长安仁恒

Zhejiang Chang'an Renheng Technology Co., Ltd.*

浙江長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

ANNUAL REPORT 2014

* *For identification purpose only*

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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, include 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.

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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Sun Wensheng
Mr. Fan Fang
Mr. Chen Weidong

Non-executive Director

Ms. Zhang Jinqin

Independent Non-executive Directors

Mr. Shao Chen
Dr. Wang Xiangyao
Dr. Huang Zemin
Mr. Chau Kam Wing, Donald

AUDIT COMMITTEE MEMBERS

Mr. Chau Kam Wing, Donald *(Chairman)*
Mr. Shao Chen
Dr. Huang Zemin

NOMINATION COMMITTEE MEMBERS

Mr. Shao Chen *(Chairman)*
Dr. Wang Xiangyao
Mr. Fan Fang

REMUNERATION COMMITTEE MEMBERS

Dr. Wang Xiangyao *(Chairman)*
Dr. Huang Zemin
Mr. Fan Fang

SUPERVISORY COMMITTEE

Mr. Xu Qinsi *(Chairman)*
Mr. Zhang Donglian
Mr. Liang Guoping

COMPANY SECRETARY

Mr. Chan Hon Wan

COMPLIANCE OFFICER

Mr. Fan Fang

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan
Mr. Zhang Youlian

LEGAL ADVISER

Stevenson, Wong & Co.

COMPLIANCE ADVISER

South China Capital Limited

AUDITOR

PricewaterhouseCoopers

REGISTERED ADDRESS

Laoya Tang, Si'an Town, Changxing County
Zhejiang Province
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Industrial and Commercial Bank of China
Huzhou Changxing Sub-branch
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Zhejiang Province, PRC

China Merchants Bank
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COMPANY'S WEBSITE

www.renheng.com

STOCK CODE

8139

Financial Highlights

	For the year ended 31 December 2014 *RMB'000*	2013 *RMB'000*	Changes in % Increase/(Decrease)
Financial Highlights			
Turnover	**92,029**	86,077	6.9%
Cost of sales	**(48,826)**	(42,949)	13.7%
Gross profit	**43,203**	43,128	0.2%
Profit before taxation	**14,455**	13,752	5.1%
Profit attributable to owners of the Company	**12,143**	11,746	3.4%
Basic earnings per share (RMB cents)	**50.60**	48.94	3.4%
Proposed final dividends per share (HK cents)	**28.79**	–	N/A
Liquidity and Asset-liability Ratio			
Current ratio (1)	**1.10**	1.04	5.8%
Quick ratio (2)	**0.95**	0.91	4.4%
Asset-liability ratio (3)	**51.3%**	52.6%	(2.5)%

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total borrowings divided by total assets and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or "Directors") of Zhejiang Chang'an Renheng Technology Co., Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 (the "Year Under Review") to the shareholders (the "Shareholders") for your review.

The year of 2014 was a year of growth and steady transition while maintaining stability for the Group. Domestic and international economic situations remained complex and volatile, and there were still prominent problems arising from the instability and uncertainties about global economic recovery. As European sovereignty debt crisis worsened and global economic growth remarkably slowed down, China's economy also slowed down. Notwithstanding such situation, the Group captured market opportunities to pursue growth while maintaining stability by way of introducing professional teams, improving brand management and enhancement, implementing the strategy of expanding a diversified marketing channel, which has enabled the Group to record continuously steady growth in business development and financial results.

IMPROVED RESULTS OF OPERATION WHILE MAINTAINING STABILITY

During the Year Under Review, with its sound business development strategies and effective implementation, the Group recorded a turnover of approximately RMB92,029,000 for the year ended 31 December 2014, representing an increase of 6.9% as compared to the previous year. Profit attributable to shareholders was approximately RMB12,143,000, representing an increase of 3.4% as compared to the previous year. The overall gross profit margin down by 3.2% from 50.1% for the year ended 31 December 2013 to 46.9%. Earnings per share was RMB51 cents, representing an increase of 4.1% as compared to the previous year. The Board believes that the strong financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

ACTIVE EXPANSION OF SALES CHANNELS

For the year ended 31 December 2014, the Group actively extended the business strategy of developing major clients on the basis of strengthening its original clients, and achieved business cooperation with some representative major clients. It was worth mentioning that price of our products was always maintaining above the average level of the industry price, resulting a higher gross profit margin than that of market. In addition, our high-quality products and services with continuous and extensive recognition further consolidated our position as leading supplier in the industry.

IMPROVING CORPORATE GOVERNANCE LEVEL

We firmly believe that maintaining a high level of internal control is crucial to the long-term development of the Group. As such, the Company has reinforced internal control of its sales team during the Year Under Review. It sets out standardized targets and schedules in routine visit, customer relations, and turnover of its customers. Meanwhile, the Group continues to optimize control on workflow and risks of various posts as it makes good use of information technology. Following the successful listing of the H shares of the Company after the Year Under Review on 16 January 2015 on the GEM Board of the Hong Kong Stock Exchange, the Group will continue to improve the level of its corporate governance, so as to reinforce risk prevention and profit-making capabilities of the Group.

During the Year Under Review, the Group has received a range of honorable titles. Among them, including the third prize of Science and Technology Progress Award of Zhejiang province, Leap-Forward Development Award（跨躍發展獎）of 2014 granted by the People's Government of Changxing County and regained status of national high and new technology enterprise. All these titles proved that the Group received extensive recognition and support. Such titles also serve as the best return for the continuous hard work contributed by every single staff members of the Group.

Chairman's Statement

FUTURE OUTLOOK AND STRATEGIES

Although competition in the market will still be very keen in the future, domestic and international economic situations remained complex and volatile, the Group will continue to maintain and work on increasing the market share of its products, maintain the leading position of papermaking chemicals.

By leveraging on the Group's current sales network, its products, technology, patent and production knowhow, as well as the customers recognition, the Group will launch various plans in 2015. The plans, which are expected to be implemented by stages, including the developments of high-purity water-purifying bentonite (高純水洗膨潤土) products to diversify into new industry sectors other than papermaking industry, particularly pharmaceutical and consumer chemical sectors.

Here, on behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staff and the Directors, as well as the support of the Company from all the Shareholders.

Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 21 March 2015

Management Discussion and Analysis

INDUSTRY REVIEW

In 2014, Chinese national economy recorded a stable operation under the "new normal" situation and presented a favorable condition of stable growth, optimized structure, raised quality and improved people's livelihood. Although the growth pace of China's economy got slightly slow, GDP recorded a year-on-year growth rate of 7.4%, reaching the prospective target of about 7.5% determined at the beginning of the year by the State Council. The growth rate of 7.4% ranked top in international large economies of 2014. Mildly increasing economy accelerated the industry's structural adjustment and the development of high value-added bentonite products. With the further development of research and application of bentonite in various areas, bentonite fine chemicals market expanded.

With the sound development of economy, Chinese per capita disposable income in coming years is expected to grow continuously. Bentonite fine chemicals have been widely applied in our daily lives, such as papermaking retention and drainage aids, paint filter, cosmetic primary materials, pharmaceutical raw materials, and toothpaste abrasives, etc. In that case, the demand for bentonite fine chemicals is expected to grow along with the increase in disposable income and purchasing power of consumers in China.

Although China has been the largest producer and consumer of paper and paperboard in the world, the paper consumption per capita is only 72 kg. In developed countries such as Germany, the U.S. and Japan, paper consumption per capita per year was already more than 210 kg. Therefore, Chinese papermaking industry still has large space for development. Due to the recession of the culture paper industry, represented by paper for newspaper, magazines, etc., the development of the papermaking industry in China is likely to slow down in the short term. Nonetheless, the Chinese papermaking industry still has significant room for development, especially for household paper. The healthy growth of house paper is expected to pull up the demand for papermaking chemicals. As the papermaking industry is a downstream industry of bentonite fine chemicals, the development of papermaking industry is expected to drive the demand for papermaking chemicals.

Bentonite has application potential in various papermaking processes because of its functional properties. The development of high quality bentonite products improves product quality and economic efficiency in the papermaking industry. Bentonite fine chemicals are mainly used as papermaking retention and drainage aids in the papermaking industry, and the retention and drainage aids could effectively support papermaking companies to cut their cost and have been extensively applied by Chinese papermaking companies. With the development of Chinese papermaking device and technology, demand for papermaking chemicals is increasingly strict. As the R&D of bentonite in papermaking industry record constant progress, it is expected that the demand for bentonite fine chemicals in papermaking industry will grow in the future.

BUSINESS REVIEW

In 2004, the Group continued to complete the sales management areas system, dividing into three management areas, namely Eastern China, Northern China and Southern China, according to geographical location, local market condition and feature. The Group adopted feasible selling and marketing strategy and recorded a favorable sales growth. During the Year Under Review, the Group actively extended the business strategy of developing major clients on the basis of strengthening its original clients, and achieved business cooperation with some representative major clients. It was worth mentioning that price of our products was always maintaining above the average level of the industry price, resulting a relatively high gross profit margin. In addition, our high-quality products and services with continuous and extensive recognition further consolidated our position as leading supplier in the industry.

The Group paid attention to the injection on R&D while developing its business. In 2014, the R&D expenditure of the Group amounted to about RMB3,761,000. The Group also applied for two national invention patents and undertook three provincial R&D tasks of new products, and the purification product won a third prize of Science and Technology Progress Award of Zhejiang province.

Cationic emulsion newly launched by the Group began to be sold normally, and the sales amount in 2014 also reached our expectation. As an effective ingredient of such product, alternaria polyacrylamide could provide retention for the tiny fibers and fillers in the papermaking materials. The bentonite used for the high-quality retention and drainage aids of the Group further recorded favorable results on its expansion and was extensively used on the large paper machines of clients, winning their recognition. Meanwhile, the Group had established the cooperation with foreign and domestic senior colleges, and discussed matters related to building academician workstation with domestic academician in relevant areas through the support of association for science and technology of Zhejiang province and Changxing County, to raise the technologic strength of the enterprise.

Management Discussion and Analysis

HONOR

During the Year Under Review, the Group had received the following honors:

1. the third prize of Science and Technology Progress Award of Zhejiang province;

2. Leap-Forward Development Award (跨躍發展獎) of 2014 granted by the County Party Committee and the People's Government of Changxing County;

3. winning prize of industrial enterprise competition of "three competitions and one presentation (三比一講)" of 2014 granted by the County Party Committee and the People's Government of Changxing County; and

4. regained the status of "National High and New Technology Enterprise".

FINANCIAL REVIEW

1. Turnover

The following table sets out revenue by product categories and the corresponding percentage of total revenue for the Year Under Review:

	For the year ended 31 December			
	2014		2013	
Product	***RMB'000***	**%**	*RMB'000*	%
Sales of papermaking chemicals	**77,043**	**83.7**	72,456	84.2
Sales of bentonite for metallurgy pellet	**5,815**	**6.3**	6,607	7.7
Sales of quality calcium-bentonite	**1,972**	**2.1**	5,229	6.1
Others	**7,199**	**7.9**	1,785	2.0
Total	**92,029**	**100.0**	86,077	100.0

Revenue from sales of papermaking chemicals increased by approximately 6.3% from approximately RMB72,456,000 for the year ended 31 December 2013 to approximately RMB77,043,000 for the year ended 31 December 2014. As the average unit selling price remained stable for the comparative periods, the increase in revenue was mainly due to the growth in sales volume, which increased by approximately 6.1% from approximately 15,251 tonnes for the year ended 31 December 2013 to approximately 16,181 tonnes for the year ended 31 December 2014. The Group's newly developed customers in the second half year of 2013 and 2014 led to a growth in sales volume for the year ended 31 December 2014.

Revenue of bentonite for metallurgy pellet for the year ended 31 December 2014 decreased by approximately 12.0% or RMB792,000 as compared to the year ended 31 December 2013. The decrease was mainly because one of the customers with relatively high selling price and sales volume reduced its purchase volume in 2014 due to the change of its product mix. The sales volume contributed by this customer for the year ended 31 December 2014 was approximately 4,215 tonnes (2013: 6,805 tonnes) and the corresponding revenue was approximately RMB1,611,000 (2013: 2,600,000).

Management Discussion and Analysis

Revenue of quality calcium-bentonite for the year ended 31 December 2014 decreased by approximately RMB3,257,000 as compared to the year ended 31 December 2013. While the average unit selling price remained steady for these two periods, the decrease in revenue was mainly due to the decrease in sales volume. With successful introduction and application of quality calcium-bentonite as a result of the Group's research and development effort in early 2013, one of the Group's customers placed relatively large orders for its special needs of research and development activity in 2013. The sales volume contributed by this customer in 2013 and 2014 was approximately 4,755.2 tonnes and 992.0 tonnes, respectively.

Revenue of others for the year ended 31 December 2014 increased by approximately 303.6% or RMB5,415,000 as compared to the year ended 31 December 2013. Others mainly comprise organic bentonite and inorganic gel. The increase in revenue of organic bentonite was mainly due to the Group's commencement of production of a new category of organic bentonite product namely organic bentonite which attributes approximately RMB3,126,000 for the year ended 31 December 2014. While the increase in revenue of inorganic gel was because the Group developed some new customers in the second half year of 2014 which led to a growth in sales volume for the year ended 31 December 2014.

2. Cost of sales

The cost of sales mainly comprised cost of raw materials, direct labour costs and manufacturing overhead costs such as depreciation and utility charges. The following table sets out the breakdown of the cost of sales of the Group for the Year Under Review:

	For the year ended 31 December			
	2014		2013	
	RMB'000	**%**	*RMB'000*	%
Cost of raw materials	**40,894**	**83.8**	35,631	83.0
Direct labour costs	**2,103**	**4.3**	1,872	4.4
Manufacturing overhead cost	**5,055**	**10.4**	4,373	10.2
Others	**774**	**1.5**	1,073	2.4
Total	**48,826**	**100.0**	42,949	100.0

The cost of sales increased approximately 13.7% from approximately RMB42,949,000 for the year ended 31 December 2013 to approximately RMB48,826,000 for the year ended 31 December 2014.

Cost of raw materials accounted for approximately 83.0% and 83.8% of cost of sales for the year ended 31 December 2013 and 2014 respectively. The cost of raw materials increased by approximately 14.8% from approximately RMB35,631,000 for the year ended 31 December 2013 to approximately RMB40,894,000 for the year ended 31 December 2014 was mainly due to the increase of quantity consumed of CPAM. CPAM was the major raw material for a kind of product in papermaking chemicals with a relatively high unit price. As sales volume of this kind of product increased significantly for the year ended 31 December 2014, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 4.4% and 4.3% of cost of sales for the year ended 31 December 2013 and 2014 respectively. Direct labour costs remained stable during the comparative years.

Manufacturing overhead costs accounted for approximately 10.2% and 10.4% of cost of sales for the year ended 31 December 2013 and 2014 respectively. Manufacturing overhead costs remained stable during the comparative years.

Management Discussion and Analysis

3. Gross profit margin

Gross profit margin decreased from 50.1% in 2013 to 46.9% in 2014. The decrease in gross profit margin was mainly attributable to the increase of cost of raw materials despite the selling price of quality calcium-bentonite slightly increased.

The table below sets out the Group's gross profit and gross profit margin by product for the Year Under Review:

	For the year ended 31 December			
	2014		2013	
Product	***RMB'000***	**%**	*RMB'000*	%
Papermaking chemicals	**36,853**	**47.8**	36,301	50.1
Bentonite for metallurgy pellet	**1,895**	**32.6**	2,164	32.8
Quality calcium-bentonite	**1,513**	**76.7**	4,207	80.5
Others	**2,942**	**40.9**	456	25.6
Total	**43,203**	**46.9**	43,128	50.1

The gross profit margin of papermaking chemicals decreased from 50.1% for the year ended 31 December 2013 to 47.8% for the year ended 31 December 2014. The decrease of gross profit margin was mainly due to the change of product mix in response to the market demand. The Company sold more products with lower gross profit margin in 2014.

The gross profit margin of bentonite for metallurgy pellet was 32.8% and 32.6% for the year ended 31 December 2013 and 2014 respectively. The gross profit margin remained stable during the comparative years.

The decrease in gross profit margin of quality calcium-bentonite was mainly because one of the Group's customers placed relatively large orders for its special needs of research and development activity in 2013, which had a relatively higher gross profit margin due to relative simple production process. Without the special order from this customer, the gross profit margin declined to 76.7% for the year ended 31 December 2014.

The gross profit margin of other products was 25.6% and 40.9% for the year ended 31 December 2013 and 2014 respectively. The increase of gross profit margin for 2014 was due to the reasons listed below: 1. The Group's commencement of production of a new category of product namely organic bentonite with a relative higher gross profit margin as compared to 2013; 2. The increased proportion of sales from inorganic gel in 2014 which has a relative high gross profit margin but low sales volumes in the past years.

4. Distribution costs

The distribution costs for the year ended 31 December 2013 and 2014 amounted to approximately RMB11,978,000 and RMB11,083,000 respectively. The distribution costs decreased by approximately RMB895,000 mainly because of the decrease in transportation expenses from approximately RMB10,017,000 for the year ended 31 December 2013 to approximately RMB8,421,000 for the year ended 31 December 2014 attributable to the Group's optimisation of the customer mix and deselected certain customers with relative long haul and successfully built up business relationship with a few new customers located in Shanghai, Jiangsu and Zhejiang provinces. As a result, the reduction of transportation hauls led to the decrease of the transportation expenses.

Management Discussion and Analysis

5. Administrative expenses

The administrative expenses increased by approximately 9.7% from approximately RMB9,610,000 for the year ended 31 December 2013 to approximately RMB10,542,000 for the year ended 31 December 2014. The increase was mainly due to the increase of employee benefit expenses by approximately RMB693,000 or 19.8% as the Group recruited more staffs in administrative function to support the placing of H shares.

6. Research and development expenses

The research and development expenses decreased by approximately RMB1,096,000 or 22.6% from approximately RMB4,857,000 for the year ended 31 December 2013 to approximately RMB3,761,000 for the year ended 31 December 2014 due to a few research and development projects, including cationic emulsion (陽離子乳液), high-purity water-purifying bentonite, etc had reached final stage.

7. Other gains – net

Other gains for the year ended 31 December 2013 and 2014 amounted to approximately RMB2,556,000 and RMB3,403,000, respectively. The increase in other gains mainly due to the increase in government grants from approximately RMB2,618,000 for the year ended 31 December 2013 to approximately RMB3,615,000 for the year ended 31 December 2014.

8. Finance income and expenses

The net finance expenses increased by approximately RMB1,278,000 or 23.3% from approximately RMB5,487,000 for the year ended 31 December 2013 to approximately RMB6,765,000 for the year ended 31 December 2014, which was mainly due to the increase of interest expenses on borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

9. Income tax expense

The effective tax rates were 14.6% and 16.0% for the years ended 31 December 2013 and 2014, respectively.

10. Net profit

The net profit increased by approximately RMB397,000 or 3.4% from approximately RMB11,746,000 for the year ended 31 December 2013 to approximately RMB12,143,000 for the year ended 31 December 2014. The net profit margin for the Group decreased from approximately 13.7% for the year ended 31 December 2013 to approximately 13.2% for the year ended 31 December 2014. The decrease in net profit margin of the Group was mainly due to the increase in cost of sales by approximately 13.7%, a rate which is higher than the revenue growth rate of 6.9%.

Management Discussion and Analysis

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Inventories

The inventories comprise raw materials, finished goods and low-value consumables. The following table sets out the inventories as at balance sheet dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**13,063**	10,244
Finished goods	**4,122**	3,746
Low-value consumables	**194**	217
Total	**17,379**	14,207

Raw materials mainly comprised bentonite and CPAM. Finished goods are bentonite fine chemicals mainly applied in the papermaking industries. The Group customizes the formulas for bentonite fine chemicals based on customers' requirements and makes enhancement in response to customers' production conditions.

Provision for impairment of inventories

The Group has established policies to evaluate the amount of provision required for impairment of inventories. The Group inspects and reviews the aging and conditions of inventories on a regular basis. If the Group considers that the inventories have become obsolete or damaged, provision for impairment of inventories will be provided against these inventories to reflect the net realisable value of these inventories.

The Directors considered that there was no indication that the inventories were impaired because the average gross profit margin of the products was approximately 45-50% during the Year Under Review and the finished goods manufactured can be stored for several years.

Inventory turnover

The following table sets out the average inventory turnover days for the year indicated:

	Year ended 31 December	
	2014	2013
Average inventory turnover days *(note)*	**118**	145

Note:

Average inventory turnover days are equal to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the financial year plus inventory at the end of the financial year and divided by 2.

The average inventory turnover days decreased from 145 days for the year ended 31 December 2013 to 118 days for the year ended 31 December 2014. The decrease in average inventory turnover days in 2014 was primarily because the Group had continued to control the inventory level in order to reduce working capital requirement. The Group retained reasonable and sufficient level of inventories to meet the customer orders, which improved inventory turnover.

Management Discussion and Analysis

2. Trade and other receivables

The following table sets out an analysis of the trade and other receivables as at the balance sheet dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**52,008**	48,525
Less: provision for impairment	**(1,670)**	(1,585)
Trade receivables – net	**50,338**	46,940
Other receivables	**11,314**	9,202
Less: provision for impairment	**(201)**	(419)
Other receivables – net	**11,113**	8,783
Interest receivables on time deposits	**56**	–
Bills receivable	**13,563**	23,216
Prepayments	**15,307**	9,033
Trade and other receivables – net	**90,377**	87,972

Trade receivables

Trade receivables as at 31 December 2013 and 2014 mainly represented the outstanding amounts of receivable from customers less any provision for impairment of trade receivables. The following table sets out an analysis of the trade receivables as at the balance sheet dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**52,008**	48,525
Less: provision for impairment	**(1,670)**	(1,585)
Trade receivables – net	**50,338**	46,940

The customers are normally required to make payment pursuant to the credit terms which is determined by the length of the customers' relationship with the Group and the contract value. The Group generally provides a credit term up to 180 days to its customers.

Management Discussion and Analysis

The table below sets out the aging breakdown of trade receivables as at the balance sheet dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Within 180 days	**42,221**	35,846
Over 180 days and within 1 year	**8,617**	9,318
Over 1 year and within 2 years	**976**	2,250
Over 2 years and within 3 years	**148**	885
Over 3 years	**46**	226
Total	**52,008**	48,525

The Group's trade receivables increased by approximately RMB3,483,000 or 7.2% from approximately RMB48,525,000 as at 31 December 2013 to approximately RMB52,008,000 as at 31 December 2014. The trade receivables due over 180 days decreased by approximately RMB2,892,000 or 22.8% from approximately RMB12,679,000 as at 31 December 2013 to approximately RMB9,787,000 as at 31 December 2014. The significant decrease was mainly because the Group successfully collected certain overdue trade receivables.

Trade receivable turnover days

The following table sets out the Group's trade receivables turnover days for the year indicated:

	Year ended 31 December	
	2014	2013
Trade receivable turnover days *(note)*	**199**	192

Note:

The number of trade receivables turnover days is calculated as average trade receivables (trade receivables at the beginning of the year plus trade receivables at the end of the year then divided by 2) divided by total revenue for the year multiplied by 365.

The Group's trade receivables turnover days for the years ended 31 December 2013 and 2014 were approximately 192 days and 199 days respectively. The increase of turnover days was due to two reasons: (1) late payments by customers; and (2) providing favorable payment arrangement to new customers and existing customers with a view to solicit new business development since 2012.

Provision for impairment of trade receivables

The Group determines the provision for impairment of trade receivables based on credit history of the customers and the current market condition. The Group reassesses the provision at each balance sheet date.

Thus, significant judgment is exercised in assessing the collectability of trade receivables from each customer. In making the judgment, the Group takes into consideration the following factors when assessing the recoverability of the trade receivables from individual customer: (i) indications that the debtor is experiencing significant financial difficulty; (ii) history or indication of default in payment; and (iii) relationship with the debtor and subsequent settlement of receivables. If the financial conditions of the customers of the Group were to deteriorate, which resulted in an impairment of their ability to make payments, additional provision of impairment may be required.

Management Discussion and Analysis

3. Trade and other payables

The following table sets out an analysis of the trade and other payables as at the balance sheet dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade payables	**13,585**	9,008
Bills payable	**–**	9,030
Other payables	**4,476**	4,216
Staff salaries and welfare payables	**2,940**	2,066
Advances from customers	**52**	7
Interest payables	**–**	263
Accrued taxes other than income tax	**1,648**	783
Total	**22,701**	25,373

As at 31 December 2013 and 2014, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The trade payables and bills payable decreased by approximately RMB4,453,000 or 24.7% from approximately RMB18,038,000 as at 31 December 2013 to approximately RMB13,585,000 as at 31 December 2014. The Group had relatively low payable balances as at 31 December 2013 which was due to the lower inventory level maintained at 2013 year end.

In order to meet the production needs, the Group purchased more CPAM especially from the major overseas supplier for the year ended 31 December 2014. As the credit term of the supplier remained the same, the balance of trade payables as at 31 December 2014 increased by approximately RMB4,577,000 accordingly. However, there was no bills payable as at 31 December 2014 which led to the net decrease in the trade payables and bills payable.

Trade payables turnover days

The following table sets out the Group's trade payables turnover days for the year indicated:

	Year ended 31 December	
	2014	2013
Trade payable turnover days *(note)*	**84**	75

Note:

The number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year then divided by 2) divided by cost of sales for the year multiplied by 365. The trade payables turnover days increased to 84 days for the year ended 31 December 2014, which was due to the Group has secured more favorable credit terms with certain suppliers.

Management Discussion and Analysis

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

1. Cash flows from operating activities

The net cash inflow from operating activities for the year ended 31 December 2013 amounted to approximately RMB10,663,000 which was mainly attributable to the cash generated from operating activities amounting to approximately RMB13,258,000, as adjusted by the payment of income tax of approximately RMB2,595,000.

The cash generated from operating activities of approximately RMB13,258,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB24,110,000 as adjusted by (i) an increase in trade and other receivables of approximately RMB12,248,000 in line with the increase of revenue, (ii) a decrease in inventories of approximately RMB5,807,000, mainly attributable to control of stock level, and (iii) a decrease in trade and other payables of approximately RMB4,410,000.

The net cash inflow from operating activities for the year ended 31 December 2014 amounted to approximately RMB24,750,000, which was mainly attributable to the cash generated from operating activities amounted to approximately RMB26,962,000, as adjusted by the payment of income tax of approximately RMB2,212,000.

The cash generated from operating activities of approximately RMB26,962,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB26,638,000, as adjusted by (i) a decrease in trade and other receivables of approximately RMB4,923,000 due to the collection of overdue trade receivables, (ii) an increase in inventories of approximately RMB3,172,000, and (iii) a decrease in trade and other payables of approximately RMB1,427,000.

2. Cash flows from investing activities

For the year ended 31 December 2013, the Group had net cash outflow from investing activities of approximately RMB1,561,000, which was primarily attributable to (i) loans to related parties of approximately RMB10,420,000, (ii) increase in guaranteed deposits and time deposits of approximately RMB16,307,000, (iii) purchase of prepaid leasing expenses and leasehold improvements of approximately RMB2,106,000, and (iv) purchase of property, plant and equipment of approximately RMB16,091,000; partially offset by (i) loans repayments received from related parties of approximately RMB20,158,000, (ii) decrease in guaranteed deposits and time deposits of approximately RMB22,692,000, (iii) interest income received from loans to related parties of approximately RMB129,000, and (iv) interest income received from time deposits of approximately RMB364,000.

For the year ended 31 December 2014, the Group had net cash outflow from investing activities of approximately RMB13,055,000, which was primarily attributable to (i) increase in guaranteed deposits and time deposits of approximately RMB11,175,000, (ii) purchase of property, plant and equipment of approximately RMB9,721,000, and (iii) increase in prepaid leasing expenses and leasehold improvements of approximately RMB2,688,000; partially offset by (i) decrease in interest income received from time deposits of approximately RMB154,000, (ii) proceeds from disposal of property, plant and equipment of approximately RMB1,450,000, and (iii) decrease in guaranteed deposits and time deposits of approximately RMB8,925,000.

Management Discussion and Analysis

3. Cash flows from financing activities

For the year ended 31 December 2013, the Group had net cash outflow from financing activities of approximately RMB7,873,000, which was primarily attributable to (i) proceed from borrowings of approximately RMB147,606,000, and (ii) proceed from related parties' borrowings of approximately RMB2,221,000; partially offset by (i) repayment of borrowings of approximately RMB140,998,000, (ii) payment of interest expenses of approximately RMB6,003,000, (iii) repayment of related parties borrowings of approximately RMB7,035,000,and (iv) prepayment of expenses relating to placing of H shares of approximately RMB3,665,000.

For the year ended 31 December 2014, the Group had net cash outflow from financing activities of approximately RMB8,816,000, which was primarily attributable to (i) repayment of borrowings of approximately RMB111,181,000, (ii) payment of interest expenses of approximately RMB7,308,000, and (iii) prepayment of expenses relating to placing of H shares of approximately RMB6,866,000, partially offset by proceed from borrowings of approximately RMB116,539,000.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2014 was approximately RMB90,549,000 (31 December 2013: approximately RMB85,135,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Gearing ratio

As at 31 December 2014, the Group's gearing ratio was approximately 51.3% (31 December 2013: 52.6%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. Pledge of assets

As at 31 December 2014, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB29,821,000 (31 December 2013: approximately RMB18,553,000).

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB8,665,000 and RMB15,151,000 for the year ended 31 December 2014 and 2013 respectively.

5. Foreign exchange risk

The Group's principal business is located in the PRC and its major transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties that are denominated in Hong Kong dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Year Under Review, the weight average effective annual interest rate of bank borrowings was 7.58% and the weight average effective annual interest rate of other borrowings was 9.00%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2014, the Group had cash and cash equivalents of RMB7,051,000 which was mainly generated from operations of the Group.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2014, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2014, the Group did not have any capital commitment (31 December 2013: approximately RMB336,000).

SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of bentonite clay products. Therefore, management considers there is only one operating segment, under the requirements of Rule 18.41(6) of GEM Listing Rules. In this regard, no segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2014, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2014.

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the "Comparison of business objectives with actual business progress" section on pages 20 to 21.

FUTURE OUTLOOK

Looking into the coming year, we believe that the government will maintain the adjustment on optimizing industrial structure unchanged and continue to promulgate supporting policy for bentonite fine chemicals with high value-added. As a result, the Group will endeavor to maintain its competition advantage and growth prospect through strategic area extension, gradual expansion of product package and high-quality products and services.

In order to rapidly expand the scale of the Group and its business capacity, the Group formulates and implements the following strategies:

(i) To complete the project of raising funds. This project is aiming at the high technology development and deep-processing of bentonite resource with the bentonite as raw material, to produce and promote high-purity water-purifying bentonite with extensive application and high added value through specific producing technology and device and processing skill. In addition, to introduce Alfa Laval, Nestal and other foreign advancing production equipments, so as to upgrade the products and increase the room for profit;

Management Discussion and Analysis

(ii) Using the Company' own capital to invest the water disposal project in Changxing County, the head quarter of the Group, with a new injection of about RMB50,000,000. This project is divided into two phases: to build one product line with 2,000 tonnes of annual output of emulsion and one product line with 5,000 tonnes of annual output of aqueous solution polyacrylamide fortifier in the first phase; to build one product line with 3,000 tonnes of annual output of solid polyacrylamide; and

(iii) In order to further raise the R&D capability of the Group, we plan to establish academician workstation and introduce academicians to develop new bentonite products with higher added value.

HUMAN RESOURCES AND TRAINING

As of 31 December 2014, the Group had a total of 116 employees, of which 48 worked at the Group's headquarter in Changxing, and 68 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB10,219,000 (2013: RMB8,388,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Year Under Review, the Group adopted a "human-oriented" management concept to have its staff closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and adopted a number of incentive mechanisms to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly.

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend of RMB22.77 cents (equivalent to HK28.79 cents) per share for the financial year ended 31 December 2014 (2013: nil) (the calculation of dividend per share includes the 8,000,000 H shares of the Company listed on the GEM Board of the Hong Kong Stock Exchange on 16 January 2015) to the Shareholders whose names appear on the register of members of the Company on Wednesday, 3 June 2015, amounting to approximately RMB7,286,000 (equivalent to HK$9,213,000) subject to the approval of the Company's annual general meeting to be held on Thursday, 21 May 2015. The dividends payout ratio is 60% of the Group's profit for the year or 67% of the Group's profit for the year after deducting the non-distributable statutory reserves of RMB1,223,000 for the year ended 31 December 2014. The above-mentioned final dividend is expected to be paid on or before Tuesday, 30 June 2015.

Comparison of Business Objectives with Actual Business Progress

BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS OF THE COMPANY

By leveraging on the Group's current sales network, its products, technology, patent and production knowhow, as well as the customers recognition, the Group intends to launch the following plans in 2015. The plans, which are expected to be implemented by stages, include:

1. Focusing on the developments of high-purity water-purifying bentonite (高純水洗膨潤土) products to diversify into new industry sectors other than papermaking industry, particularly pharmaceutical and consumer chemical sectors. The Group will install the production machinery and equipment in its existing plant in Yangyuan County (陽原縣) for the high-purity water-purifying bentonite project with an annual production capacity of 15,000 tonnes;

   The total investment of the project comprises of the production machinery and equipment and the open court for sun-drying the bentonite, which will amount to RMB22.55 million. The installation and test-running of the production machinery and equipment will take about one and half years. The project is expected to commence commercial production in 2016;

2. Enhancing cost-effective production knowhow, improving the production techniques in producing high-quality "dual micro-particle retention and drainage aids used in papermaking" (造紙二元微粒助留助濾劑);

3. Keeping track of customers' demand and enhancing product applications. The Group plans to install advanced testing facilities, increase follow-up visits to customers and carry out stricter testings for customers, fine tuning and optimizing product formulas;

4. The Group will further extend its existing sales network in Southern China as well as other prospective markets;

5. Developing information technology system includes the establishment of intranet and information system to carry out e-commerce activities; and

6. Reinforcing the training of sales and technical teams.

Comparison of Business Objectives with Actual Business Progress

ACTUAL BUSINESS PROGRESS

The H shares of the Company were listed on the GEM Board of The Hong Kong Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB41,200,000 (equivalent to approximately HK$52,100,000), after deduction of the underwriting commission and relevant expenses. The Company will launch the plans mentioned above in 2015 and intends to apply such net proceeds from the placing of H Shares as follows:

1. Approximately 7.3% or approximately HK$3,797,000 of the net proceeds will be used to carry out foundation and construction work for an open court for sun-drying the bentonite;

2. Approximate 44.6% or approximately HK$23,228,000 of the net proceeds will be used to purchase and install the production machinery and equipment for the production of high-purity water-purifying bentonite (高純水洗膨潤土);

3. Approximately 2.9% or approximately HK$1,519,000 of the net proceeds will be used to purchase the related facilities for the above mentioned project;

4. Approximately 3.2% or approximately HK$1,646,000 of net proceeds will be used for advanced research and development of papermaking chemicals, mainly on high-quality dual microparticle retention and drainage aids used in papermaking (造紙二元微助留助濾劑);

5. Approximately 3.6% or approximately HK$1,899,000 of net proceeds will be used for research and development of new bentonite products;

6. Approximately 5.1% or approximately HK$2,658,000 of net proceeds will be used to enhance its existing sales network for the extension to Southern China and international markets;

7. Approximately 1.3% or approximately HK$696,000 of net proceeds will be used for developing information technology system which include the establishment of intranet and information system to carry out e-commerce activities; and

8. Approximately 1.0% or approximately HK$506,000 of net proceeds will be used to reinforce the training of sales and technical teams.

Directors' and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Zhang Youlian (張有連), aged 53, was appointed as a Director and the Chairman of the Board (董事長) on 29 December 2008. Mr. Zhang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1982. He worked for Changxing Agricultural Materials Co. (長興農資公司) between February 1982 and May 1987. He worked as the vice director (理事副主任) of Changxing Litang Supplier (長興里塘供銷社) between May 1987 and December 1999. He founded Renheng Limited in December 2000 and has been a Director of the Board since December 2008. Mr. Zhang has been appointed as Chairman of the board of directors of Nongfuguoyuan, Changxing Guyinxing and Changxing Wuguo, respectively, since June 2001, February 2003 and August 2010, respectively. Mr. Zhang is a brother of Ms. Zhang Jinqin (張金琴), a non-executive Director; a brother of Ms. Zhang Jinhua (張金花), a Shareholder; and a cousin of Mr. Zhang Donglian (張冬連), a supervisor.

Mr. Sun Wensheng (孫文勝), aged 45, was appointed as a Director on 1 September 2012. Mr. Sun graduated from Dalian Polytechnic University (大連輕工業學院) with a bachelor's degree in pulp and papermaking (製漿造紙工程) in July 1991. He served as a deputy general manager of Yanbian Shixian Bailu Papermaking Co., Ltd. (延邊石峴白麓紙業股份有限公司) (stock code: 600462) listed on the Shanghai Stock Exchange (上海證券交易所) between July 2001 and June 2008 and served as a senior engineer on pulping and papermaking in January 2003. He joined Renheng Chemicals in June 2008 and he is now a sales manager of the Company.

Mr. Fan Fang (范芳), aged 49, was appointed as a Director of the Company on 29 December 2008 and is a member of the Nomination Committee and a member of Remuneration Committee. Mr. Fan graduated from Jinhua Supply and Marketing College in Zhejiang Province (浙江省金華供銷學校) in July 1985. He was responsible for financial matters of a subsidiary of the Changxing County Supplier (長興縣供銷社) between September 1985 and December 1997. Mr. Fan has been appointed as the head of the finance department of the Company since March 2003.

Mr. Chen Weidong (陳衛東), aged 46, was appointed as a Director of the Company on 29 December 2008. Mr. Chen joined the Group in 2000. Mr. Chen has been in charge of sales and marketing of bentonite for metallurgy pellet of the Company since May 2004 and is still responsible for sales and marketing of bentonite for metallurgy pellet of the Company after his appointment as a director of the Company in 2008. Mr. Chen graduated from Changxing County Si'an Town Xianshan Junior High School (長興縣泗安鎮仙山中學初中) in July 1982. He was granted various awards by the Company, for example, award of "2003 Excellent Employee" in January 2004, award of "Sales Expert" in December 2007 and "2011 Outstanding Contribution Award" in January 2012. Mr. Chen was responsible for sales and marketing matters at Changxing County Xian Shan Xiang Xin Lian Cun Printing Factory (長興縣仙山鄉新聯村印刷廠) between February 1990 and November 2000.

Directors' and Senior Management's Biographies

Non-Executive Director

Ms. Zhang Jinqin (張金琴), aged 36, was appointed as a non-executive Director of the Company on 8 May 2014. She graduated from the University of Wales Institute Cardiff in June 2004 and obtained a Higher National Diploma in Tourism Management. Ms. Zhang worked for the Company from February 2005 to February 2008 and was responsible for product delivery, payment collection and inventory arrangement. She joined Renheng Chemicals in February 2008 and is responsible for equipment procurement and inventory management. Ms. Zhang is a sister of Mr. Zhang Youlian, an executive Director; a sister of Ms. Zhang Jinhua, a Shareholder and a cousin of Mr. Zhang Donglian, a Supervisor.

Independent Non-Executive Directors

Mr. Shao Chen (邵 晨), aged 52, was appointed as an independent non-executive Director, a member of the Audit Committee and the chairman of the Nomination Committee of the Company on 24 February 2013. Mr. Shao graduated from Zhejiang Normal University (浙江師範學院) in July 1982 and obtained a bachelor's degree in Arts. He worked for Zhejiang Gaohan Information Technology Co., Ltd. (浙江高漢信息科技有限公司) as a general manager of the marketing department and a general manager of the network security department between July 1991 and December 1997. He served as a general manager of Hangzhou Chaofan Transgenic Engineering Co., Ltd. (杭州超凡轉基因工程有限公司) between October 1999 and May 2007. Mr. Shao is now the deputy secretary general of China Non-Metallurgical Mining Industry Association (中國非金屬礦工業協會) and the secretary general of its Professional Committee on Bentonite (膨膶土專業委員會).

Dr. Wang Xiangyao (汪祥耀), aged 57, was appointed as an independent non-executive Director, a member of the Nomination Committee and the chairman of the Remuneration Committee of the Company on 24 February 2013. He graduated from Zhongnan University of Finance & Economics (中南財經大學) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985 and obtained a master's degree in Economics and is an accountant. Dr. Wang studied for his doctorate at Zhongnan University of Finance & Economics (中南財經大學) between September 1994 and December 1997 and obtained a doctoral degree in accounting. He joined Zhejiang University of Finance & Economics (浙江財經大學) in 1985. Dr. Wang currently serves as the dean of the Accounting School at Zhejiang

Directors' and Senior Management's Biographies

University of Finance & Economics. His past and current directorship in listed companies during last three years are shown as follows:

Employer	Stock Code	Stock Exchange	Term of office	Position
Wolong Real Estate Group Co., Ltd. (臥龍地產集團股份有限公司) (formerly known as Heilongjiang Province Mudanjiang New Material Technology Co., Ltd. (黑龍江省牡丹江新材料科技股份有限公司))	600173	the Shanghai Stock Exchange (上海證券交易所)	From August 2007 to October 2012	Independent Director (獨立董事)
Hangzhou Binjiang Real Estate Group Co., Ltd. (杭州濱江房產集團股份有限公司)	002244	the Shenzhen Stock Exchange (深圳證券交易所)	From November 2006 to November 2012	Independent Director
Zhejiang Huahai Pharmaceutical Co., Ltd. (浙江華海藥業股份有限公司)	600521	the Shanghai Stock Exchange	From April 2007 to April 2013	Independent Director
Zhejiang Southeast Space Frame Co., Ltd. (浙江東南網架股份有限公司)	002135	the Shenzhen Stock Exchange	From May 2008 to June 2014	Independent Director
Hangzhou Robam Appliances Co., Ltd. (杭州老闆電器股份有限公司)	002508	the Shenzhen Stock Exchange	From August 2008 to August 2014	Independent Director
Zhejiang Zheneng Electric Power Co., Ltd. (浙江浙能電力股份有限公司)	600023	the Shanghai Stock Exchange	Since September 2012	Independent Director
Hundsun Technology Inc. Ltd. (恒生電子股份有限公司)	600570	the Shanghai Stock Exchange	Since February 2013	Independent Director
Zhejiang Yasha Decoration Co., Ltd. (浙江亞厦裝飾股份有限公司)	002375	the Shenzhen Stock Exchange	Since May 2013	Independent Director

Dr. Huang Zemin (黃澤民), aged 61, was appointed as an independent non-executive Director and a member of the Audit Committee and a member of the Remuneration Committee of the Company on 24 February 2013. He studied at East China Normal University (華東師範大學) between September 1989 and July 1996 and graduated with a doctoral degree in Economics. Dr. Huang was promoted to associate professor in October 1992. He has been a professor of the School of International Finance (國際金融系) at East China Normal University (華東師範大學) since August 1996 and was engaged as a tenured professor (終身教授) by East China Normal University (華東師範大學) in December 2002. Dr. Huang was also a member of the 10th, 11th and 12th Chinese People's Political Consultative Conference (全國政協委員). He served as an independent director (獨立董事) of Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司) (stock code: 300171) listed on the Shenzhen Stock Exchange between March 2011 and March 2014. He has been an independent director of Shanghai Jinfeng Wine Company Limited (上海金楓酒業股份有限公司) (stock code: 600616) listed on the Shanghai Stock Exchange since May 2013.

Directors' and Senior Management's Biographies

Mr. Chau Kam Wing, Donald (周錦榮), aged 51, was appointed as an independent non-executive Director and the chairman of the Audit Committee of the Company on 8 May 2014. He has over 20 years' experience in audit, tax and financial management. Mr. Chau obtained an MBA from the University of San Francisco in the USA in 2000. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is the Finance Director of Winox Holdings Limited (stock code: 06838) listed on Main Board. He is also an independent non-executive director of China Water Affairs Group Ltd. (stock code: 00855) and Carpenter Tan Holdings Ltd., (stock code: 00837), companies listed on the Main Board. He is also an independent non-executive director of Zhejiang Shibao Co. Ltd. (Hong Kong stock code: 01057 and Shenzhen stock code: 002703) which is a company listed on the Main Board and the Small and Medium Enterprise Board (中小企業板) of the Shenzhen Stock Exchange. He is also the independent non-executive director of Eco-Tek Holdings Limited (stock code: 08169), a company listed on GEM.

Supervisory Committee

Mr. Xu Qinsi (徐勤思), aged 50, is the chairman of the Supervisory Committee and was appointed as a Supervisor on 1 September 2012. He is an economist. Mr. Xu served as the vice plant manager of Changxing Thread Factory (長興線廠) between October 1993 and August 2005. He graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), majored in economic management, in December 1997. Mr. Xu served as the head of the office of the Company between September 2006 and March 2009. He worked for Zhejiang Tailun Insulator Co., Ltd. (浙江泰侖絕緣子有限公司) as a deputy director of its supply department between May 2009 and August 2010. Mr. Xu joined the Company again in August 2010 and has been responsible for human resources management. Mr. Xu Qinsi is a brother of Ms. Xu Qinwei, the general manager of the Company, and the spouse of Ms. Ling Weixing (淩衛星), a Shareholder. Save as disclosed, Mr. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Zhang Donglian (張冬連), aged 48, and was appointed as a Supervisor on 29 December 2008. Mr. Zhang joined the Company in March 2007 and he is now the deputy general manager of Yangyuan Renheng. Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian, an executive Director, Ms. Zhang Jinqin, a non-executive Director, and Ms. Zhang Jinhua, a Shareholder. Save as disclosed, Mr. Zhang does not have any relationship with any other Director, Supervisor, senior management of the Company, the Substantial Shareholder or the Controlling Shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Liang Guoping (梁國平), aged 55, was elected as the employee representative to serve as a Supervisor on 16 August 2012. Mr. Liang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1981. He worked for Changxing County Native Products Corporation (長興縣土特產總公司) between September 1981 and July 1999. Mr. Liang joined the Company since its establishment in December 2000. He now serves as a cashier of the Company. Mr. Liang does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Directors' and Senior Management's Biographies

Senior Management

Ms. Xu Qinwei (徐勤偉), aged 59, is the general manager of the Company. Ms. Xu joined Changxing Jingu Industrial Co. (長興金谷實業公司) in July 1991. She was appointed as the deputy manager of Zhejiang Province Zhongrun Real Estate Co. Changxing Branch (浙江省中潤房地產總公司長興分公司) (in 2004 renamed as Zhejiang Province Zhongrun Food and Oil Trading Co. (浙江省中潤糧油工貿公司)), a subsidiary of Zhejiang Province Food Group Co., Ltd. (浙江省糧食集團有限公司), between April 1994 and March 2006. She has been the general manager of the Company since May 2006. Ms. Xu is a sister of Mr. Xu Qinsi (徐勤思), a Supervisor, and the spouse of Mr. Wang Shunmiao (王順淼), a Shareholder. Save as disclosed, Ms. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Su Pin (蘇品), aged 50, Mr. Su graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), with a graduation certificate in economic management, in December 2001. He is an economist. He served as a deputy general manager of Zhoushan Taihe Local Products Co., Ltd. (舟山市泰和土產有限責任公司) between January 1991 and April 1994, he served as the general manager of Zhoushan Taihe Local Products Co., Ltd. between April 1994 and March 2000. He worked for Zhoushan Hongli Specialty Co., Ltd. (舟山市弘立特產有限公司) as the general manager between April 2000 and June 2004. Mr. Su has been appointed as the deputy general manager of the Company since June 2004. Mr. Su does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Chan Hon Wan (陳漢雲), aged 54, is the financial controller and company secretary of the Company and joined the Group in April 2014. Mr. Chan graduated with a Bachelor's Degree in Economics from Macquarie University in Australia in 1986 and a Master's Degree in Accountancy from the Hong Kong Polytechnic University in 2005. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants (HKICPA), and an associate member of The Institute of Chartered Accountants in Australia. Mr. Chan has over 27 years of extensive experience in accounting and finance fields, gaining from an international accounting firm and various listed corporations. He served as the financial controller of Fairwood Holdings Limited (stock code: 00052), a company listed on the Main Board of the Stock Exchange from 1995 to 1998. He worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a Business Director of Texwood Group from 2006 to 2008. Mr. Chan served from September 2008 to April 2009 as the company secretary, qualified accountant and authorised representative of Freeman Corporation Limited (Stock Code: 00279) (now known as Freeman Financial Corporation Limited), a company listed on the Main Board of the Stock Exchange.

Corporate Governance Report

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.

As the shares of the Company were not yet listed on GEM Board of the Stock Exchange until 16 January 2015 (the "Listing Date"), the code provisions were not applicable to the Company during the Year Under Review. Throughout the period since the Listing Date and up to the date of this report, 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 period from Listing Date to the date of this report, 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 for Securities Transactions by Directors of Listed Issuers 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 (the "Model Code") as its own code governing securities transactions of the Directors. As the shares of the Company were not yet listed on the GEM Board of the Stock Exchange until 16 January 2015, the Model Code was not applicable to the Company during the Year Under Review. 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 since the Listing Date and up to the date of this report.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. Board should ensure that changes to its composition can be managed without undue disruption. Board should include a balanced composition of executive Directors (the "Executive Directors"), non-executive Director (the "Non-executive Director") and independent non-executive Directors (the "Independent Non-executive Directors") so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Board comprises a total of nine Directors, being four Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Mr. Zhang Youlian, Mr. Sun Wensheng, Mr. Fan Fang and Mr. Chen Weidong, served as Executive Directors, Ms. Zhang Jinqin served as Non-executive Director and Mr. Shao Chen, Mr. Wang Xiangyao, Mr. Huang Zemin and Mr. Chau Kam Wing, Donald served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the Independent Non-executive Directors is a qualified accountant who has appropriate professional quantifications or accounting or related financial management expertise. Each Independent Non-executive Director has been appointed for a 3-years term of services.

Corporate Governance Report

There is no financial, business, family or other material/relevant relationship amongst Directors and supervisors, except (i) Mr. Zhang Youlian is a brother of Ms. Zhang Jinqin, a Non-executive Director; and a cousin of Mr. Zhang Donglian, a supervisor; (ii) Ms. Zhang Jinqin is a sister of Mr. Zhang Youlian, an Executive Director; and a cousin of Mr. Zhang Donglian, a supervisor; and (iii) Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian, an Executive Director, and Ms. Zhang Jinqin, a Non-executive Director.

Biographical details of and the relationship between the Directors and supervisors are set out in the section headed "Directors' and Senior Management's Biographies" of this report.

An updated list of Directors and their role and functions is maintained at the websites of the Company and the Stock Exchange and the Independent Non-executive Directors are identified by name in all corporate communications.

Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the Independent Non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 19 December 2014 in compliance with provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board is going to perform the abovementioned corporate governance functions starting from the year of 2015 as the Company only became listed on the GEM Board of the Stock Exchange on 16 January 2015.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the articles of association (the "Articles of Association"). Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence and must provide an annual confirmation of his independency to the Company. Up to the date of this report, no Independent Non-executive Director has served the Company more than 9 years.

Corporate Governance Report

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy (the "Board Diversity Policy"). The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

As at the date of this report, the Board comprises nine Directors. One of them is a woman. Four of the Directors are Independent Non-executive Directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors (with the names set out in the section "Board of Directors" in this Corporate Governance Report) are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In November 2014, the Company, together with its legal adviser, organized a training session to provide each of the Directors with an update on the GEM Listing Rules.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with Appendix 15 to the GEM Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary (the "Company Secretary"), are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

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, Mr. 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.

Corporate Governance Report

No meeting was held by the Audit Committee during the year ended 31 December 2014 because the Company only became listed on 16 January 2015. Pursuant to the meeting of the Audit Committee held in March 2015 attended by all the members of the Audit Committee, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2014, the results announcement, this 2014 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration 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 Remuneration Committee has three members, namely Mr. Fan Fang, an executive Director, Mr. Huang Zemin and Mr. Wang Xiangyao, both Independent Non-executive Directors. Mr. Wang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to make recommendation to the Board the terms of remuneration packages, bonuses and other compensation (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

No meeting was held by the Remuneration Committee during the year ended 31 December 2014 and up to the date of this report since the Company only became listed on 16 January 2015.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination 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 Nomination Committee has three members, namely Mr. Fan Fang, an Executive Director, Mr. Wang Xiangyao and Mr. Shao Chen, both Independent Non-executive Directors. Mr. Shao has been appointed as the chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are (among other things) to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

No meeting was held by the Nomination Committee during the year ended 31 December 2014 and up to the date of this report since the Company only became listed on 16 January 2015.

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve quarterly, interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Corporate Governance Report

Minutes of meetings of the Board and Board committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

As the Company only became listed on the GEM Board of the Stock Exchange on 16 January 2015, there was no board committee meeting held during the year ended 31 December 2014. Details of the attendance records of Directors on Board meetings and general meeting for the Year Under Review are as follows:

	Attendance/number of meetings	
Name of Directors	**Board Meeting**	**General Meeting**
Executive Directors		
Mr. Zhang Youlian *(Chairman)*	3/3	1/1
Mr. Sun Wensheng	3/3	1/1
Mr. Fan Fang	3/3	1/1
Mr. Chen Weidong	3/3	1/1
Non-executive Director		
Ms. Zhang Jinqin	3/3	1/1
Independent Non-executive Directors		
Mr. Shao Chen	3/3	1/1
Mr. Wang Xiangyao	3/3	1/1
Mr. Huang Zemin	3/3	1/1
Mr. Chau Kam Wing, Donald	3/3	1/1

Subsequent to the year ended 31 December 2014 and up to date of this report, the Board held another Board meeting in March 2015 for the main purposes of approving the annual results of the Group for the year ended 31 December 2014, this annual report and formulating business development strategies. All Directors attended such meeting.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary of the Company on 1 April 2014. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

Mr. Chan is going to comply with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules starting from the year 2015, as the Company only became listed on the GEM Board of the Stock Exchange on 16 January 2015. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility, as set out in the Independent Auditor's Report, to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

Corporate Governance Report

The responsibilities of PricewaterhouseCoopers, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal controls

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the year. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. No major issue but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

EXTERNAL AUDITOR

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of the external auditor.

During the year ended 31 December 2014, the fees payable to PricewaterhouseCoopers in respect of its audit services provided to the Group was RMB1,000,000.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2014.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the Company Secretary of the Company at the Company's principal place of business in Hong Kong at 4th Floor, 5th Floor and 1602, Central Tower, 28 Queen's Road Central, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

Corporate Governance Report

According to article 8.6 of the Articles of Association, when the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five days before the date of the meeting (including the date of the meeting but excluding the date on which the written notice is sent) to notify all shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty days before the date of the meeting.

Making Proposals at Shareholders' Meetings

According to article 8.7 of the Articles of Association, when the Company convenes a shareholder's annual general meeting, shareholders (either independently or jointly) holding 3% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the shareholders in general meeting.

Shareholders who would like to propose new motions in annual general meeting should send the written requisition by post to the Company's principal place of business in Hong Kong at 4th Floor, 5th Floor and 1602, Central Tower, 28 Queen's Road Central, Hong Kong.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Company's principal place of business in Hong Kong at 4th Floor, 5th Floor and 1602, Central Tower, 28 Queen's Road Central, Hong Kong or by phone at (852) 2526 6311. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2014, there had been no significant change in the Company's constitutional documents. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.renheng.com to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.
Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 21 March 2015

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 (the "Financial Statements").

PLACING H SHARES

The Company was established in the PRC as a limited liability company in December 2000 and was converted into a joint stock limited liability company in December 2008 under the Company Law of the PRC. The Company's H Shares were listed on the GEM Board of the Hong Kong Stock Exchange (the "Stock Exchange") on 16 January 2015.

PRINCIPAL BUSINESS

The Group is 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.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 44 to 50.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend of RMB22.77 cents (equivalent to HK28.79 cents) per share for the financial year ended 31 December 2014 (2013: nil) (the calculation of dividend per share includes the 8,000,000 H shares of the Company listed on the GEM Board of the Hong Kong Stock Exchange on 16 January 2015) to the Shareholders whose names appear on the register of members of the Company on Wednesday, 3 June 2015, amounting to approximately RMB7,286,000 (equivalent to HK$9,213,000), subject to the approval of the Company's forthcoming annual general meeting to be held on Thursday, 21 May 2015. The dividends payout ratio is 60% of the Group's profit for the year or 67% of the Group's profit for the year after deducting the non-distributable statutory reserves of RMB1,223,000 for the year ended 31 December 2014. The above-mentioned final dividend is expected to be paid on or before Tuesday, 30 June 2015.

CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Tuesday, 21 April 2015 to Thursday, 21 May 2015 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Union Registrars Limited, at A18/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration at or before 4:30 p.m. on Monday, 20 April 2015.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 29 May 2015 to Wednesday, 3 June 2015 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Union Registrars Limited, at A18/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration at or before 4:30 p.m. on Thursday, 28 May 2015.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 116 of the annual report. This summary does not form part of the audited consolidated financial statements.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2014, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Report of the Directors

GOING CONCERN

Based on the current financial position and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the Financial Statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review 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

The H Shares of the Company were listed on the GEM Board of the Hong Kong Stock Exchange on 16 January 2015, subsequent to the end of the reporting period. Thus, for the year ended 31 December 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 22 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 49 of the Consolidated Statement of Changes in Equity and Note 23 to the Financial Statements.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2014, calculated in accordance with PRC rules and regulation, was retained profits of approximately RMB29,924,000 of which RMB7,286,000 has been proposed as final dividends for the year after the reporting period. Detail of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 49 of this annual report.

CHARITY DONATIONS

During the Year Under Review, the Group did not make any charity donations (2013: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2014 are set out in Note 14 to the Financial Statements.

The Group's land use rights and buildings as at 30 September 2014 were revalued by Greater China Appraisal Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III – Property Valuation Report to the Company's prospectus dated 31 December 2014 (the "Prospectus"). The net valuation surplus, representing the excess of market value of the land use rights and buildings over their carrying value amounting to RMB10.3 million, has not been included in the consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 July 2014. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, an additional depreciation of RMB0.5 million per annum in respect of the revaluation surplus, before income taxes, would be charged against the consolidated statement of comprehensive income.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Report of the Directors

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2014 are set out in Note 33 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2014 and up to the date of this report have been:

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Sun Wensheng
Mr. Fan Fang
Mr. Chen Weidong

Non-executive Director

Ms. Zhang Jinqin

Independent non-executive Directors

Mr. Shao Chen
Dr. Wang Xiangyao
Dr. Huang Zemin
Mr. Chau Kam Wing, Donald

Supervisors

Mr. Xu Qinsi
Mr. Zhang Donglian
Mr. Liang Guoping

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, supervisors and senior management of the Company are set out in pages 22 to 26 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 18.39B of the GEM Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2014.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 10(a) to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2013: 2 Directors). Details of the five highest paid individuals are set out in Note 10(b) to the Financial Statements.

Report of the Directors

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors has entered into a service agreement with the Company for a term of three years. No Director and supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

None of the Directors, the supervisors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the Year Under Review.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, DEBENTURES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2014, the shares of the Company were not yet listed on the GEM Board of the Hong Kong Stock Exchange, Section 352 of the Securities and Futures Ordinance (the "SFO") was then not applicable to the Company and the Directors.

As at 21 March 2015, 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 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, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	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%

Save as disclosed above, as at 21 March 2015, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, 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 Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Year Under Review, 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 21 March 2015, 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
Mr. Ngan Iek	Beneficial owner	1,772,000	–	1,772,000	5.54%

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's Prospectus, Mr. Zhang Youlian, (the "Controlling Shareholder") has executed a deed of non-competition through which he has undertaken and procure that none of his associates will (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the Group's existing business activity or any principal business activity of any member of the Group or be in competition with the Group in any business activities which the Group may undertake in the future (the "Restricted Business"); or (b) take any direct or indirect action which constitutes an interference with or a disruption to the Group's business activities including, but not limited to, solicitation of the Group's customers, suppliers or staff. He has warranted that neither he nor any of his associates is currently engaging in and has not had any interest in any business that directly or indirectly competes or may compete with the Group's business. The Controlling Shareholder also undertakes and covenants to the Group that, if any new business opportunity relating to any Restricted Business is made available to him, he will direct the Restricted Business to the Group with such required information to enable the Group to evaluate the merits of the Restricted Business.

The Controlling Shareholder has confirmed in writing to the Company of his compliance with the deed of non-competition for disclosure in this report from the Listing Date to the date of this report.

CONNECTED TRANSACTION

During the period from the Listing Date to the date of this report, 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' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors or supervisors 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.

INTEREST OF COMPLIANCE ADVISER

As notified by South China Capital Limited, the Company's compliance adviser, neither South China Capital Limited nor any of its directors or employees or 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) from the date of its appointment to 31 December 2014 pursuant to Rule 6A.32 of the GEM Listing Rules.

Report of the Directors

PLEDGE OF ASSETS

As at 31 December 2014, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB29,821,000 (31 December 2013: approximately RMB18,553,000).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 7.25% to 9.00%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2014, the Group had cash and cash equivalents of RMB7,051,000 which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 23.4% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 7.4% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 60.5% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 24.2% of the total cost of sales of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

USE OF PROCEEDS FROM PLACING OF H SHARES

The H shares of the Company were listed on the GEM Board of The Hong Kong Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB41,200,000 (equivalent to approximately HK$52,100,000), after deduction of the underwriting commission and relevant expenses. As at 21 March 2015, no net proceeds from placing of H shares was utilized. Details of the expected usage of proceeds from the placing of H shares are set forth in the Company's Prospectus.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2014 are set out in Note 2.20 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

EVENTS AFTER THE REPORTING PERIOD

On 16 January 2015, the H shares of the Company became listed on the GEM Board of the Stock Exchange, pursuant to which 8,000,000 H shares were issued by the Company at the placing price of HK$9.7 per share. Number of total issued shares of the Company was increased from 24,000,000 to 32,000,000 shares upon completion of the listing.

COMPANY SECRETARY

Mr. Chan Hon Wan, who is also senior management, is our Company Secretary. Please refer to Mr. Chan's biographies in the section headed "Directors' and Senior Management's Biographies" for details.

Report of the Directors

COMPLIANCE OFFICER

Mr. Fan Fang, who is also an executive Director, is our compliance officer. Please refer to Mr. Fan's biographies in the section headed "Directors' and Senior Management's Biographies" for details.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.
Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 21 March, 2015

Supervisory Committee Report

The Supervisory Committee is pleased to present this report of the Supervisory Board in the annual report of the Company for the period from Listing Date, 16 January 2015 to the date of this report.

In 2014, all members of the Supervisory Committee have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Company Law of the PRC, the Articles of Association, the Terms of Reference of the Supervisory Committee and the relevant provisions in the GEM Listing Rules. Members of the Supervisory Committee carried out examination of the Company's financial accounts and supervision of the Directors, and other senior management officers for their compliance with the laws, administrative regulations and the Articles of Association in executing their respective duties.

MEETINGS OF THE SUPERVISORY COMMITTEE

As the Company was listed on the Hong Kong Stock Exchange on 16 January 2015, one meeting of the Supervisory Committee was held on 21 March 2015 to consider the 2014 audited financial report of the Company and the report of Supervisory Committee for 2014 and to receive the report on the 2014 results announcement of the Company.

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

The Supervisory Committee is of the view that since the Listing Date and up to the date of this report, the operation of the Company has been consistent with the provisions of the Company Law of the PRC, the PRC Securities Law and the Articles of Association; that the decision-making process of the Company has been in compliance with the laws, and the Company has established a relatively comprehensible internal control system; and that the Directors and senior management have not violated any law, regulation or the Articles of Association, nor have they acted in a way which is prejudicial to the interests of the Company.

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee agreed with the audit opinion issued on 21 March 2015 on the 2014 annual financial report of the Company, and that the financial report of the Company has given a true and fair view of the financial position and the operating results of the Company.

INDEPENDENT OPINION ON THE IMPLEMENTATION OF THE RESOLUTIONS OF GENERAL MEETINGS

The Supervisory Committee considered that the Board earnestly implemented the resolutions approved by the general meetings.

In 2015, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the GEM Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. Xu Qinsi

Zhejiang, PRC, 21 March 2015

Independent Auditor's Report

羅兵咸永道

To The Shareholders Of Zhejiang Chang'an Renheng Technology Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of 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 (together, the "Group") set out on pages 44 to 115, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

OTHER MATTERS

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2015

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

		Year ended 31 December	
	Note	2014 *RMB*	2013 *RMB*
Revenue	*6*	**92,029,197**	86,076,596
Cost of sales	*8*	**(48,826,206)**	(42,948,490)
Gross profit		**43,202,991**	43,128,106
Distribution costs	*8*	**(11,082,736)**	(11,977,579)
Administrative expenses	*8*	**(10,541,672)**	(9,609,684)
Research and development expenses	*8*	**(3,760,840)**	(4,857,368)
Other gains - net	*7*	**3,403,018**	2,555,553
Operating profit		**21,220,761**	19,239,028
Finance income	*11*	**339,857**	350,056
Finance expenses	*11*	**(7,105,238)**	(5,837,126)
Finance expenses – net	*11*	**(6,765,381)**	(5,487,070)
Profit before income tax		**14,455,380**	13,751,958
Income tax expense	*12*	**(2,312,547)**	(2,006,322)
Profit for the year attributable to the equity holders of the Company		**12,142,833**	11,745,636
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to the equity holders of the Company		**12,142,833**	11,745,636
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	*13*	**0.51**	0.49

The notes on pages **51** to **116** are an integral part of these consolidated financial statements

Dividends			
Proposed final dividends: RMB0.2277 per share	*29*	**7,286,400**	–

Consolidated Balance Sheet

as at 31 December 2014

		As at 31 December	
		2014	2013
	Note	*RMB*	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	42,695,190	40,752,484
Prepaid leasing expenses	*15*	6,527,391	4,496,437
Mining rights	*16*	20,076	60,232
Leasehold improvements	*17*	583,853	487,410
Deferred income tax assets	*18*	1,097,839	1,094,846
Trade and other receivables	*20*	649,881	493,808
		51,574,230	47,385,217
Current assets			
Inventories	*19*	17,378,815	14,206,460
Trade and other receivables	*20*	90,377,445	87,972,226
Restricted cash	*21*	10,275,216	8,025,000
Cash and cash equivalents	*21*	7,051,265	4,173,066
		125,082,741	114,376,752
Total assets		176,656,971	161,761,969
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*22*	24,000,000	24,000,000
Other reserves	*23*	6,920,604	5,732,682
Retained earnings			
– Proposed final dividends	*29*	7,286,400	–
– Others		22,637,616	18,969,105
Total equity		60,844,620	48,701,787

Consolidated Balance Sheet *(Continued)*

as at 31 December 2014

		As at 31 December	
		2014	2013
	Note	*RMB*	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants	*25*	**852,417**	939,506
Provisions for environmental rehabilitation	*26*	**634,533**	513,400
Borrowings	*28*	**1,066,077**	1,427,493
		2,553,027	2,880,399
Current liabilities			
Deferred government grants	*25*	**87,208**	213,925
Trade and other payables	*27*	**22,700,551**	25,373,445
Current income tax liabilities		**988,540**	885,078
Borrowings	*28*	**89,483,025**	83,707,335
		113,259,324	110,179,783
Total liabilities		**115,812,351**	113,060,182
Total equity and liabilities		**176,656,971**	161,761,969
Net current assets		**11,823,417**	4,196,969
Total assets less current liabilities		**63,397,647**	51,582,186

The notes on pages 51 to 115 are an integral part of these consolidated financial statements

The financial statements on pages 44 to 115 were approved by the Board of Directors on 21 March 2015 and were signed on its behalf.

Director *Director*

Balance Sheet

as at 31 December 2014

		As at 31 December	
	Note	2014 RMB	2013 RMB
ASSETS			
Property, plant and equipment	14	24,811,981	22,600,273
Prepaid leasing expenses	15	3,944,910	4,062,204
Investment in subsidiaries	33	3,515,629	3,515,629
Deferred income tax assets	18	670,003	359,105
		32,942,523	30,537,211
Current assets			
Inventories	19	8,412,417	7,505,114
Trade and other receivables	20	68,261,983	64,390,996
Trade and other receivables due from subsidiaries	32(c)	26,081,034	35,432,291
Restricted cash	21	10,275,216	7,025,000
Cash and cash equivalents	21	6,464,963	3,649,298
		119,495,613	118,002,699
Total assets		152,438,136	148,539,910
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	22	24,000,000	24,000,000
Other reserves	23	6,771,918	5,698,789
Retained earnings	24		
– Proposed final dividends	29	7,286,400	–
– Others		20,153,144	17,781,381
Total equity		58,211,462	47,480,170

Balance Sheet *(Continued)*

as at 31 December 2014

		As at 31 December	
		2014	2013
	Note	*RMB*	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants	25	852,417	939,506
Borrowings	28	1,066,077	1,427,493
		1,918,494	2,366,999
Current liabilities			
Deferred government grants	25	87,208	213,925
Trade and other payables	27	17,750,334	16,506,054
Trade and other payables due to subsidiaries	32(c)	-	4,797,996
Current income tax liabilities		487,613	467,431
Borrowings	28	73,983,025	76,707,335
		92,308,180	98,692,741
Total liabilities		94,226,674	101,059,740
Total equity and liabilities		152,438,136	148,539,910
Net current assets		27,187,433	19,309,958
Total assets less current liabilities		60,129,956	49,847,169

The notes on pages 51 to 115 are an integral part of these consolidated financial statements.

The financial statements on pages 44 to 115 were approved by the Board of Directors on 21 March 2015.

Director *Director*

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

		Attributable to equity holders of the Company			
		Share capital	Other reserves	Retained earnings	Total
	Note	*RMB*	*RMB*	*RMB*	*RMB*
As at 1 January 2013		24,000,000	4,721,785	8,234,366	36,956,151
Comprehensive income					
Profit for the year		–	–	11,745,636	11,745,636
Total comprehensive income for the year		–	–	11,745,636	11,745,636
Appropriation to statutory reserve	*23*	–	1,035,177	(1,035,177)	–
Appropriation to safety fund	*23*	–	15,000	(15,000)	–
Utilisation of safety fund	*23*	–	(39,280)	39,280	–
As at 31 December 2013		24,000,000	5,732,682	18,969,105	48,701,787
As at 1 January 2014		**24,000,000**	**5,732,682**	**18,969,105**	**48,701,787**
Comprehensive income					
Profit for the year		-	-	**12,142,833**	**12,142,833**
Total comprehensive income for the year		-	-	**12,142,833**	**12,142,833**
Appropriation to statutory reserve	*23*	-	**1,073,129**	**(1,073,129)**	-
Appropriation to safety fund	*23*	-	**150,160**	**(150,160)**	-
Utilisation of safety fund	*23*	-	**(35,367)**	**35,367**	-
As at 31 December 2014		**24,000,000**	**6,920,604**	**29,924,016**	**60,844,620**

The notes on pages 51 to 115 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2014

		Year ended 31 December	
		2014	2013
	Note	*RMB*	*RMB*
Cash flows from operating activities			
Cash generated from operations	*30(a)*	**26,961,733**	13,257,867
Income tax paid		**(2,212,078)**	(2,595,052)
Net cash generated from operating activities		**24,749,655**	10,662,815
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	*30(b)*	**1,450,000**	20,000
Loans to related parties	*32(b)(i)*	**-**	(10,420,616)
Loans repayments received from related parties		**-**	20,158,327
Interest income from loans to related parties		**-**	128,502
Withdraw of guaranteed deposits and time deposits		**8,925,000**	22,691,682
Deposit of guaranteed deposits and time deposits		**(11,175,216)**	(16,306,682)
Interest income received from time deposits		**153,847**	364,042
Payment of prepaid leasing expenses and leasehold improvements		**(2,688,077)**	(2,105,657)
Purchases of property, plant and equipment		**(9,721,010)**	(16,090,613)
Net cash used in investing activities		**(13,055,456)**	(1,561,015)
Cash flows from financing activities			
Proceeds from borrowings		**116,539,217**	147,606,147
Repayments of borrowings		**(111,181,062)**	(140,998,129)
Payments of interest expenses		**(7,308,112)**	(6,002,646)
Proceeds from related party borrowings	*32(b)(ii)*	**-**	2,221,335
Repayments from related party borrowings		**-**	(7,035,274)
Prepayments of expenses relating to public offering		**(6,866,043)**	(3,664,842)
Net cash used in financing activities		**(8,816,000)**	(7,873,409)
Net increase in cash and cash equivalents		**2,878,199**	1,228,391
Cash and cash equivalents at beginning of the year		**4,173,066**	2,944,675
Cash and cash equivalents at end of the year	*21(a)*	**7,051,265**	4,173,066

The notes on pages 51 to 115 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

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 (together, 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 Chang Xing Renheng Refined 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 address of the Company is Laoyatang, Si'an, Changxing, Zhejiang Province, PRC.

The English names of companies mentioned in this report represented the best effort by directors of the Company in translating their Chinese names as they may not have official English names.

The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "Listing").

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 21 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap.32) for this financial year and the comparative period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2014:

- IAS 32 (Amendment) "Financial instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the consolidated financial statements.

- IAS 36 (Amendment) "Impairment of assets", on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units which had been included in IAS 36 by the issue of IFRS 13.

- IFRIC 21"Levies", sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 "Provisions". The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(b) New and amended standards issued but are not effective and not yet adopted by the Group

- IAS19 Amendment regarding defined benefit plans: employee contributions, effective for the annual period beginning on or after 1 July 2014.

Annual improvements 2012:

- IFRS 8 (Amendments) "Operating segments" included the disclosure of the judgments made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported, effective for the annual period beginning on or after 1 July 2014.

- IAS 24 (Amendments) "Related Party Disclosures". The reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided, effective for the annual period beginning on or after 1 July 2014. The adoption of this new standard has no material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) ***New and amended standards issued but are not effective and not yet adopted by the Group (Continued)***

Annual improvements 2013:

- IFRS 3 (Amendments) "Business combinations" does not apply to the accounting for the formation of any joint arrangement under IFRS 11 in the financial statements of the joint arrangement, effective for annual periods beginning on or after 1 July 2014.

- IFRS 13 (Amendment) "Fair value measurement" clarifies that the portfolio exception in IFRS 13, contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9, effective for the annual period beginning on or after 1 July 2014.

- IFRS 14 "Regulatory Deferral Accounts", effective for the accounting period beginning on or after 1 January 2016.

- IFRS 11 (Amendment) on accounting for acquisitions of interests in joint operation, effective for the accounting period beginning on or after 1 January 2016.

- Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

- IAS 16 and IAS 38 (Amendments) on clarification of acceptable methods of depreciation and amortization, effective for the accounting period beginning on or after 1 January 2016.

- IFRS 10 and IAS 28 (Amendments) on the sale or contribution of assets between an investor and its associate or joint venture, effective for the accounting period beginning on or after 1 January 2016.

- IAS 27 (Amendments) on the equity method, effective for the accounting period beginning on or after 1 January 2016.

- IFRS 7 (Amendments) "Financial instruments: Disclosures" including Service contracts and Interim financial statements, effective for the accounting period beginning on or after 1 January 2016.

- IAS 19 (Amendments) "Employee benefits", effective for the accounting period beginning on or after 1 January 2016.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) ***New and amended standards issued but are not effective in 2014 and not yet adopted by the Group (Continued)***

Annual improvements 2014:

- IAS 34 (Amendments) "Interim financial reporting", effective for the accounting period beginning on or after 1 January 2016.

- IAS 15 "Revenue from Contracts with Customers", effective for the accounting period beginning on or after 1 January 2017.

- IFRS 9 "Financial Instruments", effective for the accounting period beginning on or after 1 January 2018.

The directors anticipate that the adoption of these new standards, amendments to standards and interpretations to standards will not result in a significant impact on the consolidated financial statements of the Group.

(c) ***New Hong Kong Companies Ordinance (Cap. 622)***

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected."

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2.2.2 Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Business combinations (Continued)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

2.2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. In the Company's balance sheet, the deemed cost of investment in subsidiaries acquired under common control is the existing book value of net assets of the subsidiaries as at the date of acquisition.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial information exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Foreign currency translation *(Continued)*

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within "finance expenses – net". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "other gains – net".

2.4 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful lives	Estimated residual values
Buildings, fixtures and facilities	5 to 30 years	5%
Machinery and equipment	4 to 10 years	5%
Vehicles	4 to 10 years	5%
Electronic and office equipment	3 to 5 years	5%

Construction in progress represents buildings, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Property, plant and equipment *(Continued)*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the consolidated statement of comprehensive income.

2.5 Prepaid leasing expenses

Prepaid leasing expenses (land use rights) are stated at cost and amortized over the remaining period of the leases on a straight-line basis, net of any impairment losses, if any (Note 2.8).

2.6 Mining rights

Mining rights are stated at cost and amortized over the remaining period of the license periods on a straight-line basis, net of any impairment losses, if any (Note 2.8).

2.7 Leasehold improvements

Leasehold improvements are stated at cost and amortized over the lower of expected beneficial periods or lease periods on a straight-line basis, net of any impairment losses, if any (Note 2.8).

2.8 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group only has financial assets classified as "loans and receivables" during the years ended 31 December 2014 and 2013.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted cash" and "cash and cash equivalents", in the consolidated balance sheet (Notes 20 and 21).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as time deposits as security deposits for borrowing agreement, guaranteed deposits for issuance of bills payable and guaranteed deposits for purchase of equipment. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods, construction or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) ***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) ***Deferred income tax***

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) ***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits

(a) ***Pension obligations***

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

(b) ***Housing benefits***

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated statement of comprehensive income as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

(c) ***Bonus entitlements***

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.21 Provisions

Provisions for environmental rehabilitation are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Revenue recognition *(Continued)*

(a) Sales of goods

Revenue from the sale of goods is recognised when the Group has delivered products to the customers and the customers have confirmed the acceptance of the products, which means the significant risks and rewards of ownership of the goods are transferred to the buyer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are deferred and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related asset.

2.24 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Safety fund

According to CaiQi [2012] No 16 "Measures for the accruals and utilization of safety fund for enterprises", issued by the Ministry of Finance ("MOF") and Safety Production General Bureau, the Group is required to accrue a "safety fund" to improve the production safety. Accruals to the safety fund are treated as an appropriation to reserves, which will be reversed to retained earnings upon utilization and charged to cost of sales.

2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director of the Company that makes strategic decisions.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) ***Market risk***

(i) *Foreign exchange risk*

The Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars ("USD"). The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years ended 31 December 2014 and 2013, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2014, if the RMB had strengthened/weakened by 5% against the USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB395 (2013: RMB232,000) higher/lower respectively for various financial assets and liabilities denominated in USD.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) ***Market risk** (Continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2014, the Group's borrowings of RMB28,887,578 (2013: RMB39,166,478) were charged at variable rates while the Group's borrowings of RMB61,661,524 (2013: RMB45,968,350) were charged at fixed rates, respectively.

The Group has not hedged its respective cash flow and fair value interest rate risks. The interest rates, terms of repayments and fair value of borrowings are disclosed in Note 28.

As at 31 December 2014, if the interest rates on the Group's borrowing charged at variable rates had been 50 basis points higher/lower, the net profit for the years would have been approximately RMB123,000 (2013: RMB166,000) lower/higher, respectively.

(b) ***Credit risk***

The carrying amounts of cash and cash equivalents, restricted cash and trade and other receivables included in the consolidated balance sheet and the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents and restricted cash since they are substantially deposited at state-owned banks and other large or medium size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables. The Group assesses the credit quality of and sets credit limits on their customers by taking into account their financial position, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the group is limited to a controllable extent.

(c) ***Liquidity risk***

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 3 years	Over 3 years	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Group						
As at 31 December 2014						
Borrowings, including interest payables	73,461,060	12,571,605	454,529	454,529	271,258	87,212,981
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	18,060,321	-	-	-	-	18,060,321
	91,521,381	12,571,605	454,529	454,529	271,258	105,273,302
As at 31 December 2013						
Borrowings, including interest payables	50,767,188	35,831,470	454,529	454,529	725,706	88,233,422
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	22,516,558	–	–	–	–	22,516,558
	73,283,746	35,831,470	454,529	454,529	725,706	110,749,980

Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

	Within 6 months *RMB*	Between 6 months and 1 year *RMB*	Between 1 and 2 years *RMB*	Between 2 and 3 years *RMB*	Over 3 years *RMB*	Total *RMB*
Company						
As at 31 December 2014						
Borrowings, including interest payables	57,198,710	12,571,605	454,529	454,529	271,258	70,950,631
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	12,342,100	-	-	-	-	12,342,100
	69,540,810	12,571,605	454,529	454,529	271,258	83,292,731
As at 31 December 2013						
Borrowings, including interest payables	43,478,438	35,831,470	454,529	454,529	725,706	80,944,672
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	13,238,228	–	–	–	–	13,238,228
	56,716,666	35,831,470	454,529	454,529	725,706	94,182,900

3.2 Capital management

The Group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratios as at 31 December 2014 and 2013, respectively, are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Total borrowings *(Note 28)*	**90,549,102**	85,134,828
Less: Cash and cash equivalents and restricted cash *(Note 21)*	**(17,326,481)**	(12,198,066)
Net debt	**73,222,621**	72,936,762
Total equity	**60,844,620**	48,701,787
Total capital	**134,067,241**	121,638,549
Gearing ratio	**55%**	60%

The decrease in the gearing ratio was resulted primarily from the increase in retained earnings.

3.3 Fair value estimation

(a) ***Financial assets and liabilities not measured at fair value***

Financial assets not measured at fair value included cash and cash equivalents, restricted cash and trade and other receivables (except for prepayments and guaranteed deposits for environmental rehabilitation) and financial liabilities included borrowings and trade and other payables (except for advances from customers, staff salaries and welfare payables and accrued taxes other than income tax). The carrying amount of these financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

(b) ***Financial assets measured at fair value***

Financial assets measured at fair value included guaranteed deposits for environmental rehabilitation.

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Guaranteed deposits for environmental rehabilitation is categorized as level 3. As at 31 December 2014 and 2013, the difference between its carrying amount and fair value is RMB120,219 and RMB116,712, respectively.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

4 CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of receivables

Management determines the provision of impairment of trade and other receivables, based on the credit history of its customers and the current market condition. Management reassesses the provision at each balance sheet date.

Significant judgment is exercised on the assessment of the collectability of trade receivables from customers. In making the judgment, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends including subsequent payments and customers' financial performance. If the financial conditions of the customers of the Group were to deteriorate, which resulted in an impairment of their ability to make payments, additional provision of impairment may be required.

(b) Estimated useful lives and residual values of property, plant and equipment

The Group anticipates estimated useful lives and estimated residual value of property, plant and equipment. Such estimates are based on historical experience of actual useful lives of property, plant and equipment with similar nature and function. As a result of technology advances, management will adjust estimated useful lives and estimated residual value when they are different from previous estimation, or the corresponding property, plant and equipment are written off or written down when technologically backward equipment items are disposed of or sold.

(c) Environment rehabilitation obligations

Environment rehabilitation obligations are inherently imprecise and represent only the approximate amounts because of the subjective judgments involved in the estimation of the costs. Environment rehabilitation obligations are subject to a considerable amount of uncertainties which affects the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to, mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying cost of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. In addition, as prices and cost levels change from year to year, the estimate of environment liabilities also changes. Despite the inherent imprecision in these estimates, these estimates are used in assessing the provision for rehabilitation.

(d) Income taxes

The Group is subject to income taxes in a few jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant estimate is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Consolidated Financial Statements

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5 SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of bentonite clay products. Therefore, management considers there is only one operating segment, under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented.

6 REVENUE

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Paper making chemicals series	**77,043,029**	72,456,351
Bentonite for metallurgy pellet	**5,814,728**	6,607,404
Quality calcium-bentonite	**1,972,451**	5,229,052
Others (i)	**7,198,989**	1,783,789
	92,029,197	**86,076,596**

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

No single external customer contributed 10% or above of the Group's revenue for the year ended 31 December 2014 and 2013.

7 OTHER GAINS – NET

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Losses on disposal of property, plant and equipment , prepaid leasing expenses and leasehold improvements- net	**-**	(114,849)
Foreign exchange (losses)/gains- net	**(117,826)**	138,619
Government grants		
– Relating to assets *(Note 25)*	**213,806**	410,025
– Relating to costs (i)	**3,401,500**	2,208,414
Others	**(94,462)**	(86,656)
	3,403,018	2,555,553

(i) The Company received RMB2 million in September 2014 from the Finance Bureau of Changxing (長興) for the submission of the listing application of the Company's shares. The remaining government grants were certain cost-related unconditional subsidies which were granted to award the Group's effort on product development and innovation.

Notes to the Consolidated Financial Statements

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8 EXPENSES BY NATURE

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Changes in finished goods *(Note 19)*	(376,169)	322,772
Raw materials and consumable used	41,969,582	36,917,978
Employee benefit expenses *(Note 9)*	10,219,182	8,388,171
Utilities	1,989,415	1,640,784
Transportation expenses	9,051,094	10,017,338
Depreciation *(Note 14)*	5,090,228	4,520,547
Travelling and communication expenses	966,848	2,970,908
Taxes and levies	1,457,753	1,531,400
Amortisation of prepaid leasing expenses *(Note 15)*	162,122	134,893
Amortisation of mining rights *(Note 16)*	40,156	40,156
Professional service fee		
– Auditor's remuneration	1,000,000	70,000
– Others	188,463	865,636
Amortisation of leasehold improvements *(Note 17)*	130,557	142,375
Maintenance expenses	137,160	165,028
Entertainment expenses	612,925	845,875
Reversal of impairment of receivables *(Note 20)*	(131,973)	(90,891)
Miscellaneous	1,704,111	910,151
Total cost of sales, distribution costs, administrative expenses and research and development expenses	74,211,454	69,393,121

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Salaries, wages and bonuses	9,568,551	7,834,409
Contributions to pension plans	341,730	325,396
Housing fund, welfare, medical and other benefits	308,901	228,366
	10,219,182	8,388,171

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10 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

Directors', supervisors' and senior management's emoluments for the years ended 31 December 2014 and 2013, respectively, are set out as follows:

	Year ended 31 December	
	2014 *RMB*	2013 *RMB*
Directors' fees	–	–
Salaries, wages and bonuses	1,991,828	1,310,693
Contributions to pension plans	93,617	75,652
Housing fund, welfare, medical and other benefits	83,193	74,206
	2,168,638	1,460,551

No director, supervisor or senior management has waived or agreed to waive any emoluments for the year ended 31 December 2014 and 2013.

Directors', supervisors' and senior management's emoluments are set out below:

	Directors' fee *RMB*	Salaries, wages and bonuses *RMB*	Contributions to pension plans *RMB*	Housing fund, welfare, medical and other benefits *RMB*	Total *RMB*
Year ended 31 December 2014					
Executive Directors					
Zhang Youlian (張有連) (i)	-	192,000	11,949	10,471	214,420
Sun Wensheng (孫文勝) (ii)	-	182,400	11,949	10,471	204,820
Fan Fang (范芳)	-	98,536	11,949	10,471	120,956
Chen Weidong (陳衛東)	-	61,436	3,605	3,662	68,703
Non-executive Directors					
Yu Hua (余驊) (vii)	-	-	-	-	-
Zhang Jinqin (張金琴) (vii)	-	51,300	2,764	2,572	56,636
Independent Non-executive Directors					
Shao Chen (邵晨) (v)	-	80,000	-	-	80,000
Huang Zemin (黃澤民) (v)	-	80,000	-	-	80,000
Wang Xiangyao (汪祥耀) (v)	-	80,000	-	-	80,000
Chau Kam Wing, Donald (周錦榮) (viii)	-	91,000	-	-	91,000

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

10 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors', supervisors' and senior management's emoluments (Continued)

	Directors' fee RMB	Salaries, wages and bonuses RMB	Contributions to pension plans RMB	Housing fund, welfare, medical and other benefits RMB	Total RMB
Supervisors					
Xu Qinsi (徐勤思) (iii)	-	98,536	11,949	10,471	120,956
Zhang Donglian (張冬連)	-	100,284	11,949	10,471	122,704
Liang Guoping (梁國平) (iv)	-	51,336	3,605	3,662	58,603
Senior Management					
Xu Qinwei (徐勤偉)	-	180,000	11,949	10,471	202,420
Su Pin (蘇品)	-	150,000	11,949	10,471	172,420
Chan Hon Wan (陳漢雲)(ix)	-	495,000	-	-	495,000
	-	1,991,828	93,617	83,193	2,168,638

	Directors' fee RMB	Salaries, wages and bonuses RMB	Contributions to pension plans RMB	Housing fund, welfare, medical and other benefits RMB	Total RMB
Year ended 31 December 2013					
Executive Directors					
Zhang Youlian (張有連) (i)	–	192,000	8,948	9,584	210,532
Sun Wensheng (孫文勝) (ii)	–	182,400	8,948	9,584	200,932
Fan Fang (范芳)	–	91,536	8,948	9,584	110,068
Chen Weidong (陳衛東)	–	54,936	5,328	6,063	66,327
Non-executive Directors					
Yu Hua (余驊) (vii)	–	–	–	–	–
Independent Non-executive Directors					
Shao Chen (邵晨) (v)	–	73,333	–	–	73,333
Huang Zemin (黃澤民) (v)	–	73,333	–	–	73,333
Wang Xiangyao (汪祥耀) (v)	–	73,333	–	–	73,333
Supervisors					
Xu Qinsi (徐勤思) (iii)	–	91,536	8,948	9,584	110,068
Zhang Donglian (張冬連)	–	100,286	5,964	5,217	111,467
Liang Guoping (梁國平) (iv)	–	48,000	4,000	2,878	54,878
Senior Management					
Xu Qinwei (徐勤偉)	–	180,000	12,284	10,856	203,140
Su Pin (蘇品)	–	150,000	12,284	10,856	173,140
	–	1,310,693	75,652	74,206	1,460,551

Notes to the Consolidated Financial Statements

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10 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(i) Mr. Zhang Youlian was also the chief executive for the year ended 31 December 2014 and 2013.

(ii) Mr. Sun Wensheng was appointed as an executive director since September 2012.

(iii) Mr. Xu Qinsi was appointed as a supervisor since September 2012.

(iv) Mr. Liang Guoping was appointed as a supervisor since August 2012.

(v) Mr. Shao Chen, Mr. Huang Zemin and Mr. Wang Xiangyao were appointed as independent non-executive directors since February 2013.

(vi) The executive directors and supervisors were also employees of the Group and the Group paid employee emoluments to them in their capacity as employees before their respective appointments as directors or supervisors for the year ended 31 December 2014 and 2013.

(vii) Ms. Yu Hua was appointed as a non-executive director of the Company from December 2008 to April 2014 with no emolument. Ms. Zhang Jinqin was appointed as an non-executive director to replace Ms. Yu Hua's position since May 2014.

(viii) Mr. Chau Kam Wing, Donald was appointed as an independent non-executive director since May 2014.

(ix) Mr. Chan Hon Wan, was appointed as a financial controller and company secretary since April 2014.

(b) Five highest paid individuals

The emoluments of the five highest paid individuals amounted to RMB1,289,080 (2013: RMB899,211) for the year ended 31 December 2014. Their emoluments are reflected in the analysis presented above.

For the year ended 31 December 2014 and 2013, no director, supervisor or senior management received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

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11 FINANCE EXPENSES – NET

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	339,857	350,056
Finance expenses		
– Interest expense	(7,105,777)	(6,180,631)
– Capitalised interest expense	60,165	102,094
	(7,045,612)	(6,078,537)
– Foreign exchange gains/(losses) on borrowings and cash and cash equivalents – net	(56,119)	256,765
– Unrealised financial charges from financial assets measured at amortised cost	(3,507)	(15,354)
	(7,105,238)	(5,837,126)
Finance expenses – net	(6,765,381)	(5,487,070)

12 INCOME TAX EXPENSE

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Current income tax	2,315,540	2,026,484
Deferred income tax *(Note 18(a))*	(2,993)	(20,162)
	2,312,547	2,006,322

The Company obtained the certificates 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 years ended 31 December 2014 and 2013.

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12 INCOME TAX EXPENSE *(Continued)*

The difference between the actual income tax charge in the 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:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Profit before tax	**14,455,380**	13,751,958
Calculated at statutory tax rate	**3,613,845**	3,437,990
Expenses not deductible for tax purposes	**130,844**	164,220
Additional deduction for research and development expense (i)	**(461,602)**	(504,643)
Preferential tax rate of the company	**(1,085,548)**	(1,091,245)
Adjustment in respect of prior years	**115,008**	–
Income tax expense	**2,312,547**	2,006,322

(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.

13 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 year ended 31 December 2014 and 2013.

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Profit attributable to the equity holders of the company (RMB)	**12,142,833**	**11,745,636**
Weighted average number of ordinary shares in issue	**24,000,000**	**24,000,000**
Basic earnings per share (RMB per share)	**0.51**	**0.49**

(b) Diluted

The fully diluted earnings per share for the year ended 31 December 2014 and 2013 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the year ended 31 December 2014 and 2013.

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for the year ended 31 December 2014

14 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings, fixtures and facilities *RMB*	Machinery and equipment *RMB*	Vehicles *RMB*	Electronic and office equipment *RMB*	Construction in progress *RMB*	Total *RMB*
At 1 January 2013						
Cost	18,680,384	16,783,277	3,718,026	986,469	3,216,954	43,385,110
Accumulated depreciation	(3,120,228)	(7,281,187)	(1,275,522)	(710,844)	–	(12,387,781)
Net book amount	15,560,156	9,502,090	2,442,504	275,625	3,216,954	30,997,329
Year ended 31 December 2013						
Opening net book amount	15,560,156	9,502,090	2,442,504	275,625	3,216,954	30,997,329
Transfers	4,607,575	1,903,893	214,000	–	(6,725,468)	–
Additions	–	417,892	47,100	72,092	14,613,453	15,150,537
Disposals *(Note 30(b))*	(873,652)	–	–	(1,183)	–	(874,835)
Depreciation *(Note 8)*	(1,443,496)	(2,458,176)	(490,422)	(128,453)	–	(4,520,547)
Closing net book amount	17,850,583	9,365,699	2,213,182	218,081	11,104,939	40,752,484
At 31 December 2013						
Cost	21,891,490	19,105,062	3,979,126	1,056,761	11,104,939	57,137,378
Accumulated depreciation	(4,040,907)	(9,739,363)	(1,765,944)	(838,680)	–	(16,384,894)
Net book amount	17,850,583	9,365,699	2,213,182	218,081	11,104,939	40,752,484
Year ended 31 December 2014						
Opening net book amount	17,850,583	9,365,699	2,213,182	218,081	11,104,939	40,752,484
Transfers	9,464,878	2,853,200	-	-	(12,318,078)	-
Additions	701,604	289,519	-	38,693	7,634,836	8,664,652
Disposals *(Note 30(b))*	(1,631,718)	-	-	-	-	(1,631,718)
Depreciation *(Note 8)*	(2,016,522)	(2,488,307)	(491,561)	(93,838)	-	(5,090,228)
Closing net book amount	24,368,825	10,020,111	1,721,621	162,936	6,421,697	42,695,190
At 31 December 2014						
Cost	29,820,655	22,247,781	3,979,126	1,095,454	6,421,697	63,564,713
Accumulated depreciation	(5,451,830)	(12,227,670)	(2,257,505)	(932,518)	-	(20,869,523)
Net book amount	24,368,825	10,020,111	1,721,621	162,936	6,421,697	42,695,190

Notes to the Consolidated Financial Statements

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14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Group *(Continued)*

As at 31 December 2014 and 2013, certain buildings with a carrying amount of RMB14,133,446 and RMB8,934,930, respectively, were pledged as collateral for the borrowings of the Group (Note 28).

The Group sold certain property with a carrying amount of RMB1,631,718 and RMB873,652 to a third party for the year ended 31 December 2014 and 2013, respectively.

Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income (Note 8) as follows:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Cost of sales	**2,668,809**	2,394,196
Administrative expenses	**2,394,872**	2,121,835
Distribution costs	**26,547**	4,516
	5,090,228	**4,520,547**

Notes to the Consolidated Financial Statements

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14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company

	Buildings, fixtures and facilities *RMB*	Machinery and equipment *RMB*	Vehicles *RMB*	Electronic and office equipment *RMB*	Construction in progress *RMB*	Total *RMB*
At 1 January 2013						
Cost	9,434,313	14,319,811	1,554,682	794,111	1,784,550	27,887,467
Accumulated depreciation	(1,694,632)	(5,960,940)	(656,962)	(563,578)	–	(8,876,112)
Net book amount	7,739,681	8,358,871	897,720	230,533	1,784,550	19,011,355
Year ended 31 December 2013						
Opening net book amount	7,739,681	8,358,871	897,720	230,533	1,784,550	19,011,355
Transfers	3,744,998	1,392,434	214,000	–	(5,351,432)	–
Additions	–	389,973	30,200	56,405	6,181,054	6,657,632
Depreciation	(471,975)	(2,202,367)	(284,390)	(109,982)	–	(3,068,714)
Closing net book amount	11,012,704	7,938,911	857,530	176,956	2,614,172	22,600,273
At 31 December 2013						
Cost	13,179,311	16,102,218	1,798,882	850,516	2,614,172	34,545,099
Accumulated depreciation	(2,166,607)	(8,163,307)	(941,352)	(673,560)	–	(11,944,826)
Net book amount	11,012,704	7,938,911	857,530	176,956	2,614,172	22,600,273
Year ended 31 December 2014						
Opening net book amount	11,012,704	7,938,911	857,530	176,956	2,614,172	22,600,273
Transfers	260,712	1,065,757	-	-	(1,326,469)	-
Additions	418,793	289,519	-	27,543	4,660,823	5,396,678
Depreciation	(713,989)	(2,117,026)	(280,955)	(73,000)	-	(3,184,970)
Closing net book amount	10,978,220	7,177,161	576,575	131,499	5,948,526	24,811,981
At 31 December 2014						
Cost	13,858,816	17,457,494	1,798,882	878,059	5,948,526	39,941,777
Accumulated depreciation	(2,880,596)	(10,280,333)	(1,222,307)	(746,560)	-	(15,129,796)
Net book amount	10,978,220	7,177,161	576,575	131,499	5,948,526	24,811,981

As at 31 December 2014 and 2013, certain buildings with a carrying amount of RMB8,533,826 and RMB8,934,930, respectively, were pledged as collateral for the borrowings of the Company (Note 28).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

15 PREPAID LEASING EXPENSES

The Group and the Company's interests in prepaid leasing expenses represent prepaid operating lease payments (land use rights). All the land use rights are located in the PRC. The remaining useful lives range from 20 to 50 years. Movements in prepaid leasing expenses are as follows:

(a) Group

	RMB
At 1 January 2013	
Cost	5,019,677
Accumulated amortization	(438,347)
Net book amount	4,581,330
Year ended 31 December 2013	
Opening net book amount	4,581,330
Additions	50,000
Amortisation *(Note 8)*	(134,893)
Closing net book amount	4,496,437
At 31 December 2013	
Cost	5,069,677
Accumulated amortisation	(573,240)
Net book amount	4,496,437
Year ended 31 December 2014	
Opening net book amount	**4,496,437**
Additions	**2,461,076**
Disposals *(Note 30(d))*	**(268,000)**
Amortisation *(Note 8)*	**(162,122)**
Closing net book amount	**6,527,391**
At 31 December 2014	
Cost	**7,262,753**
Accumulated amortisation	**(735,362)**
Net book amount	**6,527,391**

Notes to the Consolidated Financial Statements

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15 PREPAID LEASING EXPENSES *(Continued)*

(a) Group *(Continued)*

As at 31 December 2014 and 2013, certain land use rights with a carrying value of RMB3,826,755 and RMB3,958,141, respectively, were pledged as collateral for the borrowings of the Group (Note 27).

The amortisation of prepaid leasing expenses in the amount of RMB162,122 and RMB134,893, have been charged to cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2014 and 2013, respectively (Note 8).

The Group has deregistered the certificate of land use rights located in Yangyuan on 18 February 2014.

(b) Company

	RMB
At 1 January 2013	
Cost	4,589,677
Accumulated amortization	(410,180)
Net book amount	4,179,497
Year ended 31 December 2013	
Opening net book amount	4,179,497
Amortisation	(117,293)
Closing net book amount	4,062,204
At 31 December 2013	
Cost	4,589,677
Accumulated amortisation	(527,473)
Net book amount	4,062,204
Year ended 31 December 2014	
Opening net book amount	**4,062,204**
Amortisation	**(117,294)**
Closing net book amount	**3,944,910**
At 31 December 2014	
Cost	**4,589,677**
Accumulated amortisation	**(644,767)**
Net book amount	**3,944,910**

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15 PREPAID LEASING EXPENSES *(Continued)*

(b) Company *(Continued)*

As at 31 December 2014 and 2013, certain land use rights with a carrying value of RMB3,862,755 and RMB3,958,141, respectively, were pledged as collateral for the borrowings of the Company (Note 28).

16 MINING RIGHTS – GROUP

	RMB
At 1 January 2013	
Cost	180,700
Accumulated amortization	(80,312)
Net book amount	100,388
Year ended 31 December 2013	
Opening net book amount	100,388
Amortisation charges *(Note 8)*	(40,156)
Closing net book amount	60,232
At 31 December 2013	
Cost	180,700
Accumulated amortisation	(120,468)
Net book amount	60,232
Year ended 31 December 2014	
Opening net book amount	**60,232**
Amortisation charges *(Note 8)*	**(40,156)**
Closing net book amount	**20,076**
At 31 December 2014	
Cost	**180,700**
Accumulated amortisation	**(160,624)**
Net book amount	**20,076**

The amortisation of mining rights in the amounts of RMB40,156 and RMB40,156 have been charged to cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2014 and 2013, respectively (Note 8).

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17 LEASEHOLD IMPROVEMENTS – GROUP

Leasehold improvements include construction of drilling, reservoir, bleachery and other improvements engineering on leasehold land.

	RMB
At 1 January 2013	
Cost	787,454
Accumulated amortization	(259,250)
Net book amount	528,204
Year ended 31 December 2013	
Opening net book amount	528,204
Additions	215,247
Disposals *(Note 30(c))*	(113,666)
Amortisation *(Note 8)*	(142,375)
Closing net book amount	487,410
At 31 December 2013	
Cost	889,035
Accumulated amortisation	(401,625)
Net book amount	487,410
Year ended 31 December 2014	
Opening net book amount	**487,410**
Additions	**227,000**
Amortisation *(Note 8)*	**(130,557)**
Closing net book amount	**583,853**
At 31 December 2014	
Cost	**1,116,035**
Accumulated amortisation	**(532,182)**
Net book amount	**583,853**

The amortisation of leasehold improvements in the amounts of RMB130,557 and RMB142,375 have been charged to cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2014 and 2013, respectively (Note 8).

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18 DEFERRED INCOME TAX ASSETS

(a) Group

The analysis of deferred tax assets is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Deferred income tax assets:		
– To be recovered within 12 months	**555,739**	534,126
– To be recovered after more than 12 months	**542,100**	560,720
	1,097,839	1,094,846

Movements in deferred income tax assets for the years ended 31 December 2014 and 2013 are as follows:

Deferred income tax assets	Reversal of impairment of receivables	Unrealized profits on intra-group transactions	Accrued expenses	Employee benefit expenses	Provision for rehabilitation	Unrealised financial charges	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January 2013	467,301	107,133	27,991	361,352	85,567	25,340	1,074,684
(Debited)/credited to the consolidated statement of comprehensive income	(64,110)	214,274	(27,991)	(148,633)	42,783	3,839	20,162
At 31 December 2013	403,191	321,407	–	212,719	128,350	29,179	1,094,846
At 1 January 2014	**403,191**	**321,407**	**–**	**212,719**	**128,350**	**29,179**	**1,094,846**
(Debited)/credited to the consolidated statement of comprehensive income	**(49,780)**	**(264,106)**	**150,000**	**135,719**	**30,283**	**877**	**2,993**
At 31 December 2014	353,411	57,301	150,000	348,438	158,633	30,056	1,097,839

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for the year ended 31 December 2014

18 DEFERRED INCOME TAX ASSETS *(Continued)*

(b) Company

The analysis of deferred tax assets is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Deferred income tax assets:		
– To be recovered within 12 months	**498,438**	212,719
– To be recovered after more than 12 months	**171,565**	146,386
	670,003	359,105

Movements in deferred income tax assets for the years ended 31 December 2014 and 2013 are as follows:

Deferred income tax assets	**Provision for impairment of receivables**	**Accrued expenses**	**Employee benefit expenses**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
At 1 January 2013	84,307	27,991	361,352	473,650
Credited/(debited) to the statement of comprehensive income	62,079	(27,991)	(148,633)	(114,545)
At 31 December 2013	146,386	–	212,719	359,105
At 1 January 2014	**146,386**	**–**	**212,719**	**359,105**
Credited to the statement of comprehensive income	**25,179**	**150,000**	**135,719**	**310,898**
At 31 December 2014	**171,565**	**150,000**	**348,438**	**670,003**

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19 INVENTORIES

(a) Group

	As at 31 December	
	2014	2013
	RMB	*RMB*
Raw materials	**13,063,298**	10,243,890
Finished goods	**4,121,857**	3,745,688
Low value consumables	**193,660**	216,882
	17,378,815	14,206,460

No provision for impairment of inventories has been made as at 31 December 2014 and 2013.

The cost of inventories recognised as cost of sales amounted to RMB48,052,312 and RMB37,240,750 for the years ended 31 December 2014 and 2013, respectively.

(b) Company

	As at 31 December	
	2014	2013
	RMB	*RMB*
Raw materials	**5,504,831**	5,822,820
Finished goods	**2,713,926**	1,465,412
Low value consumables	**193,660**	216,882
	8,412,417	7,505,114

Notes to the Consolidated Financial Statements

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20 TRADE AND OTHER RECEIVABLES

(a) Group

	As at 31 December	
	2014	2013
	RMB	*RMB*
Trade receivables	52,007,825	48,524,487
Less: provision for impairment	(1,669,921)	(1,584,566)
Trade receivables – net (1)	50,337,904	46,939,921
Bills receivable (2)	13,563,082	23,215,791
Other receivables	11,964,842	9,696,063
Less: provision for impairment	(201,232)	(418,560)
Other receivables – net (3)	11,763,610	9,277,503
Prepayments (4)	15,306,639	9,032,819
Interest receivables on time deposits	56,091	–
Trade and other receivables – net	91,027,326	88,466,034
Less: non-current portion (3)	(649,881)	(493,808)
Current portion	90,377,445	87,972,226

As at 31 December 2014 and 2013, the fair values of the trade and other receivables of the Group, except for the prepayments and prepaid value added tax which are not financial assets, approximated their carrying amounts.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	90,368,030	87,616,167
– USD	9,415	356,059
	90,377,445	87,972,226

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20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Group *(Continued)*

(1) The ageing analysis of trade receivables based on the invoice date is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– Within 180 days	**42,221,012**	35,844,938
– Over 180 days and within 1 year	**8,616,865**	9,318,148
– Over 1 year and within 2 years	**975,604**	2,250,090
– Over 2 years and within 3 years	**147,768**	885,338
– Over 3 years	**46,576**	225,973
	52,007,825	48,524,487

The credit period granted to customers is normally up to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. This provision has been determined by reference to past default experience.

As at 31 December 2014 and 2013, trade receivables of RMB42,221,012 and RMB35,844,938 were fully performing, respectively.

As at 31 December 2014 and 2013, trade receivables of RMB9,786,813 and RMB12,679,549 respectively were partially impaired. The amounts of the provisions were RMB1,669,921 and RMB1,584,566 as at 31 December 2014 and 2013 respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– Over 180 days and within 1 year	**8,616,865**	9,318,148
– Over 1 year and within 2 years	**975,604**	2,250,090
– Over 2 years and within 3 years	**147,768**	885,338
– Over 3 years	**46,576**	225,973
	9,786,813	12,679,549

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for the year ended 31 December 2014

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Group *(Continued)*

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**1,584,566**	1,679,128
Provision for/(reversal of) impairment *(Note 8)*	**85,355**	(94,562)
At the end of the year	**1,669,921**	1,584,566

Impairment provision for trade receivables is charged to administrative expenses in the consolidated statement of comprehensive income.

(2) The ageing of bills receivable is within 180 days, which is within the credit term. Bills receivable of RMB5,931,524 and RMB11,818,350 have been discounted to financial institutions to obtain working capital of RMB5,723,321 and RMB11,437,937 as at 31 December 2014 and 2013, respectively (Note 28(a)(2)).

Bills receivable of RMB1,550,000 were secured for bank borrowings of RMB8,190,000 as at 31 December 2014 (Note 28(a)(1)) (31 December 2013: nil).

(3) As at 31 December 2014 and 2013, details of other receivables are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	**649,881**	493,808
Current:		
Staff advances	**4,633,471**	3,809,548
Other deposits	**3,530,809**	4,164,942
Sale of property	**1,303,370**	853,652
Others	**1,847,311**	374,113
Current subtotal	**11,314,961**	9,202,255
Total	**11,964,842**	9,696,063

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20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Group *(Continued)*

Movements in the provision for impairment of other receivables are as follows:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**418,560**	414,889
(Reversal of)/provision for impairment *(Note 8)*	**(217,328)**	3,671
At the end of the year	**201,232**	418,560

Impairment provision for other receivables is charged to administrative expenses in the consolidated statement of comprehensive income.

(4) As at 31 December 2014 and 2013, prepayments are in connection with:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Listing expenses relating to public offering	**13,567,567**	6,701,524
Purchase of raw materials	**1,358,272**	2,076,028
Guarantee fees	**380,800**	255,267
	15,306,639	9,032,819

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20 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Company

	As at 31 December	
	2014	2013
	RMB	*RMB*
Trade receivables	**32,953,692**	28,823,162
Less: provision for impairment	**(969,523)**	(817,322)
Trade receivables – net (1)	**31,984,169**	28,005,840
Bills receivable (2)	**13,513,082**	23,215,791
Other receivables	**7,810,078**	4,657,006
Less: provision for impairment	**(174,246)**	(158,584)
Other receivables – net (3)	**7,635,832**	4,498,422
Prepayments (4)	**15,072,809**	8,670,943
Interest receivables on time deposits	**56,091**	–
Trade and other receivables – net	**68,261,983**	64,390,996

As at 31 December 2014 and 2013, the fair values of the trade and other receivables of the Company, except for the prepayments which are not financial assets, approximated their carrying amounts.

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**68,252,568**	64,034,937
– USD	**9,415**	356,059
	68,261,983	64,390,996

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20 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Company *(Continued)*

(1) The ageing analysis of trade receivables based on the invoice date is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– Within 180 days	**27,619,575**	21,709,357
– Over 180 days and within 1 year	**4,867,993**	5,954,103
– Over 1 year and within 2 years	**338,061**	271,398
– Over 2 years and within 3 years	**82,292**	845,933
– Over 3 years	**45,771**	42,371
	32,953,692	28,823,162

The credit period granted to customers is normally up to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. This provision has been determined by reference to past default experience.

As at 31 December 2014 and 2013, trade receivables of RMB27,619,575 and RMB21,709,357 were fully performing, respectively.

As at 31 December 2014 and 2013, trade receivables of RMB5,334,117 and RMB7,113,805 respectively were partially impaired. The amounts of the provisions were RMB969,523 and RMB817,322 as at 31 December 2014 and 2013 respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– Over 180 days and within 1 year	**4,867,993**	5,954,103
– Over 1 year and within 2 years	**338,061**	271,398
– Over 2 years and within 3 years	**82,292**	845,933
– Over 3 years	**45,771**	42,371
	5,334,117	7,113,805

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20 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Company *(Continued)*

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**817,322**	490,473
Provision for impairment	**152,201**	326,849
At the end of the year	**969,523**	817,322

(2) The ageing of bills receivable is within 180 days, which is within the credit term. Bills receivable of RMB5,931,524 and RMB11,818,350 have been discounted to financial institutions to obtain working capital of RMB5,723,321 and RMB11,437,937 as at 31 December 2014 and 2013, respectively (Note 28(b)(2)).

(3) Bills receivable of RMB1,550,000 were secured for bank borrowings of RMB8,190,000 as at 31 December 2014 (Note 28(b)(1)) (31 December 2013: nil).

As at 31 December 2014 and 2013, details of other receivables are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Staff advances	**4,369,254**	3,175,768
Other deposits	**2,410,578**	1,206,690
Others	**1,030,246**	274,548
	7,810,078	4,657,006

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20 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Company *(Continued)*

Movements in the provision for impairment of other receivables are as follows:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**158,584**	71,569
Provision for impairment	**15,662**	87,015
At the end of the year	**174,246**	158,584

(4) As at 31 December 2014 and 2013, details of prepayments are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Listing expenses relating to public offering	**13,567,567**	6,701,524
Purchase of raw materials	**1,221,042**	1,810,752
Guarantee fees	**284,200**	158,667
	15,072,809	8,670,943

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21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Group

	As at 31 December	
	2014	2013
	RMB	*RMB*
Cash at bank and on hand (1)	**17,326,481**	12,198,066
Less: Restricted cash (2)	**(10,275,216)**	(8,025,000)
Cash and cash equivalents	**7,051,265**	4,173,066

Cash at bank and in hand are denominated in:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**17,326,443**	12,118,544
– USD	**38**	79,522
	17,326,481	12,198,066

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at variable annual rates ranged from 0.35% to 0.50% for the year ended 31 December 2014 and 2013.

(2) As at 31 December 2014 and 2013, details of restricted cash are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Guaranteed deposits secured for borrowings *(Note 28(a)(1))*	**8,125,216**	–
Time deposits secured for borrowings *(Note 28(a)(1))*	**2,150,000**	5,660,000
Guaranteed deposits for issuance of bills payable	**–**	2,365,000
	10,275,216	8,025,000

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21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (*Continued*)

(b) Company

	As at 31 December	
	2014	2013
	RMB	*RMB*
Cash at bank and on hand	**16,740,179**	10,674,298
Less: Restricted cash (1)	**(10,275,216)**	(7,025,000)
Cash and cash equivalents	**6,464,963**	3,649,298

Cash at bank and in hand are denominated in:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**16,740,141**	10,594,776
– USD	**38**	79,522
	16,740,179	10,674,298

As at 31 December 2014 and 2013, details of restricted cash are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Guaranteed deposits secured for borrowings *(Note 28(b)(1))*	**8,125,216**	–
Time deposits secured for borrowings *(Note 28(b)(1))*	**2,150,000**	4,660,000
Guaranteed deposits for issuance of bills payable	**–**	2,365,000
	10,275,216	7,025,000

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22 SHARE CAPITAL

On 31 December 2008, the Company was converted into a joint stock company with limited liability by converting total equity as at 30 November 2008 into 12,000,000 ordinary shares of RMB1 each at par value. The difference of RMB1,128,932 between the total equity as at 30 November 2008 of RMB13,128,932 and nominal value of total issued ordinary shares of RMB12,000,000 was recorded in capital reserve(Note 23).

On 12 May 2011, as approved by the shareholders, the share capital of the Company was increased by 12,000,000 ordinary shares of RMB1 by way of capitalisation of retained earnings of RMB12,000,000 to share capital, which has the same characteristics with the shares previously issued.

Group and Company

	Ordinary shares *Number*	Ordinary shares *RMB*
At 31 December 2014 and 2013	24,000,000	24,000,000

23 OTHER RESERVES

(a) Group

	Capital reserve *RMB* *(Note 22)*	Statutory reserve *RMB*	Safety fund *RMB*	Total *RMB*
As at 1 January 2013	1,128,932	3,375,207	217,646	4,721,785
Appropriation to statutory reserve (i)	–	1,035,177	–	1,035,177
Appropriation to safety fund (ii)	–	–	15,000	15,000
Utilisation of safety fund (ii)	–	–	(39,280)	(39,280)
As at 31 December 2013	1,128,932	4,410,384	193,366	5,732,682
As at 1 January 2014	**1,128,932**	**4,410,384**	**193,366**	**5,732,682**
Appropriation to statutory reserve (i)	**–**	**1,073,129**	**–**	**1,073,129**
Appropriation to safety fund (ii)	**–**	**–**	**150,160**	**150,160**
Utilisation of safety fund (ii)	**–**	**–**	**(35,367)**	**(35,367)**
As at 31 December 2014	**1,128,932**	**5,483,513**	**308,159**	**6,920,604**

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23 OTHER RESERVES (*Continued*)

(b) Company

	Capital reserve *RMB* *(Note 22)*	Statutory reserve *RMB*	Safety fund *RMB*	Total *RMB*
As at 1 January 2013	1,128,932	3,375,207	159,473	4,663,612
Appropriation to statutory reserve (i)	–	1,035,177	–	1,035,177
As at 31 December 2013	1,128,932	4,410,384	159,473	5,698,789
As at 1 January 2014	**1,128,932**	**4,410,384**	**159,473**	**5,698,789**
Appropriation to statutory reserve (i)	**–**	**1,073,129**	**–**	**1,073,129**
As at 31 December 2014	**1,128,932**	**5,483,513**	**159,473**	**6,771,918**

(i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company and its subsidiaries, it is required to appropriate certain percentages of the annual statutory net profits of the Company and its subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve before distributing any dividends. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into capital.

(ii) Pursuant to certain regulations issued by the MOF and Safety Production General Bureau, the Group is required to set aside an amount to a safety fund at RMB1 per ton of raw ore mined (further adjusted to RMB2 per ton from 1 January 2012). The fund can be used for improvements of safety at the mines, and are not available for distribution to shareholders.

24 RETAINED EARNINGS

Company

	Year ended 31 December	
	2014 *RMB*	2013 *RMB*
At beginning of the year	17,781,381	8,464,793
Profit for the year	10,731,292	10,351,765
Appropriation to statutory reserve *(Note 23)*	(1,073,129)	(1,035,177)
At end of the year	27,439,544	17,781,381

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25 DEFERRED GOVERNMENT GRANTS

Group and Company

Government grants relating to integrated utilization project of associated mine are deferred and recognised in the consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related production lines.

The analysis of deferred government grants is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Deferred government grants		
– Current	**87,208**	213,925
– Non-current	**852,417**	939,506
	939,625	1,153,431

Movements in deferred government grants for the year ended 31 December 2014 and 2013 are as follows:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**1,153,431**	1,563,456
Credited to the consolidated statement of comprehensive income *(Note 7)*	**(213,806)**	(410,025)
At the end of the year	**939,625**	1,153,431

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

26 PROVISION FOR ENVIRONMENTAL REHABILITATION

Group

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	513,400	342,266
Debited to the consolidated statement of comprehensive income	121,133	171,134
At the end of the year	634,533	513,400

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam which has been determined by management based on their past experience and best estimate of future expenditure. However, if the impact on the land and the environment from current mining activities becomes different in future periods from originally estimated, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, rehabilitation and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly.

27 TRADE AND OTHER PAYABLES

(a) Group

	As at 31 December	
	2014	2013
Bills payable	–	9,030,000
Trade payables	13,584,558	9,007,541
Other payables	4,475,763	4,216,517
Staff salaries and welfare payables	2,940,425	2,066,472
Advances from customers	51,650	7,318
Interest payables	–	262,500
Accrued taxes other than income tax	1,648,155	783,097
	22,700,551	25,373,445

As at 31 December 2014 and 2013, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

27 TRADE AND OTHER PAYABLES (*Continued*)

(a) Group (*Continued*)

As at 31 December 2014 and 2013, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**22,700,551**	23,885,801
– USD	**–**	1,487,644
	22,700,551	25,373,445

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Trade payables		
– Within 6 months	**12,015,801**	7,515,102
– Over 6 months and within 1 year	**1,332,952**	1,396,087
– Over 1 year and within 2 years	**214,766**	72,188
– Over 2 years and within 3 years	**573**	7,530
– Over 3 years	**20,466**	16,634
	13,584,558	9,007,541

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

27 TRADE AND OTHER PAYABLES (*Continued*)

(b) Company

	As at 31 December	
	2014	2013
	RMB	*RMB*
Bills payable	**–**	4,730,000
Trade payables	**10,445,470**	6,881,335
Other payables	**2,896,630**	1,626,893
Staff salaries and welfare payables	**2,717,208**	1,840,419
Advances from customers	**51,650**	–
Accrued taxes other than income tax	**1,639,376**	1,427,407
	17,750,334	16,506,054

As at 31 December 2014 and 2013, all trade and other payables of the Company were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2014 and 2013, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**17,750,334**	15,018,410
– USD	**–**	1,487,644
	17,750,334	16,506,054

The ageing analysis of the trade payables, including amounts due to related parties which were trade in nature, was as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Trade payables		
– Within 6 months	**9,197,864**	5,592,127
– Over 6 months and within 1 year	**1,011,801**	1,192,856
– Over 1 year and within 2 years	**214,766**	72,188
– Over 2 years and within 3 years	**573**	7,530
– Over 3 years	**20,466**	16,634
	10,445,470	6,881,335

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

28 BORROWINGS

(a) Group

	As at 31 December	
	2014	2013
	RMB	*RMB*
Non-current		
Bank borrowings – secured (1)	**1,066,077**	1,427,493
Current		
Bank borrowings – secured (1)	**83,551,501**	71,888,985
Other borrowings (2)	**5,931,524**	11,818,350
	89,483,025	83,707,335
Total borrowings	**90,549,102**	85,134,828

The weight average effective annual interest rates were as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Bank borrowings	**7.58%**	6.76%
Other borrowings	**9.00%**	8.45%

As at 31 December 2014, the Group's borrowings were repayable as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Within 1 year	**89,483,025**	83,707,335
Between 1 and 2 years	**389,024**	361,501
Between 2 and 5 years	**677,053**	1,065,992
	90,549,102	85,134,828

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

28 BORROWINGS (*Continued*)

(a) Group (*Continued*)

The fair values of borrowings approximate their carrying amounts as the discounting impact is not significant.

The borrowings are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**90,549,102**	80,726,769
– USD	**–**	4,408,059
	90,549,102	85,134,828

(1) Bank borrowings – secured

Bank borrowings were secured as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Guaranteed by third parties (i)	**45,500,000**	36,000,000
Secured by property, plant and equipment and land use rights (ii)	**12,427,578**	3,963,419
Secured by property, plant and equipment and land use rights, and guaranteed by a third party (iii)	**10,000,000**	–
Secured by bills receivable and guaranteed deposits (iv)	**8,190,000**	–
Secured by property, plant and equipment (v)	**6,500,000**	–
Secured by time deposits (vi)	**2,000,000**	5,358,059
Jointly secured by property, plant and equipment and land use rights of the group and a third party, and guaranteed by a third party(vii)	**–**	19,995,000
Secured by property, plant and equipment and land use rights of a third party (viii)	**–**	8,000,000
	84,617,578	73,316,478

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

28 BORROWINGS (*Continued*)

(a) Group (*Continued*)

(1) Bank borrowings – secured (Continued)

(i) The bank borrowings of RMB26,500,000 and RMB17,000,000 were guaranteed by third party companies as at 31 December 2014 and 2013 respectively. The guarantee fees were RMB603,367 and RMB234,733 for the years ended 31 December 2014 and 2013, respectively;

The bank borrowings of RMB19,000,000 and RMB19,000,000 were guaranteed by a third party as at 31 December 2014 and 2013, respectively;

(ii) The bank borrowings of RMB12,427,578 and RMB3,963,419 were secured by certain buildings, fixtures and facilities (Note 14) and land use rights (Note 15) of the Group, with aggregate carrying amounts of RMB9,946,110 and RMB9,066,495 as at 31 December 2014 and 2013, respectively;

(iii) The bank borrowings of RMB10,000,000 were secured by certain buildings, fixtures and facilities (Note 14) and land use rights (Note 15) of the Group, which had an aggregate carrying amount of RMB2,450,471 as at 31 December 2014; and a corporate guarantee of a third party.

(iv) The bank borrowings of RMB8,190,000 were secured by bills receivable (Note 20(a)(2)) of the Group with the amount of RMB1,550,000 and guaranteed deposits (Note 21(a)(2)) of the Group with the amount of RMB8,125,216 as at 31 December 2014.

(v) The bank borrowings of RMB6,500,000 were secured by certain buildings, fixtures and facilities (Note 14) of the Group, which had an aggregate carrying amount of RMB5,599,620 as at 31 December 2014.

(vi) The bank borrowings of RMB2,000,000 and RMB5,358,059 were secured by time deposits (Note 21(a)(2)) of the Group with the amounts of RMB2,150,000 and RMB5,660,000 as at 31 December 2014 and 2013, respectively;

(vii) The bank borrowings of RMB19,995,000 were secured by certain buildings, fixtures and facilities (Note 14) and land use rights (Note 15) of the Group, which had an aggregate carrying amount of RMB3,826,576 as at 31 December 2013; and certain properties of an individual third party; and corporate guarantee of a third party. The borrowings were repaid in August 2014 and the related securities on certain properties provided by the individual third party were released accordingly;

(viii) The bank borrowings of RMB8,000,000 were secured by certain properties of individual third parties which were repaid in May 2014 and the related securities were released accordingly;

(2) Other borrowings of RMB5,931,524 and RMB11,818,350 were obtained from financial institutions by discounting bank acceptance notes with aggregate carrying amounts of RMB5,931,524 and RMB11,818,350 as at 31 December 2014 and 2013, respectively (Note 20 (a)(2)).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

28 BORROWINGS (*Continued*)

(b) Company

	As at 31 December	
	2014 *RMB*	2013 *RMB*
Non-current		
Bank borrowings – secured (1)	1,066,077	1,427,493
Current		
Bank borrowings – secured (1)	68,051,501	64,888,985
Other borrowings (2)	5,931,524	11,818,350
	73,983,025	76,707,335
Total borrowings	75,049,102	78,134,828

The weight average effective annual interest rates were as follows:

	As at 31 December	
	2014	2013
Bank borrowings	7.25%	6.65%
Other borrowings	9.00%	8.45%

As at 31 December 2014, the Company's borrowings were repayable as follows:

	As at 31 December	
	2014 *RMB*	2013 *RMB*
Within 1 year	73,983,025	76,707,335
Between 1 and 2 years	389,024	361,501
Between 2 and 5 years	677,053	1,065,992
	75,049,102	78,134,828

The fair values of borrowings approximate their carrying amounts as the discounting impact is not significant.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

28 BORROWINGS (*Continued*)

(b) Company (*Continued*)

The borrowings are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**75,049,102**	73,726,769
– USD	**–**	4,408,059
	75,049,102	78,134,828

(1) Bank borrowings – secured

Bank borrowings were secured as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Guaranteed by third parties (i)	**38,500,000**	29,000,000
Secured by property, plant and equipment and land use rights (ii)	**12,427,578**	3,963,419
Secured by property, plant and equipment and land use rights, and guaranteed by a third party (iii)	**10,000,000**	–
Secured by bills receivable and guaranteed deposits (iv)	**8,190,000**	–
Jointly secured by property, plant and equipment and land use rights of the group and a third party, and guaranteed by a third party(v)	**–**	19,995,000
Secured by property, plant and equipment and land use rights of a third party (vi)	**–**	8,000,000
Secured by time deposits (vii)	**–**	5,358,059
	69,117,578	66,316,478

(i) The bank borrowings of RMB19,500,000 and RMB10,000,000 were guaranteed by third party companies as at 31 December 2014 and 2013 respectively. The guarantee fees were RMB393,367and RMB121,333 for the years ended 31 December 2014 and 2013, respectively;

The bank borrowings of RMB19,000,000 and RMB19,000,000 were guaranteed by a third party as at 31 December 2014 and 2013, respectively;

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

28 BORROWINGS (*Continued*)

(b) Company (*Continued*)

(1) Bank borrowings – secured (Continued)

(ii) The bank borrowings of RMB12,427,578 and RMB3,963,419 were secured by certain buildings, fixtures and facilities (Note 14) and land use rights (Note 15) of the Company, with aggregate carrying amounts of RMB9,946,110 and RMB9,066,495 as at 31 December 2014 and 2013, respectively;

(iii) The bank borrowings of RMB10,000,000 were secured by certain buildings, fixtures and facilities (Note 14) and land use rights (Note 15) of the Company, which had an aggregate carrying amount of RMB2,450,471 as at 31 December 2014; and a corporate guarantee of a third party.

(iv) The bank borrowings of RMB8,190,000 were secured by bills receivable (Note 20(b)(2)) of the Company with the amount of RMB1,550,000 and guaranteed deposits (Note 21(b)(1)) of the Company with the amount of RMB8,125,216 as at 31 December 2014.

(v) The bank borrowings of RMB19,995,000 were secured by certain buildings, fixtures and facilities (Note 14) and land use rights (Note 15) of the Company, which had an aggregate carrying amount of RMB3,826,576 as at 31 December 2013; and certain properties of an individual third party; and corporate guarantee of a third party. The borrowings were repaid in August 2014 and the related securities on certain properties provided by the individual third party were released accordingly;

(vi) The bank borrowings of RMB8,000,000 were secured by certain properties of individual third parties which were repaid in May 2014 and the related securities were released accordingly;

(vii) The bank borrowings of RMB5,358,059 were secured by time deposits (Note 21(b)(1)) of the company with the amounts of RMB5,660,000 as at 31 December 2013;

(2) Other borrowings of RMB5,931,524 and RMB11,818,350 were obtained from financial institutions by discounting bank acceptance notes with aggregate carrying amounts of RMB5,931,524and RMB11,818,350 as at 31 December 2014 and 2013, respectively (Note 20 (b)(2)).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

29 DIVIDENDS

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Proposed final dividend of RMB0.2277 (2013: nil) per share	**7,286,400**	–

Pursuant to a resolution of the Board of Directors on 21 March 2015, a final dividend of RMB0.2277 per share for the year ended 31 December 2014 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the company at the forthcoming annual general meeting. The total amount is estimated to be RMB7,286,400. These financial statements do not reflect this dividend payable.

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Profit for the year before income tax	**14,455,380**	13,751,958
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 14)*	**5,090,228**	4,520,547
– Amortisation of prepaid leasing expenses *(Note 15)*	**162,122**	134,893
– Amortisation of mining rights *(Note 16)*	**40,156**	40,156
– Amortisation of leasehold improvements *(Note 17)*	**130,557**	142,375
– Reversal of impairment of receivables *(Note 20)*	**(131,973)**	(90,891)
– (Gains)/losses on disposal of property, plant and equipment-net *(Note 7)*	**(268,000)**	1,183
– Losses on disposal of prepaid leasing expenses *(Note 7)*	**268,000**	–
– Losses on disposal of leasehold improvements *(Note 7)*	**–**	113,666
– Finance expenses *(Note 11)*	**6,891,793**	5,495,955
	26,638,263	24,109,842
Changes in working capital:		
– Decrease/(increase) in trade and other receivables	**4,922,533**	(12,248,116)
– (Increase)/decrease in inventories	**(3,172,355)**	5,806,504
– Decrease in trade and other payables	**(1,426,708)**	(4,410,363)
Cash generated from operations	**26,961,733**	13,257,867

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (*Continued*)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Net book amount *(Note 14)*	**1,631,718**	874,835
Gains/(Losses) on disposal of property, plant and equipment-net *(Note 7)*	**268,000**	(1,183)
Receivables of proceeds from disposal of property, plant and equipment	**(449,718)**	(853,652)
Proceeds from disposal of property, plant and equipment	**1,450,000**	20,000

(c) Proceeds from disposal of leasehold improvements

In the consolidated cash flow statement, proceeds from disposal of leasehold improvements comprise:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Net book amount *(Note 17)*	**–**	113,666
Losses on written off of leasehold improvements *(Note 7)*	**–**	(113,666)
Proceeds from disposal of leasehold improvements	**–**	–

(d) Proceeds from disposal of prepaid leasing expenses

In the consolidated cash flow statement, proceeds from disposal of prepaid leasing expenses comprise:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Net book amount *(Note 15)*	**268,000**	–
Losses on disposal of prepaid leasing expenses *(Note 7)*	**(268,000)**	–
Receivables of proceeds from disposal of prepaid leasing expenses	**–**	–
Proceeds from disposal of prepaid leasing expenses	**–**	–

Notes to the Consolidated Financial Statements

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31 COMMITMENTS

Capital commitments

Capital expenditure contracted for at each balance sheet date, but not yet incurred is as follows:

Group

	As at 31 December	
	2014	2013
	RMB	*RMB*
Property, plant and equipment	–	335,926

Company

	As at 31 December	
	2014	2013
	RMB	*RMB*
Property, plant and equipment	–	–

32 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group, the Company and its related parties during the years ended 31 December 2014 and 2013, and balances arising from related party transactions as at 31 December 2014 and 2013.

(a) Name and relationship with related parties

(i) ***Controlling Shareholder***

Zhang Youlian

(ii) ***Close family members of the Controlling Shareholder***

Zhang Jinqin (張金琴), Zhang Yuanxiang (張元祥), Zhang Huaimeng (張懷猛), Zhang Huaihui (張懷輝), Zhang Jinliang (張金良), Jiang Jian (薑健), Wang Wansheng (王萬勝), Zhang Huaibin (張懷濱)

(iii) ***Key management personnel***

Su Pin (蘇品), Chen Weidong (陳衛東), Sun Wensheng (孫文勝)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

32 RELATED PARTY TRANSACTIONS (*Continued*)

(a) Name and relationship with related parties (*Continued*)

(iv) ***Controlled by the Controlling Shareholder***

	Chinese name
Changxing Guyinxing	長興古銀杏旅遊度假山莊有限公司
Changxing Zhenyiguan Wine Industry Co., Ltd. ("Changxing Zhenyiguan")	長興真一館酒業有限公司
Changxing Wuguo Agriculture and Technology Co., Ltd. ("Changxing Wuguo")	長興五果農業科技有限公司

(v) ***Controlled by the close family members of the Controlling Shareholder***

	Chinese name
Changxing Renheng Transportation	長興仁恒貨運配載部

(b) Discontinued transactions with related parties

Same as disclosed elsewhere in this report, the Group had the following significant transactions with related parties for the year ended 31 December 2014 and 2013. All these transactions were discontinued before the listing of the shares of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

(i) ***Loans provided to related parties***

Group

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Changxing uyinxing	–	6,168,376
Changxing Zhenyiguan	–	1,800,000
Changxing Wuguo	–	2,416,347
Zhang Huaimeng	–	9,957
Zhang Huaibin	–	3,115
Jiang Jian	–	18,916
Zhang Jinliang	–	1,050
Zhang Huaihui	–	1,855
Wang Wansheng	–	1,000
	–	10,420,616

All the loans due from related parties were settled in July 2013.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

32 RELATED PARTY TRANSACTIONS (*Continued*)

(b) Discontinued transactions with related parties (*Continued*)

(ii) Loans obtained from related parties

Group

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Zhang Youlian	–	1,047,367
Zhang Jinqin	–	213,705
Sun Wensheng	–	251,744
Zhang Jinmei	–	707,419
Zhang Jinliang	–	1,100
	–	2,221,335

All the loans due to related parties were settled in August 2013.

(iii) Purchases of goods and services

Group

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Changxing Renheng Transportation	–	3,804,269

The Group received products transportation services from Changxing Renheng Transportation.

The price of transportation was mutually agreed between both parties which was determined by reference to the market rate.

All the trade payables to related parties were settled in September 2013.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

32 RELATED PARTY TRANSACTIONS (*Continued*)

(b) Discontinued transactions with related parties (*Continued*)

(iv) ***Advances to key management***

Group

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Chen Weidong	–	25,364
Su Pin	–	232,711
	–	258,075

The advances to key management were for business purpose to develop new customers.

The advances to key management have the following terms and conditions:

Name of key management	**At end of period** *RMB*	**At beginning of period** *RMB*	**Maximum outstanding during the period** *RMB*	**Term**
Year ended 31 December 2014				
Chen Weidong	–	–	–	Payable on demand
Su Pin	–	–	–	Payable on demand
Year ended 31 December 2013				
Chen Weidong	–	238,380	238,380	Payable on demand
Su Pin	–	–	232,711	Payable on demand

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

32 RELATED PARTY TRANSACTIONS (*Continued*)

(c) Balances with related parties

Company

	As at 31 December	
	2014	2013
	RMB	*RMB*
Trade and other receivables due from subsidiaries:		
Renheng Refined Clay	**21,344,862**	24,087,849
Renheng Chemicals	**4,736,172**	11,344,442
	26,081,034	35,432,291

(d) Key management compensation (Note 10)

	As at 31 December	
	2014	2013
	RMB	*RMB*
Directors' fees	**–**	–
Salaries, wages and bonuses	**1,991,828**	1,310,693
Contributions to pension plans	**93,617**	75,652
Housing fund, welfare, medical and other benefits	**83,193**	74,206
	2,168,638	1,460,551

33 INVESTMENTS IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2014	2013
	RMB	*RMB*
Unlisted, at cost	**3,515,629**	3,515,629

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

33 INVESTMENTS IN SUBSIDIARIES – COMPANY (*Continued*)

The following is a list of all the subsidiaries at 31 December 2014 and 2013:

Name	Place and date of incorporation	Principal activities and place of operation	Registered and fully paid capital	Direct/ Indirect	Effective interest held At 31 December 2014	2013
陽原縣仁恒精細粘土有限責任公司 ("Renheng Refined Clay")	Yangyuan, Hebei 25 March 2004	Clay mining and processing	1,500,000	Direct	**100%**	100%
浙江長安仁恒化工有限公司 ("Renheng Chemicals")	Changxing, Zhejiang 21 November 2002	Wholesaling and retailing chemicals and equipment	5,000,000	Direct	**100%**	100%
宣化縣仁恒粘土精細加工有限公司* ("Xuanhua Renheng")	Xuanhua, Hebei 24 March 2010	Clay processing and selling	1,000,000	Direct	–	–

* Xuanhua Renheng was liquidated in August 2013.

34 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2014.

35 EVENTS AFTER THE BALANCE SHEET DATE

(a) On 16 January 2015, the H shares of the Company became listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The company issued a total of 8,000,000 H shares with a per value of RMB1.00 each at a price of HK$9.70 per share. Number of total issued shares of the Company was increased from 24,000,000 to 32,000,000 shares upon completion of the Listing.

(b) Pursuant to a resolution of the Board of Directors on 21 March 2015, a final dividend of RMB0.2277 per share was proposed for the year ended 31 December 2014 (Note 29).

Financial Summary

The following table summarizes the consolidated results of our Group for the five years ended 31 December:

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**92,029**	86,077	78,852	72,562	60,990
Profit before taxation	**14,455**	13,752	12,191	10,665	8,964
Income tax	**(2,312)**	(2,006)	(2,121)	(1,923)	(1,613)
Profit for the year	**12,143**	11,746	10,070	8,742	7,351
Attributable to					
Owners of the Company	**12,143**	11,746	10,070	8,742	7,351
Assets and liabilities					
Total assets	**176,657**	161,762	154,530	130,181	90,607
Total liabilities	**(115,812)**	(113,060)	(117,574)	(93,227)	(62,676)
Equity attributable to owners of the Company	**60,845**	48,702	36,956	36,954	27,931

Note:

The results and summary of assets and liabilities for the year ended 31 December 2012 and 2013 which were extracted from the Prospectus have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at time when the Company's shares were listed on the GEM of the Stock Exchange, had been in existence through those years.