

Third Quarterly Report 2017



Zhejiang Chang'an Renheng Technology Co., Ltd.*
浙江长安仁恒科技股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code: 8139

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*This report, for which the directors (the “Directors”) of Zhejiang Chang'an Renheng Technology Co., Ltd. * (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

* For identification purpose only

RESULTS HIGHLIGHTS

For the nine months ended 30 September 2017, the financial highlights were as follows:

- Revenue increased by 0.3% to approximately RMB58,176,000 (2016: RMB57,996,000).
- Gross profit decreased by 10.1% to approximately RMB28,818,000 (2016: RMB32,056,000).
- Gross profit margin was 49.5% (2016: 55.3%).
- Profit for the nine months ended 30 September 2017 decreased by 60.8% to approximately RMB645,000 (2016: RMB1,646,000).
- Basic earnings per share decreased by 60.0% to approximately RMB0.02 (2016: RMB0.05).
- The Board did not recommend the payment of any dividends for the nine months ended 30 September 2017 (2016: nil).

UNAUDITED THIRD QUARTERLY RESULTS OF 2017

The board (the “Board”) of directors (the “Directors”) of Zhejiang Chang’an Renheng Technology Co., Ltd. (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2017 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2016 as follows:

Condensed consolidated statement of comprehensive income (unaudited)

For the nine months ended 30 September 2017

	Note	Three months ended 30 September		Nine months ended 30 September	
		2017 RMB (Unaudited)	2016 RMB (Unaudited)	2017 RMB (Unaudited)	2016 RMB (Unaudited)
Revenue	4	19,662,750	20,266,218	58,175,902	57,996,356
Cost of sales		(9,698,271)	(8,199,644)	(29,357,892)	(25,940,853)
Gross profit		9,964,479	12,066,574	28,818,010	32,055,503
Distribution costs		(4,257,472)	(4,447,294)	(10,767,906)	(11,610,172)
Administrative expenses		(2,809,382)	(3,906,261)	(9,147,666)	(10,805,501)
Research and development expenses		(1,427,934)	(1,344,650)	(4,699,052)	(4,373,273)
Other gains – net		146,129	201,390	356,191	548,295
Operating profit		1,615,820	2,569,759	4,559,577	5,814,852
Finance income		25,424	82,557	48,004	130,431
Finance expenses		(1,279,447)	(1,240,336)	(3,861,921)	(3,980,219)
Finance expenses – net		(1,254,023)	(1,157,779)	(3,813,917)	(3,849,788)
Profit before income tax		361,797	1,411,980	745,660	1,965,064
Income tax expense	5	(83,939)	(326,042)	(100,445)	(319,092)
Profit for the period attributable to the equity holders of the Company		277,858	1,085,938	645,215	1,645,972
Other comprehensive income		-	-	-	-
Total comprehensive income for the period attributable to the equity holders of the Company		277,858	1,085,938	645,215	1,645,972
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	6	0.01	0.03	0.02	0.05
Dividends	7	-	-	-	-

Condensed consolidated statement of changes in equity (unaudited)*For the nine months ended 30 September 2017*

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital	Other reserves	Retained earnings	Total
	RMB	RMB	RMB	RMB
As at 1 January 2016	32,000,000	36,502,717	24,412,893	92,915,610
Comprehensive income				
Profit for the period	-	-	1,645,972	1,645,972
Total comprehensive income for the period	-	-	1,645,972	1,645,972
Appropriation to statutory reserve	-	79,712	(79,712)	-
Utilisation of safety fund	-	(62,148)	62,148	-
As at 30 September 2016	32,000,000	36,520,281	26,041,301	94,561,582
As at 1 January 2017	32,000,000	36,572,844	26,178,528	94,751,372
Comprehensive income				
Profit for the period	-	-	645,215	645,215
Total comprehensive income for the period	-	-	645,215	645,215
Appropriation to statutory reserve	-	52,158	(52,158)	-
Utilisation of safety fund	-	(18,854)	18,854	-
As at 30 September 2017	32,000,000	36,606,148	26,790,439	95,396,587

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the nine months ended 30 September 2017

1 GENERAL INFORMATION

Zhejiang Chang'an Renheng Technology Co., Ltd. (浙江長安仁恒科技股份有限公司, the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the business of development, production and sale of bentonite fine chemicals. The Group uses bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

The Company was established as a company with limited liability under the name of Changxing Renheng Fine Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in the People's Republic of China (the "PRC") on 4 December 2000. Mr. Zhang Youlian (張有連) is the controlling shareholder of the Company (the "Controlling Shareholder").

On 31 December 2008, the Company was converted into a joint stock company with limited liability and changed to its current name.

The Company's H shares were listed on the GEM of the Stock Exchange on 16 January 2015 (the "Listing").

The unaudited condensed consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated.

2 BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the nine months ended 30 September 2017 has been prepared in accordance with the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the results and financial position of the Group.

Taxes on income for the nine months ended 30 September 2017 are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for the nine months ended 30 September 2017 that could be expected to have a material impact on this Group.

4 REVENUE

	<u>Nine months ended 30 September</u>	
	2017 RMB (unaudited)	2016 RMB (unaudited)
Papermaking chemicals series	54,020,115	53,469,201
Bentonite for metallurgy pellet	1,282,699	1,936,927
Quality calcium-bentonite	1,792,851	730,954
Others (i)	1,080,237	1,859,274
	58,175,902	57,996,356

- (i) Others mainly comprise organic bentonite and inorganic gel, and are principally applied in the coating preparation industry.

5 INCOME TAX EXPENSE

	Nine months ended 30 September	
	2017 RMB (unaudited)	2016 RMB (unaudited)
Current income tax	437,556	471,169
Deferred income tax	(337,111)	(152,077)
	100,445	319,092

The Company obtained the certificate of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Zhejiang province, which granted tax preferential rate of 15% for three years from 14 October 2011 to 13 October 2014. The Company renewed the certificate in October 2014, which granted tax preferential rate of 15% for another three years from 27 October 2014 to 26 October 2017.

The other subsidiaries are subject to income tax rate of 25% for the nine months ended 30 September 2017 and 2016.

The difference between the actual income tax charge in the unaudited condensed consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Nine months ended 30 September	
	2017 RMB (unaudited)	2016 RMB (unaudited)
Profit before tax	745,660	1,965,064
Calculated at statutory tax rate	186,415	491,266
Expenses not deductible for tax purposes	103,245	289,828
Additional deduction for research and development expense (i)	(290,975)	(440,692)
Preferential tax saving of the Company	102,421	(17,734)
Adjustment in respect of prior years	(661)	(3,576)
Income tax expense	100,445	319,092

- (i) Pursuant to the Corporate Income Tax Law, the Company can enjoy an additional tax deduction calculated at 50% of the actual research and development expenses recognised under PRC GAAP. The tax deduction can be charged to the consolidated statement of comprehensive income after obtaining approval from tax authorities.

6 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the nine months ended 30 September 2017 and 2016.

	Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)
Profit attributable to the equity holders of the Company (RMB)	645,215	1,645,972
Weighted average number of ordinary shares in issue	32,000,000	32,000,000
Basic earnings per share (RMB per share)	0.02	0.05

(b) Diluted

The fully diluted earnings per share for the nine months ended 30 September 2017 and 2016 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the nine months ended 30 September 2017 and 2016.

7 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2017 (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group continued to devote greater effort to explore the overseas market, and had managed to develop a stable business relationship with a large-scale papermaking enterprise in Singapore, laying a foundation for further penetration into the Southeast Asia market. In addition, the Group proactively discussed co-operation plans with large domestic and international chemical suppliers with a view to set up a common chemicals sales platform together.

During the Reporting Period, the Group enhanced the sales management for key customers account, and has set up the “Key Customers Account Department”. The Group will further strengthen the management of major quality clients and promote the development of the Group’s business.

The Group had put the newly constructed organic bentonite production line with annual output of 10,000 tons in Yangyuan, Hebei, into operation successfully in 2016. During the Reporting Period, sales had been conducted through the sales branches in Shanghai and gradually gained market recognition. The products from this project will be used in paint and coating, agricultural chemicals and oil fields.

The plants construction for the water treatment project with annual capacity of 10,000 tons located in the head quarter of the Group in Changxing, Zhejiang, had been fully completed during the Reporting Period, and we had carried out small quantity trial order for production facilities, which was on the right track.

Financial Review

Turnover of the Group for the nine months ended 30 September 2017 amounted to approximately RMB58,176,000, representing an increase of approximately RMB180,000 or 0.3% compared to approximately RMB57,996,000 for the nine months ended 30 September 2016. The increase in sales was mainly due to the increase in sales of quality calcium-bentonite during the Reporting Period.

Gross profit of the Group for the nine months ended 30 September 2017 amounted to approximately RMB28,818,000, representing a decrease of approximately RMB3,238,000 or 10.1% compared to approximately RMB32,056,000 for the nine months ended 30 September 2016. The decrease in gross profit was mainly due to the decrease in gross profit margin from 55.3% for the nine months ended 30 September 2016 to 49.5% for the nine months ended 30 September 2017.

The distribution costs, mainly including transportation expenses, salaries and benefits, and travelling expenses, amounted to approximately RMB10,768,000 for the nine months ended 30 September 2017, representing a decrease of approximately RMB842,000 or 7.3% as compared to RMB11,610,000 for the nine months ended 30 September 2016. This decrease was mainly as a result of the decrease in transportation expenses for the Reporting Period.

The administrative expenses of the Group were approximately RMB9,148,000 for the nine months ended 30 September 2017, representing a decrease of approximately RMB1,658,000 or 15.3% as compared to approximately RMB10,806,000 for the nine months ended 30 September 2016. The decrease was primarily due to a decrease in legal and professional fees.

The research and development expenses increased by approximately 7.5% from approximately RMB4,373,000 for the nine months ended 30 September 2016 to approximately RMB4,699,000 for the nine months ended 30 September 2017. The increase was mainly due to the research and development project for the environmental protection field with Jilin Design and Research Institute for Petrochemical Engineering.

The profit for the nine months ended 30 September 2017 was approximately RMB645,000, representing a decrease of approximately RMB1,001,000 or 60.8% as compared to approximately RMB1,646,000 in the corresponding period of 2016. The decrease was mainly due to the decrease in gross profit and partially off-set by the decrease in distribution costs and administrative expenses during the Reporting Period.

PROSPECTS

Looking to the future, the concentration of the industry which the Group is in will be further strengthened, small enterprises will be phased out, we believe that the development of the industry will be more governed. In the future, the group will mainly develop large customers with good potential. In terms of central policy, we believe that the Government will continue to support the bentonite with high value-added fine chemicals industry. As a result, the Group will adjust our business development strategies according to new situations, formulate and implement the following strategies:

1. The Group is going to establish a customer relationship management department for major clients to further optimize the management of major quality clients; and will gradually fade out relatively small-scale clients with outdated facilities to reduce risks, and thus ensuring safe operation of the Group.
2. The Group will pay more effort to explore the overseas market. It is expected to set up sales branches in Southeast Asia in 2017 to carry out marketing promotion in this region.

3. The Group will rely on its Shanghai sales branches as a platform to promote organic soil products, developing new business and enhancing its profitability.
4. Ride on the “South Taihu Elite Program”, the Group will conduct cooperation with colleges and universities to develop new products in the field of water treatment.

OTHER INFORMATION

Directors', supervisors' and chief executive's interest in shares, debentures and underlying shares of the Company or any associated corporation

As at 30 September 2017, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), which were required (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director / supervisor	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600 (Domestic Shares)	60.06%
Ms. Zhang Jinhua	Beneficial owner	398,400 (Domestic Shares)	1.25%
Mr. Xu Qinsi (i)	Interest of spouse	100,000 (Domestic Shares)	0.31%

- (i) Mr. Xu Qinsi, the supervisor of the Company, is deemed (by virtue of the SFO) to be interested in 100,000 domestic shares in the Company held by his spouse, Ms. Ling Weixing.

Save as disclosed above, as at 30 September 2017, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Directors' and supervisors' rights to acquire shares or debentures

During the Reporting Period, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Directors or supervisors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company, or any of its subsidiaries a party to any arrangement which enabled the Directors or supervisors of the Company to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests in shares and underlying shares

As at 30 September 2017, so far as the Directors, having made all reasonable enquiries, are aware, the following interests of 5% or more of the issued share capital of the Company (other than the interests of the directors, supervisors and chief executive of the Company as disclosed above) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholder	Nature of interest	Number of shares in the Company held	Interest in Underlying Shares	Total number of shares in the Company held	Approximate percentage of Issued Share Capital
Ms. Yu Hua	Beneficial Owner	3,576,000 (Domestic Shares)	-	3,576,000 (Domestic Shares)	11.18%

Saved as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 September 2017.

Connected transaction

During the Reporting Period, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the GEM Listing Rules.

Directors', supervisors' and controlling shareholders' interest in competing business and conflict of interest

During the Reporting Period, none of the Directors or supervisors or controlling shareholders or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group and any other conflicts of interests with the Group.

Public float

According to the information disclosed publicly and as far as the Directors are aware, during the Reporting Period and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders.

Purchases, sale or redemption of the Company's listed securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Corporate governance practice

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules, and adopted various measures to enhance the internal control system, the Directors' continuous professional development and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Reporting Period, the Company has complied with the code provisions, other than code provisions A.2.1 and A.1.8 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhang Youlian is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhang to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

In addition, according to the code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors and officers. As the Board needed time to consider quotes from different insurers, during the Reporting Period, the Company did not take out directors and officers liability insurance to cover liabilities arising from legal action against its Directors.

Model code for securities transactions

The Company has adopted the Model Code on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Reporting Period.

Audit committee

The Company established an audit committee (the “Audit Committee”) on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Shao Chen, Dr. Huang Zemin, and Mr. Chau Kam Wing, Donald, who are independent non-executive Directors. Mr. Chau, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor is independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

The Audit Committee has reviewed the unaudited condensed consolidated financial information, the results announcement and this quarterly report of the Company for the nine months ended 30 September 2017 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Use of proceeds from placing of H shares

The H shares of the Company were listed on the GEM Board of the Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB37,395,000 (equivalent to approximately HK\$47,335,000), after deduction of the underwriting commission and relevant expenses. As at 30 September 2017, the Group had used net proceeds of approximately RMB36,575,000, of which approximately RMB21,200,000 had been used for purchase of high-purity water-purifying bentonite production machinery and equipment, approximately RMB1,200,000 had been used for advanced research and development of papermaking chemicals, approximately RMB1,253,000 had been used for research and development of new bentonite products for consumer chemicals and pharmaceutical use, approximately RMB1,307,000 had been used for enhancement of existing sales network, approximately RMB7,868,000 had been used for repayment of bank loans of the Group and approximately RMB3,747,000 as working capital. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 31 December 2014.

Interest of compliance adviser

As notified by CLC International Limited (“CLCI”), the Company’s compliance adviser, neither CLCI nor any of its directors or employees or close associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) during the Reporting Period pursuant to Rule 6A.32 of the GEM Listing Rules.

Events after the Reporting Period

There is no material events after the Reporting Period as at the date of this report.

Disclosure of information

The quarterly report for the nine months ended 30 September 2017 will be dispatched to shareholders of the Company and published on the Company’s website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

By order of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.*
Zhang Youlian
Chairman

Zhejiang, PRC, 11 November 2017

As at the date of this report, the executive Directors are Mr. Zhang Youlian, Mr. Sun Wensheng and Mr. Fan Fang; the non-executive Director is Ms. Zhang Jinhua and the independent non-executive Directors are Mr. Shao Chen, Dr. Huang Zemin and Mr. Chau Kam Wing, Donald.