



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

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

Stock Code: 8139

INTERIM REPORT 2015



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

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RESULTS HIGHLIGHTS

For the six months ended 30 June 2015, the financial highlights were as follows:

- Revenue decreased by 12.6% to approximately RMB39,286,000 (2014: RMB44,951,000).
- Gross profit decreased by 6.8% to approximately RMB18,549,000 (2014: RMB19,907,000).
- Profit excluding listing expenses for the six months ended 30 June 2015 amounted to approximately RMB3,591,000 (2014: RMB5,768,000).
- Profit including listing expenses for the six months ended 30 June 2015 amounted to approximately RMB2,447,000 (2014: RMB5,768,000).
- Basic earnings per share amounted to approximately RMB0.08 (2014: RMB0.24).
- The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2015 (2014: nil).

UNAUDITED INTERIM RESULTS OF 2015

The board (the “ Board”) of directors (the “ Directors ”) of Zhejiang Chang’an Renheng Technology Co., Ltd. (the “ Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group ”) for the six months ended 30 June 2015 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2014 as follows:

Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2015

	Note	Three months ended 30 June		Six months ended 30 June	
		2015 RMB (unaudited)	2014 RMB (unaudited)	2015 RMB (unaudited)	2014 RMB (unaudited)
Revenue	5	19,434,067	24,263,350	39,286,085	44,951,261
Cost of sales		(10,004,110)	(14,072,708)	(20,737,251)	(25,044,481)
Gross profit		9,429,957	10,190,642	18,548,834	19,906,780
Distribution costs		(2,698,510)	(2,047,518)	(5,266,742)	(4,554,829)
Administrative expenses		(3,674,009)	(2,494,228)	(6,354,632)	(4,976,671)
Research and development expenses		(967,425)	(875,917)	(1,904,691)	(1,808,348)
Other gains – net	6	343,199	832,173	847,963	1,493,712
Listing expenses		–	–	(1,143,945)	–
Operating profit		2,433,212	5,605,152	4,726,787	10,060,644
Finance income		55,694	111,962	121,532	281,735
Finance expenses		(1,323,362)	(1,613,391)	(1,913,702)	(3,390,428)
Finance expenses – net	7	(1,267,668)	(1,501,429)	(1,792,170)	(3,108,693)
Profit before income tax	9	1,165,544	4,103,723	2,934,617	6,951,951
Income tax expense	8	(145,568)	(736,441)	(487,907)	(1,184,191)
Profit for the period attributable to the equity holders of the Company		1,019,976	3,367,282	2,446,710	5,767,760
Other comprehensive income		–	–	–	–
Total comprehensive income for the period attributable to the equity holders of the Company		1,019,976	3,367,282	2,446,710	5,767,760
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	10	0.03	0.14	0.08	0.24
Dividends	11	–	–	–	–

Condensed consolidated balance sheet (unaudited)

As at 30 June 2015

		30 June 2015 RMB (unaudited)	31 December 2014 RMB (audited)
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	12	52,731,746	42,695,190
Prepaid leasing expenses		6,432,244	6,527,391
Mining rights		–	20,076
Leasehold improvements		469,606	583,853
Deferred income tax assets		1,129,741	1,097,839
Trade and other receivables	13	663,966	649,881
		61,427,303	51,574,230
Current assets			
Inventories		18,129,934	17,378,815
Trade and other receivables	13	73,971,155	90,377,445
Restricted cash		400,000	10,275,216
Cash and cash equivalents		22,639,651	7,051,265
		115,140,740	125,082,741
Total assets		176,568,043	176,656,971
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	14	32,000,000	24,000,000
Share premium		29,466,539	–
Other reserves		6,914,358	6,920,604
Retained earnings			
– Proposed final dividends		–	7,286,400
– Others		25,090,572	22,637,616
Total equity		93,471,469	60,844,620

		30 June 2015 RMB (unaudited)	31 December 2014 RMB (audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred government grants		810,417	852,417
Provisions for environmental rehabilitation		720,100	634,533
Borrowings		870,835	1,066,077
		2,401,352	2,553,027
Current liabilities			
Deferred government grants		84,000	87,208
Trade and other payables	15	19,114,826	22,700,551
Current income tax liabilities		118,950	988,540
Borrowings		61,377,446	89,483,025
		80,695,222	113,259,324
Total liabilities		83,096,574	115,812,351
Total equity and liabilities		176,568,043	176,656,971
Net current assets		34,445,518	11,823,417
Total assets less current liabilities		95,872,821	63,397,647

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2015

	(Unaudited)				
	Attributable to equity holders of the Company				
	Share capital RMB	Share premium RMB	Other reserves RMB	Retained earnings RMB	Total RMB
As at 1 January 2014	24,000,000	-	5,732,682	18,969,105	48,701,787
Comprehensive income					
Profit for the period	-	-	-	5,767,760	5,767,760
Total comprehensive income for the period	-	-	-	5,767,760	5,767,760
Appropriation to safety fund	-	-	8,800	(8,800)	-
Utilisation of safety fund	-	-	(24,715)	24,715	-
As at 30 June 2014	24,000,000	-	5,716,767	24,752,780	54,469,547
As at 1 January 2015	24,000,000	-	6,920,604	29,924,016	60,844,620
Comprehensive income					
Profit for the period	-	-	-	2,446,710	2,446,710
Total comprehensive income for the period	-	-	-	2,446,710	2,446,710
Proceeds from shares issued	8,000,000	29,466,539	-	-	37,466,539
Utilisation of safety fund	-	-	(6,246)	6,246	-
Dividends relating to 2014	-	-	-	(7,286,400)	(7,286,400)
As at 30 June 2015	32,000,000	29,466,539	6,914,358	25,090,572	93,471,469

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Net cash generated from operating activities	5,348,670	9,733,097
Net cash used in investing activities	(2,661,630)	(10,766,050)
Net cash generated from financing activities	12,901,346	4,861,890
Net increase in cash and cash equivalents	15,588,386	3,828,937
Cash and cash equivalents at beginning of the period	7,051,265	4,173,065
Cash and cash equivalents at end of the period	22,639,651	8,002,002

Notes to the Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2015

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

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

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

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

2 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting', and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the results and financial position of the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

4 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.

5 REVENUE

	<u>Six months ended 30 June</u>	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Papermaking chemicals series	35,522,470	37,511,533
Bentonite for metallurgy pellet	2,739,898	2,256,823
Quality calcium-bentonite	182,308	1,263,452
Others (i)	841,409	3,919,453
	<u>39,286,085</u>	<u>44,951,261</u>

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

6 OTHER GAINS – NET

	Six months ended 30 June	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Foreign exchange gains/(losses) – net	5,926	(76,732)
Government grants		
– Relating to assets	45,208	163,427
– Relating to costs	894,065	1,390,000
Others	(97,236)	17,017
	847,963	1,493,712

7 FINANCE EXPENSES – NET

	Six months ended 30 June	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Finance income		
– Interest income derived from bank deposits	107,447	271,033
– Unrealised financial income from financial assets measured at amortised cost	14,085	10,702
	121,532	281,735
Finance expenses		
– Interest expense	(2,828,679)	(3,358,388)
– Capitalised interest expense	41,655	23,127
	(2,787,024)	(3,335,261)
– Foreign exchange gains/(losses) on borrowings and cash and cash equivalents – net	873,322	(55,167)
	(1,913,702)	(3,390,428)
Finance expenses – net	(1,792,170)	(3,108,693)

8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Current income tax	519,809	1,076,990
Deferred income tax	(31,902)	107,201
	487,907	1,184,191

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

The other subsidiaries are subject to income tax rate of 25% for the six months ended 30 June 2015 and 2014.

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

	Six months ended 30 June	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Profit before tax	2,934,617	6,951,951
Calculated at statutory tax rate	733,654	1,737,988
Expenses not deductible for tax purposes	252,801	45,183
Additional deduction for research and development expense (i)	(231,683)	(223,807)
Preferential tax saving of the Company	(266,865)	(375,173)
Income tax expense	487,907	1,184,191

- (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.

9 PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Profit for the period has been arrived after charging:		
Depreciation	2,544,544	2,471,548
Amortisation of prepaid leasing expenses	95,147	64,948
Amortisation of mining rights	20,076	20,076
Amortisation of leasehold improvements	114,247	46,042

10 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 six months ended 30 June 2015 and 2014.

	Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)
Profit attributable to the equity holders of the Company (RMB)	2,446,710	5,767,760
Weighted average number of ordinary shares in issue	31,292,818	24,000,000
Basic earnings per share (RMB per share)	0.08	0.24

(b) Diluted

The fully diluted earnings per share for the six months ended 30 June 2015 and 2014 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the six months ended 30 June 2015 and 2014.

11 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: nil).

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group acquired property, plant and equipment of approximately RMB12,581,000 (2014: RMB4,852,000)

13 TRADE AND OTHER RECEIVABLES

	30 June 2015 RMB (unaudited)	31 December 2014 RMB (audited)
Trade receivables (1)	55,657,451	52,007,825
Less: provision for impairment	(2,057,798)	(1,669,921)
Trade receivables – net	53,599,653	50,337,904
Bills receivable	7,986,772	13,563,082
Other receivables	11,341,410	11,964,842
Less: provision for impairment	(372,567)	(201,232)
Other receivables – net	10,968,843	11,763,610
Prepayments	2,063,402	15,306,639
Interest receivables on time deposits	16,451	56,091
Trade and other receivables– net	74,635,121	91,027,326
Less: non-current portion	(663,966)	(649,881)
Current portion	73,971,155	90,377,445

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

	30 June 2015 RMB (unaudited)	31 December 2014 RMB (audited)
– Within 180 days	33,732,699	42,221,012
– Over 180 days and within 1 year	16,527,918	8,616,865
– Over 1 year and within 2 years	4,941,957	975,604
– Over 2 years and within 3 years	326,010	147,768
– Over 3 years	128,867	46,576
	55,657,451	52,007,825

The credit period granted to customers is normally up to 180 days. No interest is charged on the trade receivables.

14 SHARE CAPITAL

	Ordinary shares	
	<i>Number</i>	<i>RMB</i>
As at 31 December 2014 (audited)	24,000,000	24,000,000
Issue of H shares	8,000,000	8,000,000
As at 30 June 2015 (unaudited)	32,000,000	32,000,000

On 16 January 2015, the H shares of the Company became listed on the GEM of the Stock Exchange. The Company issued a total of 8,000,000 H shares with a par 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.

15 TRADE AND OTHER PAYABLES

	30 June 2015 RMB (unaudited)	31 December 2014 RMB (audited)
Trade payables	11,474,703	13,584,558
Other payables	3,904,728	4,475,763
Staff salaries and welfare payables	2,359,330	2,940,425
Advances from customers	157,328	51,650
Accrued taxes other than income tax	1,218,737	1,648,155
	19,114,826	22,700,551

The ageing analysis of the trade payables is as follows:

	30 June 2015 RMB (unaudited)	31 December 2014 RMB (audited)
Trade payables		
– Within 6 months	7,573,591	12,015,801
– Over 6 months and within 1 year	3,451,422	1,332,952
– Over 1 year and within 2 years	334,489	214,766
– Over 2 years and within 3 years	94,162	573
– Over 3 years	21,039	20,466
	11,474,703	13,584,558

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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 of the Stock Exchange on 16 January 2015.

The Group is continued to be 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.

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

Financial Review

Revenue

The following table sets out revenue by product categories and the corresponding percentage of total revenue for the periods indicated:

Product	For the six months ended 30 June			
	2015		2014	
	RMB'000	%	RMB'000	%
Sales of papermaking chemicals	35,522	90.4	37,511	83.5
Sales of bentonite for metallurgy pellet	2,740	7.0	2,257	5.0
Sales of quality calcium-bentonite	182	0.5	1,263	2.8
Others	842	2.1	3,920	8.7
Total	39,286	100.0	44,951	100.0

Revenue from sales of papermaking chemicals decreased by approximately 5.3% from approximately RMB37,511,000 for the six months ended 30 June 2014 to approximately RMB35,522,000 for the six months ended 30 June 2015. As the average unit selling price remained stable for the comparative periods, the decrease in revenue was mainly due to the drop in sales volume, which decreased by approximately 5.5% from approximately 7,897 tonnes for the six months ended 30 June 2014 to approximately 7,462 tonnes for the six months ended 30 June 2015.

Revenue of bentonite for metallurgy pellet for the six months ended 30 June 2015 increased by approximately 21.4% as compared to the six months ended 30 June 2014. The increase was mainly due to the increase in number of customers.

Revenue of quality calcium-bentonite for the six months ended 30 June 2015 decreased by approximately RMB1,081,000 as compared to the six months ended 30 June 2014. 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.

Revenue of others for the six months ended 30 June 2015 decreased by approximately RMB3,078,000 as compared to the six months ended 30 June 2014. Others mainly comprise organic bentonite and inorganic gel.

Cost of sales

The cost of sales mainly comprised of 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 periods indicated:

	For the six months ended 30 June			
	2015		2014	
	RMB'000	%	RMB'000	%
Cost of raw materials	16,923	81.6	22,027	87.9
Direct labour costs	960	4.6	870	3.6
Manufacturing overhead costs	2,407	11.6	1,685	6.7
Others	447	2.2	462	1.8
Total	20,737	100.0	25,044	100.0

The cost of sales decreased by approximately 17.2% from approximately RMB25,044,000 for the six months ended 30 June 2014 to approximately RMB20,737,000 for the six months ended 30 June 2015.

Cost of raw materials accounted for approximately 87.9% and 81.6% of cost of sales for the six months ended 30 June 2014 and 2015 respectively. The cost of raw materials decreased by approximately 23.2% from approximately RMB22,027,000 for the six months ended 30 June 2014 to approximately RMB16,923,000 for the six months ended 30 June 2015 was mainly due to the decrease 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 decreased for the six months ended 30 June 2015, the cost of sales for CPAM decreased accordingly.

Direct labour costs accounted for approximately 3.6% and 4.6% of cost of sales for the six months ended 30 June 2014 and 2015 respectively. Direct labour costs remained stable during the comparative periods.

Manufacturing overhead costs accounted for approximately 6.7% and 11.6% of cost of sales for the six months ended 30 June 2014 and 2015 respectively. Manufacturing overhead costs increased by approximately 42.8% from approximately RMB1,685,000 for the six months ended 30 June 2014 to approximately RMB2,407,000 for the six months ended 30 June 2015.

Gross profit and gross profit margin

Gross profit margin increased from 44.3% for the six months ended 30 June 2014 to 47.2% for the six months ended 30 June 2015. The improvement in gross profit margin was mainly attributable to the improvement of gross profit margin of papermaking chemicals by selling more products with higher gross profit margin to the customers.

The table below sets out the Group's gross profit and gross profit margin by product for the periods indicated:

Product	For the six months ended 30 June			
	2015		2014	
	RMB'000	%	RMB'000	%
Papermaking chemicals	17,341	48.8	17,231	45.9
Bentonite for metallurgy pellet	885	32.3	641	28.4
Quality calcium-bentonite	142	77.6	964	76.3
Others	181	21.5	1,071	27.3
Total	18,549	47.2	19,907	44.3

The gross profit margin of papermaking chemicals increased from 45.9% for the six months ended 30 June 2014 to 48.8% for the six months ended 30 June 2015. The improvement 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 higher gross profit margin for the six months ended 30 June 2015.

The gross profit margin of bentonite for metallurgy pellet was 28.4% and 32.3% for the six months ended 30 June 2014 and 2015 respectively. The gross profit margin improved slightly during the comparative periods.

The gross profit margin of quality calcium-bentonite was 76.3% and 77.6% for the six months ended 30 June 2014 and 2015 respectively. The gross profit margin remained stable during the comparative periods.

The gross profit margin of other products was 27.3% and 21.5% for the six months ended 30 June 2014 and 2015 respectively. The gross profit margin deteriorated slightly during the comparative periods.

Distribution costs

The distribution costs for the six months ended 30 June 2014 and 2015 amounted to approximately RMB4,555,000 and RMB5,267,000 respectively. The distribution costs increased by approximately RMB712,000 mainly because of the increase in transportation expenses from approximately RMB3,663,000 for the six months ended 30 June 2014 to approximately RMB4,251,000 for the six months ended 30 June 2015.

Administrative expenses

The administrative expenses increased by approximately 27.7% from approximately RMB4,977,000 for the six months ended 30 June 2014 to approximately RMB6,355,000 for the six months ended 30 June 2015. The increase was mainly due to the increase of provision for impairment of receivables and employee benefit expenses.

Research and development expenses

The research and development expenses increased slightly by approximately RMB97,000 or 5.4% from approximately RMB1,808,000 for the six months ended 30 June 2014 to approximately RMB1,905,000 for the six months ended 30 June 2015.

Other gains – net

Other gains for the six months ended 30 June 2014 and 2015 amounted to approximately RMB1,494,000 and RMB848,000, respectively. The decrease in other gains mainly due to the decrease in government grants from approximately RMB1,553,000 for the six months ended 30 June 2014 to approximately RMB939,000 for the six months ended 30 June 2015.

Listing expenses

The listing expenses incurred for the Reporting Period was approximately RMB1,144,000 in relation to the placing of H shares of the Company which were listed on GEM of the Stock Exchange on 16 January 2015.

Finance expenses – net

The net finance expenses decreased by approximately RMB1,317,000 or 42.4% from approximately RMB3,109,000 for the six months ended 30 June 2014 to approximately RMB1,792,000 for the six months ended 30 June 2015, which was mainly due to the decrease of interest expenses on borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

Income tax expenses

The effective tax rates were 17.0% and 16.6% for the six months ended 30 June 2014 and 2015, respectively.

Profit for the period

The profit for the period decreased by approximately RMB3,321,000 or 57.6% from approximately RMB5,768,000 for the six months ended 30 June 2014 to approximately RMB2,447,000 for the six months ended 30 June 2015. The net profit margin for the Group decreased from approximately 12.8% for the six months ended 30 June 2014 to approximately 6.2% for the six months ended 30 June 2015. The decrease in profit for the period of the Group was mainly due to the one-off listing expenses incurred during the Reporting Period and the increase in administrative expenses.

Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Reporting Period, the weight average effective annual interest rate of bank borrowings and other borrowings was 7.6% and 9.0% respectively. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long-term 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 30 June 2015, the Group had cash and cash equivalents of RMB22,640,000 which was mainly generated from operations of the Group and the funds raised from the Listing in January 2015.

Cash Flows

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.

Net cash generated from operating activities

The Group's cash inflow generated from operating activities primarily derives from the sales proceeds of the Group's products. For the six months ended 30 June 2015, the Group's net cash inflow generated from operating activities amounted to approximately RMB5,349,000, representing a decrease of approximately RMB4,384,000 from approximately RMB9,733,000 for the six months ended 30 June 2014. The decrease was primarily due to the decrease in sales proceeds and government grants, as well as the increase in transportation expenses and professional service fee.

Net cash used in investing activities

For the six months ended 30 June 2015, the Group's net cash outflow used in investing activities amounted to approximately RMB2,662,000, representing a decrease of approximately RMB8,104,000 as compared with the cash outflow used in investing activities of approximately RMB10,766,000 for the six months ended 30 June 2014. The decrease was mainly due to the decrease in guaranteed deposits and time deposits for borrowings, as the Company reduced bank borrowings for the six months ended 30 June 2015.

Net cash generated from financing activities

For the six months ended 30 June 2015, the Group's net cash inflow generated from financing activities amounted to approximately RMB12,901,000, representing an increase of approximately RMB8,039,000 as compared with the net cash inflow generated from financing activities of approximately RMB4,862,000 for the six months ended 30 June 2014. The increase was primarily due to the proceeds from the Listing in January 2015, while partially offset by the repayments of bank borrowings and payments of 2014 final dividend.

Capital Structure

Indebtedness

The total indebtedness of the Group as at 30 June 2015 was approximately RMB62,248,000 (31 December 2014: approximately RMB90,549,000). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2015, the Group's gearing ratio was approximately 35.3% (31 December 2014: 51.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to decrease in bank borrowings.

Pledge of assets

As at 30 June 2015, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB20,009,000 (31 December 2014: approximately RMB29,821,000).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, and construction in progress. The Group's capital expenditures amounted to approximately RMB12,581,000 and RMB4,852,000 for the six months ended 30 June 2015 and 2014 respectively.

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.

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2015, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisition and Disposal

For the six months ended 30 June 2015, the Group had not made any material acquisition or disposal.

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.

Prospects and Outlook

Looking into the year of 2015, 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.

By leveraging on the Group's current sales network, its products, technology, patent and production know-how, 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.

Human Resources and Training

As at 30 June 2015, the Group had a total of 114 employees, of which 48 worked at the Group's headquarter in Changxing, and 66 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB4,328,000 (2014: RMB3,899,000). 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 Reporting Period, 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.

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 testing 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.

Actual business progress and use of proceeds from the Listing

The H shares of the Company were listed on the GEM Board of the Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB37,467,000 (equivalent to approximately HK\$46,834,000), after deduction of the underwriting commission and relevant expenses. As at 30 June 2015, the Group had used net proceeds of approximately RMB24,196,000, of which approximately RMB12,581,000 had been used for purchase of high-purity water-purifying bentonite production machinery and equipment, approximately RMB7,868,000 had been used for repayment of bank loans of the Group and approximately RMB3,747,000 as working capital. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 31 December 2014.

OTHER INFORMATION

Placing of H shares

On 16 January 2015, the H shares of the Company were listed on GEM 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 (nominal value of RMB1.00 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.

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

As at 30 June 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 Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors required 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 30 June 2015, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, debentures and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2015, so far as the Directors, having made all reasonable enquiries, are aware, that there were no 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.

Directors' and supervisors' rights to acquire shares or debentures

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

Connected transaction

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

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

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

Public float

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

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

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

Capital commitment

As at 30 June 2015, the Group had capital commitment amounted to approximately RMB8,544,000 (31 December 2014: nil).

Dividends

Pursuant to a resolution passed by the shareholders of the Company on 21 May 2015, the Company declared the audited distributable profits as at 31 December 2014 amounting to approximately RMB7,286,000 (equivalent to approximately HK\$9,213,000) to the shareholders of the Company. The dividend was fully paid on 23 June 2015 by the internal cash resources of the Company.

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (2014: nil).

Change of compliance adviser

The Company and South China Capital Limited (“South China”) have mutually agreed to terminate the compliance adviser’s agreement with effect from 1 April 2015 due to departure of a principal and as a result of which South China is unable to continually provide compliance advisory service to the Company.

CLC International Limited (“CLCI”) has been appointed as the replacement compliance adviser of the Company pursuant to Rules 6A.19 and 6A.27 of the GEM Listing Rules with effect from 1 June 2015 until the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the Company’s financial results for the second full financial year commencing after the date of Listing of the Company (being the financial year ending 31 December 2017) or until the compliance adviser agreement entered into between the Company and CLCI is terminated in accordance with its terms and conditions, whichever is the earlier.

CLCI is a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong).

Interest of compliance adviser

As notified by South China and CLCI, the Company's compliance advisers, neither South China nor CLCI nor any of their directors or employees or close associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) during the Reporting Period pursuant to Rule 6A.32 of the GEM Listing Rules.

Corporate governance practice

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

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

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

In addition, according to the code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors and officers. As the Board needed time to consider quotes from different insurers, during the period from the date of Listing 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 on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the model code during the Reporting Period.

Audit committee

The Company established an audit committee (the “Audit Committee”) on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Shao Chen, 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.

The Audit Committee has reviewed the unaudited condensed consolidated financial information, the results announcement and this interim report of the Company for the six months ended 30 June 2015 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Events after the Reporting Period

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

Disclosure of information

The interim report for the six months ended 30 June 2015 will be dispatched to shareholders of the Company and published on the Company's website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, the PRC, 14 August 2015

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

* *For identification purpose only*