



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

THIRD QUARTERLY REPORT **2015**



* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

* For identification purpose only

RESULTS HIGHLIGHTS

For the nine months ended 30 September 2015, the financial highlights were as follows:

- Revenue decreased by 14.0% to approximately RMB58,327,000 (2014: RMB67,859,000).
- Gross profit decreased by 9.6% to approximately RMB28,127,000 (2014: RMB31,116,000).
- Profit excluding listing expenses for the nine months ended 30 September 2015 amounted to approximately RMB4,685,000 (2014: RMB8,189,000).
- Profit including listing expenses for the nine months ended 30 September 2015 decreased by 56.8% to approximately RMB3,541,000 (2014: RMB8,189,000).
- Basic earnings per share decreased by 67.7% to approximately RMB0.11 (2014: RMB0.34).
- The Board did not recommend the payment of any dividends for the nine months ended 30 September 2015 (2014: nil).

UNAUDITED CONSOLIDATED THIRD QUARTERLY 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 (the “Group”) for the nine months ended 30 September 2015 (the “Reporting Period”) and selected explanatory notes, together with the comparative figures of the corresponding period in 2014 as follows:

Condensed consolidated statement of comprehensive income (unaudited)

For the nine months ended 30 September 2015

	Note	Three months ended 30 September		Nine months ended 30 September	
		2015 RMB (Unaudited)	2014 RMB (Unaudited)	2015 RMB (Unaudited)	2014 RMB (Unaudited)
Revenue	3	19,041,343	22,907,303	58,327,428	67,858,564
Cost of sales		(9,462,914)	(11,698,138)	(30,200,165)	(36,742,619)
Gross profit		9,578,429	11,209,165	28,127,263	31,115,945
Distribution costs		(3,347,765)	(2,658,777)	(8,614,507)	(7,213,606)
Administrative expenses		(3,751,759)	(2,871,227)	(10,106,391)	(7,847,898)
Research and development expenses		(843,505)	(973,424)	(2,748,196)	(2,781,772)
Other gains – net		734,138	65,185	1,582,101	1,558,897
Listing expenses		–	–	(1,143,945)	–
Operating profit		2,369,538	4,770,922	7,096,325	14,831,566
Finance income		34,249	37,251	155,781	318,986
Finance expenses		(1,145,509)	(1,888,972)	(3,059,211)	(5,279,400)
Finance expenses – net		(1,111,260)	(1,851,721)	(2,903,430)	(4,960,414)
Profit before income tax		1,258,278	2,919,201	4,192,895	9,871,152
Income tax expense	4	(164,298)	(498,170)	(652,205)	(1,682,361)
Profit for the period attributable to the equity holders of the Company		1,093,980	2,421,031	3,540,690	8,188,791
Other comprehensive income		–	–	–	–
Total comprehensive income for the period attributable to the equity holders of the Company		1,093,980	2,421,031	3,540,690	8,188,791
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	5	0.03	0.10	0.11	0.34
Dividends	6	–	–	–	–

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended 30 September 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	-	-	-	8,188,791	8,188,791
Total comprehensive income for the period	-	-	-	8,188,791	8,188,791
Appropriation to safety funds	-	-	150,160	(150,160)	-
Utilisation of safety fund	-	-	(29,527)	29,527	-
As at 30 September 2014	24,000,000	-	5,853,315	27,037,263	56,890,578
As at 1 January 2015	24,000,000	-	6,920,604	29,924,016	60,844,620
Comprehensive income					
Profit for the period	-	-	-	3,540,690	3,540,690
Total comprehensive income for the period	-	-	-	3,540,690	3,540,690
Proceeds from shares issued	8,000,000	29,394,515	-	-	37,394,515
Utilisation of safety fund	-	-	(25,261)	25,261	-
Dividends relating to 2014	-	-	-	(7,286,400)	(7,286,400)
As at 30 September 2015	32,000,000	29,394,515	6,895,343	26,203,567	94,493,425

NOTES TO THE FINANCIAL INFORMATION (UNAUDITED)

For the nine months ended 30 September 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "Listing").

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

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and the disclosure requirements of the GEM Listing Rules.

The basis of preparation and accounting policies adopted in preparing these unaudited consolidated results are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2014, except for the adoption of the new and revised IFRSs that have become effective for accounting period beginning on 1 January 2015.

The adoption of the new and revised IFRSs has no significant effect on these unaudited consolidated results.

The Group has not early adopted the new and revised IFRSs that have been issued but are not yet effective for the current period.

The unaudited consolidated results have been prepared under historical basis.

3 REVENUE

	<u>Nine months ended 30 September</u>	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Papermaking chemicals series	52,917,339	56,725,757
Bentonite for metallurgy pellet	4,253,220	4,348,717
Quality calcium-bentonite	228,462	1,445,213
Others (i)	928,407	5,338,877
	58,327,428	67,858,564

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

4 INCOME TAX EXPENSE

	<u>Nine months ended 30 September</u>	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Current income tax	642,753	1,369,579
Deferred income tax	9,452	312,782
	652,205	1,682,361

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

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

The difference between the actual income tax charge in the unaudited 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:

	<u>Nine months ended 30 September</u>	
	2015 RMB (unaudited)	2014 RMB (unaudited)
Profit before tax	4,192,895	9,871,152
Calculated at statutory tax rate	1,048,224	2,467,788
Expenses not deductible for tax purposes	296,000	205,104
Additional deduction for research and development expense (i)	(355,780)	(344,050)
Preferential tax saving of the Company	(336,239)	(646,481)
Income tax expense	652,205	1,682,361

- (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.

5 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the nine months ended 30 September 2015 and 2014.

	<u>Nine months ended 30 September</u>	
	2015 (unaudited)	2014 (unaudited)
Profit attributable to the equity holders of the Company (RMB)	3,540,690	8,188,791
Weighted average number of ordinary shares in issue	31,531,136	24,000,000
Basic earnings per share (RMB per share)	0.11	0.34

(b) Diluted

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

6 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2015 (2014: Nil).

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 Board 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

Turnover of the Group for the nine months ended 30 September 2015 amounted to approximately RMB58,327,000, representing a decrease of approximately RMB9,532,000 or 14.0% compared to approximately RMB67,859,000 for the nine months ended 30 September 2014. The decrease in sales was mainly due to the decrease in sales of papermaking chemicals series and organic bentonite during the Reporting Period.

Gross profit of the Group for the nine months ended 30 September 2015 amounted to approximately RMB28,127,000, representing a decrease of approximately RMB2,989,000 or 9.6% compared to approximately RMB31,116,000 for the nine months ended 30 September 2014.

The distribution costs, mainly including transportation expenses, salaries and benefits, and travelling expenses, amounted to approximately RMB8,615,000 for the nine months ended 30 September 2015, representing an increase of approximately RMB1,401,000 or 19.4% as compared to RMB7,214,000 for the nine months ended 30 September 2014. This increase was mainly as a result of the increase in transportation expenses.

The administrative expenses of the Group were approximately RMB10,106,000 for the nine months ended 30 September 2015, representing an increase of approximately RMB2,258,000 or 28.8% as compared to approximately RMB7,848,000 for the nine months ended 30 September 2014. The increase was primarily due to an increase in salaries and benefits and the related professional fees after Listing.

The research and development expenses decreased slightly by approximately 1.2% from approximately RMB2,782,000 for the nine months ended 30 September 2014 to approximately RMB2,748,000 for the nine months ended 30 September 2015.

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

The profit for the nine months ended 30 September 2015 was approximately RMB3,541,000, representing a decrease of RMB4,648,000 or 56.8% as compared to approximately RMB8,189,000 in the corresponding period of 2014. The decrease was mainly due to the decrease in revenue, increase in administrative expenses and the one-off listing expenses incurred during the Reporting Period. If such listing expenses were excluded, the adjusted profit for the Reporting Period was approximately RMB4,685,000 which decreased by 42.8% when compared to the same period last year.

PROSPECTS

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 has launched 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.

OTHER INFORMATION

Placing of H shares

On 16 January 2015, the H shares of the Company were 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 (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 September 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 September 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.

Directors' and supervisors' rights to acquire shares or debentures

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

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

As at 30 September 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.

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 close 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.

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 financial statements, the results announcement and this quarterly report of the Company for the nine months ended 30 September 2015 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Use of proceeds from placing of H shares

The H shares of the Company were listed on the GEM Board of the Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB37,395,000 (equivalent to approximately HK\$46,744,000), after deduction of the underwriting commission and relevant expenses. As at 30 September 2015, the Group had used net proceeds of approximately RMB28,919,000, of which approximately RMB17,304,000 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.

Interest of compliance adviser

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

Events after the Reporting Period

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

Disclosure of information

The quarterly report for the nine months ended 30 September 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, PRC, 13 November 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.