Third Quarterly Report 2016



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

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

* For identification purpose only

RESULTS HIGHLIGHTS

For the nine months ended 30 September 2016, the financial highlights were as follows:

- Revenue decreased by 0.6% to approximately RMB57,996,000 (2015: RMB58,327,000).
- Gross profit increased by 14.0% to approximately RMB32,056,000 (2015: RMB28,127,000).
- Gross profit margin was 55.3% (2015: 48.2%).
- Profit for the nine months ended 30 September 2016 decreased by 53.5% to approximately RMB1,646,000 (2015: RMB3,541,000).
- Basic earnings per share decreased by 54.5% to approximately RMB0.05 (2015: RMB0.11).
- The Board did not recommend the payment of any dividends for the nine months ended 30 September 2016 (2015: nil).

UNAUDITED THIRD QUARTERLY RESULTS OF 2016

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 2016 (the "Reporting Period") and selected explanatory notes, together with the comparative figures of the corresponding period in 2015 as follows:

Condensed consolidated statement of comprehensive income (unaudited)

For the nine months ended 30 September 2016

		Three months ended 30 September		Nine months ended 30 September	
	Note	2016 <i>RMB</i> (Unaudited)	2015 <i>RMB</i> (Unaudited)	2016 <i>RMB</i> (Unaudited)	2015 <i>RMB</i> (Unaudited)
Revenue Cost of sales	4	20,266,218 (8,199,644)	19,041,343 (9,462,914)	57,996,356 (25,940,853)	58,327,428 (30,200,165)
Gross profit		12,066,574	9,578,429	32,055,503	28,127,263
Distribution costs Administrative expenses Research and development expenses Other gains – net Listing expenses		(4,447,294) (3,906,261) (1,344,650) 201,390	(3,347,765) (3,751,759) (843,505) 734,138	(11,610,172) (10,805,501) (4,373,273) 548,295	$\begin{array}{c}(8,614,507)\\(10,106,391)\\(2,748,196)\\1,582,101\\(1,143,945)\end{array}$
Operating profit		2,569,759	2,369,538	5,814,852	7,096,325
Finance income Finance expenses		82,557 (1,240,336)	34,249 (1,145,509)	130,431 (3,980,219)	155,781 (3,059,211)
Finance expenses - net		(1,157,779)	(1,111,260)	(3,849,788)	(2,903,430)
Profit before income tax Income tax expense	5	1,411,980 (326,042)	1,258,278 (164,298)	1,965,064 (319,092)	4,192,895 (652,205)
Profit for the period attributable to the equity holders of the Company		1,085,938	1,093,980	1,645,972	3,540,690
Other comprehensive income		-	-	-	
Total comprehensive income for the period attributable to the equity holders of the Company		1,085,938	1,093,980	1,645,972	3,540,690
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share) – Basic and diluted	6	0.03	0.03	0.05	0.11
		0.03	0.03	0.05	0.11
Dividends	7	-	-	-	

Zhejiang Chang'an Renheng Technology Co., Ltd.

Condensed consolidated statement of changes in equity (unaudited)

For the nine months ended 30 September 2016

		(Unaudited)			
	Attribut	Attributable to equity holders of the Company			
		Other Retained			
	Share capital	reserves	earnings	Total	
	RMB	RMB	RMB	RMB	
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	36,289,858	26,203,567	94,493,425	
As at 1 January 2016	32,000,000	36,502,717	24,412,893	92,915,610	
Comprehensive income Profit for the period	-	-	1,645,972	1,645,972	
Total comprehensive income					
for the period	-	-	1,645,972	1,645,972	
Appropriation to safety funds	-	79,712	(79,712)	-	
Utilisation of safety fund	-	(62,148)	62,148		
As at 30 September 2016	32,000,000	36,520,281	26,041,301	94,561,582	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

For the nine months ended 30 September 2016

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 financial information is presented in Renminbi ("RMB"), unless otherwise stated.

2 BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the nine months ended 30 September 2016 has been prepared in accordance with the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, 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 2015, 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 2016 do not have a material impact on the results and financial position of the Group.

Taxes on income for the nine months ended 30 September 2016 are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for the nine months ended 30 September 2016 that could be expected to have a material impact on this Group.

4 **REVENUE**

	Nine months ended 30 September		
	2016 201		
	RMB	RMB	
	(unaudited)	(unaudited)	
Papermaking chemicals series	53,469,201	52,917,339	
Bentonite for metallurgy pellet	1,936,927	4,253,220	
Quality calcium-bentonite	730,954	228,462	
Others (i)	1,859,274	928,407	
	57,996,356	58,327,428	

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

5 INCOME TAX EXPENSE

	Nine months ended 30 September		
	2016 201		
	RMB	RMB	
	(unaudited)	(unaudited)	
Current income tax	471,169	642,753	
Deferred income tax	(152,077)	9,452	
	319,092	652,205	

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 2016 and 2015.

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

	Nine months ended	Nine months ended 30 September		
	2016 <i>RMB</i> (unaudited)	2015 <i>RMB</i> (unaudited)		
Profit before tax	1,965,064	4,192,895		
Calculated at statutory tax rate	491,266	1,048,224		
Expenses not deductible for tax purposes Additional deduction for research and	289,828	296,000		
development expense (i)	(440,692)	(355,780)		
Preferential tax saving of the Company	(17,734)	(336,239)		
Adjustment in respect of prior years	(3,576)			
Income tax expense	319,092	652,205		

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

6 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the nine months ended 30 September 2016 and 2015.

	Nine months ended 30 September		
	2016	2015	
	(unaudited)	(unaudited)	
Profit attributable to the equity holders of			
the Company (RMB)	1,645,972	3,540,690	
Weighted average number of ordinary shares			
in issue	32,000,000	31,531,136	
Basic earnings per share (RMB per share)	0.05	0.11	

(b) Diluted

The fully diluted earnings per share for the nine months ended 30 September 2016 and 2015 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the nine months ended 30 September 2016 and 2015.

7 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group continued to develop major clients with good development prospects and phase out small clients with outdated capacity.

During the nine months ended 30 September 2016, the Group continued to construct a water disposal project with annual output capacity of 10,000 tons in Changxing of Zhejiang Province, the headquarters of the Group, to enlarge our market share in environmental protection field. The Group has engaged Jilin Design and Research Institute for Petrochemical Engineering (吉林石化設計院) to make plans and carry out designs for this project.

The Group newly constructed an organic bentonite project with annual output capacity of 10,000 tons in Yangyuan of Hebei Province. The products from this project will be used in paint, coating, agricultural chemicals and oil fields, which will bring new market opportunities for the Group.

Financial Review

Turnover of the Group for the nine months ended 30 September 2016 amounted to approximately RMB57,996,000, representing a decrease of approximately RMB331,000 or 0.6% compared to approximately RMB58,327,000 for the nine months ended 30 September 2015. The decrease in sales was mainly due to the decrease in sales of bentonite for metallurgy pellet during the Reporting Period.

Gross profit of the Group for the nine months ended 30 September 2016 amounted to approximately RMB32,056,000, representing an increase of approximately RMB3,929,000 or 14.0% compared to approximately RMB28,127,000 for the nine months ended 30 September 2015. The increase in gross profit was mainly due to the increase in gross profit margin from 48.2% for the nine months ended 30 September 2015 to 55.3% for the nine months ended 30 September 2016.

The distribution costs, mainly including transportation expenses, salaries and benefits, and travelling expenses, amounted to approximately RMB11,610,000 for the nine months ended 30 September 2016, representing an increase of approximately RMB2,995,000 or 34.8% as compared to RMB8,615,000 for the nine months ended 30 September 2015. This increase was mainly as a result of the increase in transportation expenses.

The administrative expenses of the Group were approximately RMB10,806,000 for the nine months ended 30 September 2016, representing an increase of approximately RMB700,000 or 6.9% as compared to approximately RMB10,106,000 for the nine months ended 30 September 2015. The increase was primarily due to an increase in business trip expenses and partially off-set by a decrease in legal and professional fees.

The research and development expenses increased by approximately 59.1% from approximately RMB2,748,000 for the nine months ended 30 September 2015 to approximately RMB4,373,000 for the nine months ended 30 September 2016.

The listing expenses incurred for the nine months ended 30 September 2015 was approximately RMB1,144,000 in relation to the placing of H shares of the Company which were listed on the GEM of the Stock Exchange on 16 January 2015.

The profit for the nine months ended 30 September 2016 was approximately RMB1,646,000, representing a decrease of RMB1,895,000 or 53.5% as compared to approximately RMB3,541,000 in the corresponding period of 2015. The decrease was mainly due to the increase in distribution expenses, administrative expenses, research and development expenses, partially off-set by the increase in gross profit during the Reporting Period.

PROSPECTS

Looking into the year of 2016, we believe that the government will continue to focus on structural adjustments and capacity optimization, and it will continue to support the industry of bentonite fine chemicals with high value-added. As a result, the Group will adjust our development strategies according to new situations and formulates and implements the following strategies:

- 1. The Group will further focus on developing major clients with good development prospects and phase out small clients with outdated capacity. As the government will conduct industrial integration and support large-scale enterprises with economies of scale, it will be beneficial for the Company to protect the safety of its funds by conforming to the trend.
- 2. The Group will pay attention to the promotion and application of new products. It is expected that the production line of organic bentonite will be put into operation in late 2016. The Company plans to establish a sales division in Shanghai, mainly promoting organic bentonite products.
- 3. The Company will make use of the platform of academician workstation to develop the bentonite products applicable to environmental protection and to improve profit margins.

OTHER INFORMATION

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

As at 30 September 2016, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

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

Long positions in ordinary shares of the Company:

 Mr. Xu Qinsi, the supervisor of the Company, is deemed (by virtue of the SFO) to be interested in 100,000 domestic shares in the Company held by his spouse, Ms. Ling Weixing. Save as disclosed above, as at 30 September 2016, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Directors' and supervisors' rights to acquire shares or debentures

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

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

As at 30 September 2016, so far as the Directors, having made all reasonable enquiries, are aware, the following interests of 5% or more of the issued share capital of the Company (other than the interests of the directors, supervisors and chief executive of the Company as disclosed above) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

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

Connected transaction

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

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

During the Reporting Period, none of the Directors or supervisors or controlling shareholders or their respective 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.

Public float

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

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

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

Corporate governance practice

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

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

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

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

Model code for securities transactions

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

Audit committee

The Company established an audit committee (the "Audit Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Shao Chen, 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 quarterly report of the Company for the nine months ended 30 September 2016 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 2016, the Group had used net proceeds of approximately RMB35,980,000, of which approximately RMB21,200,000 had been used for purchase of high-purity water-purifying bentonite production machinery and equipment, approximately RMB1,200,000 had been used for advanced research and development of papermaking chemicals, approximately RMB658,000 had been used for research and development of new bentonite products for consumer chemicals and pharmaceutical use, approximately RMB1,307,000 had been used for enhancement of existing sales network, approximately RMB7,868,000 had been used for repayment of bank loans of the Group and approximately RMB3,747,000 as working capital. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 31 December 2014.

Interest of compliance adviser

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

Events after the Reporting Period

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

Disclosure of information

The quarterly report for the nine months ended 30 September 2016 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, 12 November 2016

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