HK\$14.0 million	Approximately HK\$96.7 million

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYMENT AND EMOLUMENTS

As of 30 June 2018, our Group had 73 employees. All of our employees were based in China. 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.

OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company has reviewed and discussed with the management the accounting principles and practices adopted by the Company, internal controls and financial report matters, and the Company's policies and practices on corporate governance. The interim report has been reviewed by the Company's audit committee. The external auditor, KPMG, has carried out a review of the interim financial report for the six months ended 30 June 2018 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. There is no disagreement by the audit committee of the Company with the accounting treatment adopted by the Company.

SHARE OPTION SCHEME

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

No share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption. As of 30 June 2018, the Company has no outstanding share option under the Share Option Scheme.

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

From the Listing Date to the date of this report, the Company has not purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As of 30 June 2018, the interests or short positions of the Directors and the chief executive 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	Approximate percentage of shareholding in the same class of Shares (%)	
			Number of shares ⁽¹⁾	
Mr. Ge	Executive Director, chairman and chief executive officer	Interest in controlled corporation ⁽²⁾	360,000,000(L)	75%
Ms. Gu	Executive Director	Interest in controlled corporation ⁽²⁾	360,000,000(L)	75%

Notes:

- (1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.
- (2) Innovative Green Holdings, a beneficial owner of 360,000,000 Shares, is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and 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 30 June 2018, none of the Directors and chief executive 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 (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.

OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As of 30 June 2018, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) or corporations who had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company and Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO which were recorded in the register required to be kept under section 336 of the SFO:

Shareholders	Nature of interest	Approximate percentage of shareholding in the same class of Shares (%)	
		Number of shares ⁽¹⁾	
Innovative Green Holdings ⁽²⁾	Beneficial Owner	360,000,000 (L)	75%

Notes:

- (1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.
- (2) Innovative Green Holdings is owned as to 50% and 50% by Mr. Ge and Ms. Gu, respectively, and therefore each of Mr. Ge and Ms. Gu is deemed to be interested in the Shares held by Innovative Green Holdings by virtue of the SFO.

Save as disclosed above, as of 30 June 2018, our Directors were not aware of any person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in Shares or underlying Shares which would fall to be disclosed to the Company and Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which would be recorded in the register required to be kept under section 336 of the SFO.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2018.

EVENTS AFTER THE REPORTING PERIOD

There are no significant subsequent events after Reporting Period.

CORPORATE GOVERNANCE REPORT

Our Group is committed to maintaining high standards of corporate governance to protect the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code and Corporated Governance Report (the "**CG Code**") set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the six months ended 30 June 2018, the Company has complied with the Code Provisions, except for the following deviation with considered reason as explained below:

OTHER INFORMATION

According to provision A.2.1 of the Code Provision, 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.

UPDATES ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, there is no change in the information of Directors since the date of the Board meeting approving the annual report 2017 up to the date of the Board meeting approving this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the rules governing dealings by the Directors in the listed securities of the Company. From the Listing Date to the date of this report, all Directors have confirmed that they have fully complied with the required standards set out in the Model Code.

INDEPENDENT REVIEW REPORT

**Review report to the board of directors of
Jiangsu Innovative Ecological New Materials Limited**
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 23 to 40 which comprises the consolidated statement of financial position of Jiangsu Innovative Ecological New Materials Limited (the “company”) as of 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

Certified Public Accountants

8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

24 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 - unaudited

(Expressed in Renminbi Yuan)

	Note	Six months ended 30 June	
		2018 RMB'000	2017 RMB'000
Revenue	3	81,235	79,197
Cost of sales		(56,618)	(49,921)
Gross profit		24,617	29,276
Other income		4,140	917
Sales and marketing expenses		(3,399)	(3,693)
General and administrative expenses		(10,704)	(3,885)
Research and development expenses	4(b)	(3,961)	(2,829)
Profit from operations		10,693	19,786
Finance costs	4(a)	(334)	—
Profit before taxation	4	10,359	19,786
Income tax	5	(671)	(2,860)
Profit for the period		9,688	16,926
Earnings per share	6		
Basic and diluted (RMB cents)		2.29	4.70

The notes on page 30 to 40 form part of this interim report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 - unaudited

(Expressed in Renminbi Yuan)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit for the period	9,688	16,926
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	5,713	—
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside mainland China	(2,059)	—
Other comprehensive income for the period	3,654	—
Total comprehensive income for the period	13,342	16,926

The notes on page 30 to 40 form part of this interim report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 - unaudited
(Expressed in Renminbi Yuan)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment	7	18,915	19,565
Lease prepayment	8	3,454	3,504
Deferred tax assets		1,195	446
		<u>23,564</u>	<u>23,515</u>
Current assets			
Inventories	9	32,510	15,746
Trade and other receivables	10	88,447	91,954
Cash and cash equivalents	11	118,697	25,973
		<u>239,654</u>	<u>133,673</u>
Current liabilities			
Bank loan	12	—	18,000
Trade and other payables	13	30,405	27,839
Income tax payable		3,570	4,038
		<u>33,975</u>	<u>49,877</u>
Net current assets		<u>205,679</u>	<u>83,796</u>
Total assets less current liabilities		<u>229,243</u>	<u>107,311</u>
NET ASSETS		<u>229,243</u>	<u>107,311</u>

The notes on page 30 to 40 form part of this interim report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

at 30 June 2018 - unaudited

(Expressed in Renminbi Yuan)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
CAPITAL AND RESERVES			
Share capital	14	3,873	—
Reserves	14	225,370	107,311
TOTAL EQUITY		229,243	107,311

Approved and authorised for issue by the board of directors on 24 August 2018.

)	
Ge Xiaojun)	
)	Directors
Gu Jufang)	
)	

The notes on page 30 to 40 form part of this interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 - unaudited

(Expressed in Renminbi Yuan)

	Share capital RMB'000 Note 14(b)	Capital reserve RMB'000 Note 14(d)	PRC statutory reserve RMB'000 Note 14(e)	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017	79,938	—	12,595	7,816	100,349
Changes in equity for the six months ended 30 June 2017:					
Profit for the period	—	—	—	16,926	16,926
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	—	16,926	16,926
Balance at 30 June 2017 and 1 July 2017	79,938	—	12,595	24,742	117,275
Changes in equity for the six months ended 31 December 2017:					
Profit for the period	—	—	—	10,451	10,451
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	—	10,451	10,451
Appropriation to reserve	—	—	2,738	(2,738)	—
Profit distribution (note 14(a))	—	—	—	(20,415)	(20,415)
Arising from the reorganisation (note 14(b))	(79,938)	79,938	—	—	—
Balance at 31 December 2017	—	79,938	15,333	12,040	107,311

The notes on page 30 to 40 form part of this interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

for the six months ended 30 June 2018 - unaudited

(Expressed in Renminbi Yuan)

	Share capital RMB'000 Note 14(b)	Share premium RMB'000 Note 14(c)	Capital reserve RMB'000 Note 14(d)	PRC statutory reserve RMB'000 Note 14(e)	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018	—	—	79,938	15,333	—	12,040	107,311
Changes in equity for the six months ended 30 June 2018:							
Profit for the period	—	—	—	—	—	9,688	9,688
Other comprehensive income	—	—	—	—	3,654	—	3,654
Total comprehensive income	—	—	—	—	3,654	9,688	13,342
Capitalization issue (note 14(b))	2,913	(2,913)	—	—	—	—	—
Issue of ordinary shares by initial public offering, net of issuance cost (note 14(b))	960	107,630	—	—	—	—	108,590
Balance at 30 June 2018	3,873	104,717	79,938	15,333	3,654	21,728	229,243

The notes on page 30 to 40 form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 - unaudited

(Expressed in Renminbi Yuan)

		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
Note			
Operating activities:			
	Cash generated from operations	3,834	3,664
	Income tax paid	(1,888)	(3,475)
	Net cash generated from operating activities	1,946	189
Investing activities:			
	Payment for the purchase of property, plant and equipment	(596)	(87)
	Payment for investment in available-for-sale financial assets	—	(26,150)
	Proceeds from disposal of available-for-sale financial assets	—	38,150
	Proceeds from repayment of advance to related parties	—	9,571
	Other cash flows arising from investing activities	829	(707)
	Net cash generated from investing activities	233	20,777
Financing activities:			
	Repayment of bank loan	(18,000)	—
	Net proceeds from issuance of shares by initial public offering, net of issuance cost	108,590	—
	Other cash flow arising from financing activities	(334)	—
	Net cash generated from financing activities	90,256	—
	Net increase in cash and cash equivalents	92,435	20,966
	Cash and cash equivalents at 1 January	25,973	2,372
	Effect of foreign exchange rates changes	289	411
	Cash and cash equivalents at 30 June	118,697	23,749

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The notes on page 30 to 40 form part of this interim report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

1 BASIS OF PRESENTATION

Jiangsu Innovative Ecological New Materials Limited ("the Company") was incorporated in the Cayman Islands on 6 July 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the completion of various steps of a reorganization on 12 September 2017, the Company became the holding company of the Group. 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 are principally engaged in the development, manufacture and sale of oil refining agents and fuel additives that are applied to reduce undesirable emissions and navigate the regulatory landscape.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)34,. It was authorized for issue on 24 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 22.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

(a) The amount of each significant category of revenue recognised is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of oil refining agents	51,552	56,829
Sales of fuel additives	29,683	22,368
Total	81,235	79,197

(b) Information about 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 selling 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 lease prepayment. During the period ended 30 June 2018, substantially all specified non-current assets were physically located in the PRC.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Mainland China	76,888	68,417
Sudan	3,698	8,828
Other countries and regions	649	1,952
Total	81,235	79,197

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

3 REVENUE (continued)

(c) Segment reporting

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

4 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest on bank loan	334	—

(b) Other items

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Amortization of intangible assets	50	50
Depreciation	1,276	1,230
Research and development expenses (other than depreciation)	3,514	2,387
Impairment losses of trade receivables recognised/(reversed)	63	(66)
Net reversals of inventory write-down (note 9)	(3)	(12)
Listing expenses	6,637	—

5 INCOME TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax:		
Provision for current income tax for the period	1,420	2,899
Deferred tax:		
Origination and reversal of temporary differences	(749)	(39)
	671	2,860

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

5 INCOME TAX *(continued)*

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) The Company's subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at 16.5% of the estimated assessable profits. Payments of dividends by Hong Kong companies are not subject to any withholding tax.
- (iii) The Company's subsidiary, Jiangsu Chuangxin Petrochemical Co., Ltd. ("Jiangsu Chuangxin") is subject to the PRC corporate income tax rate of 25%. According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. Jiangsu Chuangxin obtained the approval of High and New Technology Enterprise in 2013 with an effective period of three years from 2013 to 2015 and obtained the renewed approval of High and New Technology Enterprise in 2016 with another effective period of three years from 2016 to 2018. Therefore, Jiangsu Chuangxin was entitled to a preferential income tax rate of 15% for a period of three years from 2016 to 2018.
- (iv) Under the PRC Corporate Income Tax Law and its relevant regulations, additional tax deduction is allowed for qualified research and development costs.

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholder of the Company for the six months ended 30 June 2018 of RMB9,688,000 (six months ended 30 June 2017: RMB16,926,000) and the weighted average of 422,983,425 ordinary shares (six months ended 30 June 2017: 360,000,000 shares after adjusting capitalization issue) in issue during the period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2018 and 2017, therefore, diluted earnings per share are equivalent to basic earnings per share.

7 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2018, acquisitions of property, plant and equipment amounted to RMB 626,000 (six months ended 30 June 2017: RMB 87,000). Items of property, plant and equipment with a net book value of RMB 50,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil), resulting in a loss on disposal of nil (six months ended 30 June 2017: Nil).

At 30 June 2018, properties of the Group with a carrying amount of nil (31 December 2017: RMB 5,195,000) were pledged to secure the bank loan of the Group as detailed in note 12.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

8 LEASE PREPAYMENT

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.

At 30 June 2018, land use right of the Group with a carrying amount of nil (31 December 2017: RMB 3,504,000) was pledged to secure the bank loan of the Group as detailed in note 12.

9 INVENTORIES

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	25,322	11,012
Work in progress	1,374	349
Finished goods	5,453	4,206
Consignment goods	361	179
	32,510	15,746

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

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	56,714	49,933
Write-down of inventories	—	22
Reversal of write-down of inventories	(3)	(34)
Cost of inventories directly recognised as research and development expenses	2,632	1,572
	59,343	51,493

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

10 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	53,173	41,781
After 3 months but within 6 months	4,690	27,725
After 6 months but within 1 year	15,912	9,967
After 1 year but within 2 years	846	350
After 2 years	—	8
Trade receivables, net of loss allowance	74,621	79,831
Bills receivables (note (a))	3,283	3,550
Total trade receivables	77,904	83,381
Other receivables	6,661	3,591
Deposits and prepayments	3,882	4,982
Trade and other receivables, net	88,447	91,954

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

(a) Bills receivables

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

During the period ended 30 June 2018, the Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a fully recourse basis. The Group had derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of reporting period. In the opinion of the directors, the Group had transferred substantially all the risks and rewards of ownership of these bills and had discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

10 TRADE AND OTHER RECEIVABLES (continued)

As at 30 June 2018, 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 RMB2,000,000 (31 December 2017: RMB3,050,000).

11 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>118,697</u>	<u>25,973</u>

12 BANK LOAN

As at 31 December 2017, the bank loan represented a one-year loan of RMB 18,000,000 with annual interest rate of 4.80% borrowed from a state-owned commercial bank in the PRC pledged by the land use rights and properties of the Group. The carrying amounts of land use rights and properties of the Group pledged amounted to RMB 3,504,000 and RMB 5,195,000 respectively as at 31 December 2017. The bank loan was repaid by the Group on 9 May 2018.

13 TRADE AND OTHER PAYABLES

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	14,778	7,401
After 3 months but within 6 months	341	1,251
After 6 months but within 1 year	1,123	163
Over 1 year but within 2 years	356	356
Total trade payables	16,598	9,171
Other payables and accruals	13,807	18,668
Trade and other payables	<u>30,405</u>	<u>27,839</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

14 CAPITAL AND RESERVES

(a) Profit distribution

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

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018.

On 31 August 2017, an interim dividend in respect of the period ended 30 June 2017 of RMB 20,415,000 were declared and approved by Jiangsu Chuangxin to Full Success International Limited ("Full Success"), the then equity shareholder of Jiangsu Chuangxin. Interim dividend of RMB 20,415,000 declared and approved after 30 June 2017 has not been recognised as a liability during the six months ended 30 June 2017.

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

No final dividend in respect of the previous financial year has been approved during the interim period (six months ended 30 June 2017: RMB nil).

(b) Share capital

- (i) Ordinary shares

	Par value HK\$	No. of shares '000	HK\$ '000
Ordinary shares, issued and fully paid			
At 1 January 2017	—	—	—
Arising from the reorganisation	0.01	—*	—*
At 31 December 2017	0.01	—*	—*
RMB equivalent ('000)			—*
At 1 January 2018	0.01	—*	—*
Capitalization issue (note(ii))	0.01	360,000	3,600
Initial public offering (note(iii))	0.01	120,000	1,200
At 30 June 2018	0.01	480,000	4,800
RMB equivalent ('000)			3,873

* The balance represented amount less than 1,000.

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(Expressed in Renminbi Yuan unless otherwise indicated)

14 CAPITAL AND RESERVES (continued)

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

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

(ii) Capitalization issue

Pursuant to the written resolution dated 11 March 2018, the Company allotted and issued 360,000,000 shares of HK\$0.01 each to the then existing shareholders. This resolution was conditional upon the share premium account being credited as a result of the Company's initial public offering and pursuant to this resolution, a sum of HK\$3,600,000 (equivalent to RMB 2,913,000) standing to the credit of the share premium account as of 28 March 2018 was subsequently applied in paying up this capitalization issue in full.

(iii) Issue of ordinary shares by initial public offering

On 28 March 2018, the Company issued 120,000,000 shares with a par value of HK\$0.01, at a price of HK\$1.25 per share by way of public offering in Hong Kong. Net proceeds from these issues amounted to RMB 108,590,000 (after offsetting expenses directly attributable to the issue of shares of RMB 11,440,000), out of which RMB960,000 and RMB107,630,000 were recorded in share capital and share premium accounts, respectively.

(c) Share premium

Share premium as at 30 June 2018 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.

(d) Capital reserve

On 12 September 2017, the Company become 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan unless otherwise indicated)

14 CAPITAL AND RESERVES (continued)

(e) PRC statutory reserve

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 reserve 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.

15 RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim financial statements, the Group entered into the following material related party transactions.

During the period, the directors are of the view that the following companies and individuals are related parties of the Group:

<i>Name of party</i>	<i>Relationship</i>
Ge Xiaojun and Gu Jufang (Spouse of Ge Xiaojun) 葛曉軍、顧菊芳*	Controlling Shareholder
Jiangsu Hongming Petrochemical Trading Co., Ltd. 江蘇鴻銘化工貿易有限公司 ("Jiangsu Hongming") *	Entity controlled by the Controlling Shareholder
Earn Wealth International Limited ("Earn Wealth")	Entity controlled by the Controlling Shareholder

* The official names of these persons and companies are in Chinese. The English translation of the names is for reference only.

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(Expressed in Renminbi Yuan unless otherwise indicated)

15 RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Non-recurring transactions:		
Cash collection on behalf of the Group		
Earn Wealth	—	18,090
Advance to related parties		
Ge Xiaojun and Gu Jufang	—	1,819
Proceeds from repayment of advance to related parties		
Jiangsu Hongming	—	6,971
Ge Xiaojun and Gu Jufang	—	2,600
	—	9,571

As at 30 June 2018, the Group had balances with related parties of nil (31 December 2017: Nil).

(b) Directors and key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors, is as follows:

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Short-term employee benefits	694	459
Post-employee benefits	20	68
	714	527