Annual 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

* 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.

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*

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Sun Wensheng
Mr. Fan Fang
Mr. Chen Weidong (resigned on 14 May 2016)

Non-executive Director

Ms. Zhang Jinqin (resigned on 14 May 2016)
Ms. Zhang Jinhua (appointed on 14 May 2016)

Independent Non-executive Directors

Mr. Shao Chen
Dr. Huang Zemin
Mr. Chau Kam Wing, Donald
Dr. Wang Xiangyao (retired on 14 May 2016)

AUDIT COMMITTEE MEMBERS

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

NOMINATION COMMITTEE MEMBERS

Mr. Shao Chen *(Chairman)*
Mr. Fan Fang
Mr. Chau Kam Wing, Donald (appointed on 14 May 2016)
Dr. Wang Xiangyao (retired on 14 May 2016)

REMUNERATION COMMITTEE MEMBERS

Mr. Chau Kam Wing, Donald *(Chairman)*
(appointed on 14 May 2016)
Dr. Huang Zemin
Mr. Fan Fang
Dr. Wang Xiangyao *(Chairman)* (retired on 14 May 2016)

SUPERVISORY COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Hon Wan

COMPLIANCE OFFICER

Mr. Fan Fang

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan
Mr. Zhang Youlian

LEGAL ADVISER

Stevenson, Wong & Co.

COMPLIANCE ADVISER

CLC International Limited

AUDITOR

PricewaterhouseCoopers

REGISTERED ADDRESS

Laoya Tang, Si'an Town, Changxing County
Zhejiang Province
PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

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Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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28 Queen's Road Central
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HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKERS

SPD Bank
Huzhou Changxing Sub-branch
No. 298, Jinlingbei Road
Zhicheng Town, Changxing County
Zhejiang Province, PRC

Industrial and Commercial Bank of China
Huzhou Changxing Sub-branch
No. 218, Middle Jinling Road
Zhicheng Town, Changxing County
Zhejiang Province, PRC

China Merchants Bank
Hangzhou Chengxi Sub-branch
No. 170, Wenyixi Road
Hangzhou City
Zhejiang Province, PRC

COMPANY'S WEBSITE

www.renheng.com

STOCK CODE

8139

Financial Highlights

	For the year ended 31 December 2016 *RMB'000*	2015 *RMB'000*	Changes Increase/(Decrease)
Financial Highlights			
Turnover	**75,260**	77,444	(2.8)%
Cost of sales	**(33,207)**	(38,785)	(14.4)%
Gross profit	**42,053**	38,659	8.8%
Profit before taxation	**2,059**	2,539	(18.9)%
Profit attributable to owners of the Company	**1,836**	1,963	(6.5)%
Basic earnings per share (RMB)	**0.06**	0.06	–
Proposed final dividends per share (HK$)	**Nil**	Nil	N/A
Liquidity and Asset-liability Ratio			
Current ratio (1)	**1.27**	1.25	N/A
Quick ratio (2)	**0.98**	1.01	N/A
Asset-liability ratio (3)	**37.5%**	36.6%	0.9% pts

Notes:

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

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

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

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Zhejiang Chang'an Renheng Technology Co., Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Year Under Review") to shareholders (the "Shareholders") for your review.

In 2016, the Board has been focusing on promoting the papermaking fine chemicals business and building new product production lines, and has taken much care in reviewing and enhancing the Group's business process and corporate governance. A set of solid business process is crucial for the success of each business segment.

RESULTS OF OPERATION

The Group recorded an aggregate turnover of approximately RMB75,260,000 for the year ended 31 December 2016, representing a decrease of approximately RMB2,184,000 or 2.8% as compared to the previous year. Profit attributable to owners of the Company was approximately RMB1,836,000, representing a decrease of approximately 6.5% as compared to the previous year. The overall gross profit margin was up to 55.9%, while earnings per share was approximately RMB0.06, which is the same as the previous year. The Board believes that the existing financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

BROADEN SALES MARKETS

During the year of 2016, the Group actively explored the overseas market in addition to consolidating the domestic market, and had managed to establish a business relationship with a large-scale papermaking group in Singapore. Domestically, the Group continued its regional development strategy and had set up a management department for major clients, focusing on developing major clients with reputation and sound economic form. During the Year Under Review, the Group made further adjustments to clients in the market, with a view to gradually eliminating relatively small-scale clients to reduce risks, and thus ensuring safe operation of the Group.

Chairman's Statement

DEVELOP NEW PRODUCTS

In order to enhance its business, during the Year Under Review, the Group newly constructed an organic bentonite production line with annual output of 10,000 tons in Yangyuan, Hebei, which had completed an intermediate trial production and had entered into the mass production stage. Moreover, it had established sales branches in Shanghai to promote and market the organic soil products.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

Looking into the year of 2017, the Group will carry on its efforts to consolidate its principal business as determined by the Board, take an active approach to expand business scope and endeavor to optimize its product structure. In addition, it will integrate new businesses and revitalize the existing businesses via strategic management, realizing an industrial synergy effect. With the joint efforts of all of its employees, the Company will reinforce the internal resources integration and the collaborative management within the whole group, marching forward steadily on the road to transformation and upgrading.

ACKNOWLEDGEMENT

Here, on behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staff and the Directors, as well as the support to the Company from all the Shareholders. We will adhere to advanced development concept, follow development trend, grasp market opportunities, and make continuous efforts to create greater value for our Shareholders and make new contribution to the community.

Mr. Zhang Youlian
Chairman of the Board

Zhejiang, the PRC, 18 March 2017

Management Discussion and Analysis

INDUSTRY REVIEW

The pulp and papermaking industry is a capital-intensive industry, and the debt ratios of the enterprises in such industry remain at a high level. Due to the depressed prices for the majority of products, resulting in a decrease in enterprises' profit margins, together with the understanding and knowledge of the financial institutions including certain banks about the papermaking industry, the capital chains of certain enterprises in such industry are tightened, and as a consequence, the number of enterprises suffering from difficulties in production and operation rises.

During the Year Under Review, the overall operating conditions for the papermaking fine chemicals business remain largely stable with a roughly balanced production-marketing. Nevertheless, the operating conditions for different sizes of enterprises become more and more fragmented. The large or medium size enterprises may enjoy basically normal and sound operating conditions, while the small and medium size ones are facing more difficulties in operation. The product market continues to divide, and the prices have seen rises and falls. For the products with high concentration, the market confidence will restore quickly, while the competitions on prices of those with low concentration are still sharp.

Bentonite has application potential in various papermaking processes because of its functional properties. The development of high quality bentonite products improved product quality and economic efficiency in the papermaking industry. As the research and development of bentonite in the papermaking industry progresses, the demand of the papermaking industry for bentonite fine chemicals is expected to grow in the future.

As the materials science makes unceasing progress, in addition to traditional application areas, the bentonite and its deep-processing products are constantly expanding their application areas. For instance, the bentonite can be applied in nuclear wastes control. It can be used as efficient fixatives to absorb the incident substances including caesium, strontium and europium by means of ion exchange when transferring radioactive wastes, thanks for its low permeability, high absorbability and plasticity.

The rational exploitation and efficient utilization of mineral resources have been deemed as one of the national development strategies because of the adjustment of national industrial transformation, which will accelerate the transformation and upgrading of functional mineral materials, such as the bentonite. The market will play the decisive role in allocating resources in its own right, forcing the enterprises to cut excess capacity and optimize supply structure to increase the effective supply and thus promoting positive competitions. In this way, the outdated production facilities will be closed down, and those enterprises with low added-value, high pollution and over-quota energy consumption will be eliminated inevitably.

BUSINESS REVIEW

In 2016, the Group devoted greater effort to explore the overseas market and had managed to establish a business relationship with a large-scale papermaking enterprise in Singapore, laying a foundation for further penetration into the Southeast Asia market.

The Group attaches great importance to investment in research and development of new products. During the Year under Review, the research and development expenditure of the Group amounted to approximately RMB3,744,000. Moreover, the Group had introduced three professors from Nanjing University and built a leading innovative team, which was listed in the "South Taihu Elite Program" in Huzhou.

In 2016, the Group newly constructed an organic bentonite production line with annual output of 10,000 tons in Yangyuan, Hebei, which now had been put into operation successfully; and set up the sales branches in Shanghai to conduct marketing promotion. The products from this project will be used in paint and coating, agricultural chemicals and oil fields.

The plants construction for the water treatment project with annual capacity of 10,000 tons located in the head quarter of the Group in Changxing, Zhejiang, has been completed currently. In the next step, we will carry out the work of installation and testing for production facilities, which is on the track.

Management Discussion and Analysis

FINANCIAL REVIEW

1. Turnover

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

	For the year ended 31 December			
	2016		2015	
Product	***RMB'000***	**%**	*RMB'000*	%
Papermaking chemicals series	**68,410**	**90.9**	70,475	91.0
Bentonite for metallurgy pellet	**2,525**	**3.4**	5,191	6.7
Quality calcium-bentonite	**1,460**	**1.9**	311	0.4
Organic bentonite	**863**	**1.1**	–	0.0
Others	**2,002**	**2.7**	1,467	1.9
Total	**75,260**	**100.0**	77,444	100.0

Revenue from sales of papermaking chemicals series decreased by approximately RMB2,065,000 or 2.9% from approximately RMB70,475,000 for the year ended 31 December 2015 to approximately RMB68,410,000 for the year ended 31 December 2016. As the average unit selling price remained stable for the comparative periods, the decrease in revenue was mainly due to the decrease in sales volume, which decreased by approximately 2.5% from approximately 14,871 tonnes for the year ended 31 December 2015 to approximately 14,500 tonnes for the year ended 31 December 2016.

Revenue of bentonite for metallurgy pellet for the year ended 31 December 2016 decreased by approximately RMB2,666,000 or 51.4% from approximately RMB5,191,000 for the year ended 31 December 2015 to approximately RMB2,525,000 for the year ended 31 December 2016.

Revenue of quality calcium-bentonite for the year ended 31 December 2016 increased by approximately RMB1,149,000 or 369.5% as compared to the year ended 31 December 2015. While the average unit selling price remained steady for these two periods, the increase in revenue was mainly due to the increase in sales volume.

During the Year Under Review, the Group sold more organic bentonite which amounted to approximately RMB863,000 as compared to the year ended 31 December 2015. In last year, the sales of organic bentonite was included in sales of other products.

Revenue of others for the year ended 31 December 2016 increased by approximately RMB535,000 or 36.5% as compared to the year ended 31 December 2015. Others mainly comprise inorganic gel which is principally applied in the coating preparation industry.

Management Discussion and Analysis

2. Cost of sales

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

	For the year ended 31 December			
	2016		2015	
	RMB'000	**%**	*RMB'000*	%
Cost of raw materials	**24,336**	**73.3**	29,432	75.9
Direct labour costs	**2,350**	**7.1**	2,444	6.3
Manufacturing overhead cost	**5,765**	**17.4**	6,027	15.5
Others	**756**	**2.2**	882	2.3
Total	**33,207**	**100.0**	38,785	100.0

The cost of sales decreased approximately RMB5,578,000 or 14.4% from approximately RMB38,785,000 for the year ended 31 December 2015 to approximately RMB33,207,000 for the year ended 31 December 2016.

Cost of raw materials accounted for approximately 75.9% and 73.3% of cost of sales for the year ended 31 December 2015 and 2016 respectively. The cost of raw materials decreased by approximately RMB5,096,000 or 17.3% from approximately RMB29,432,000 for the year ended 31 December 2015 to approximately RMB24,336,000 for the year ended 31 December 2016 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 significantly for the year ended 31 December 2016, the cost of sales for CPAM decreased accordingly.

Direct labour costs accounted for approximately 6.3% and 7.1% of cost of sales for the year ended 31 December 2015 and 2016 respectively. Direct labour costs remained stable during the comparative years.

Manufacturing overhead costs accounted for approximately 15.5% and 17.4% of cost of sales for the year ended 31 December 2015 and 2016 respectively. Manufacturing overhead costs decreased by approximately RMB262,000 or 4.3% from approximately RMB6,027,000 for the year ended 31 December 2015 to approximately RMB5,765,000 for the year ended 31 December 2016.

3. Gross profit margin

Gross profit margin increased from 49.9% in 2015 to 55.9% in 2016. The increase in gross profit margin was mainly attributable to the improvement of gross profit margin of papermaking chemicals by selling more products with higher profit margin to the customers.

Management Discussion and Analysis

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

	For the year ended 31 December			
	2016		2015	
Product	***RMB'000***	**%**	*RMB'000*	%
Papermaking chemicals series	**38,945**	**56.9**	36,375	51.6
Bentonite for metallurgy pellet	**866**	**34.3**	1,701	32.8
Quality calcium-bentonite	**1,235**	**84.6**	253	81.4
Organic bentonite	**591**	**68.5**	–	–
Others	**416**	**20.8**	330	22.5
Total	**42,053**	**55.9**	38,659	49.9

The gross profit margin of papermaking chemicals series increased from 51.6% for the year ended 31 December 2015 to 56.9% for the year ended 31 December 2016. 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 year ended 31 December 2016.

The gross profit margin of bentonite for metallurgy pellet was 32.8% and 34.3% for the year ended 31 December 2015 and 2016 respectively. The gross profit margin remained stable during the comparative years.

The gross profit margin of quality calcium – bentonite was 81.4% and 84.6% for the year ended 31 December 2015 and 2016 respectively. The gross profit margin increased by 3.2% during the comparative years.

The gross profit margin of organic bentonite was 68.5% for the year ended 31 December 2016. In last year, the gross profit of organic bentonite was included in the gross profit of other products.

The gross profit margin of other products was 22.5% and 20.8% for the year ended 31 December 2015 and 2016 respectively. The gross profit margin decreased by 1.7% during the comparative years.

4. Distribution costs

The distribution costs for the year ended 31 December 2015 and 2016 amounted to approximately RMB11,942,000 and RMB16,527,000 respectively. The distribution costs increased by approximately RMB4,585,000 mainly because of the increase in transportation expenses from approximately RMB9,748,000 for the year ended 31 December 2015 to approximately RMB14,811,000 for the year ended 31 December 2016.

5. Administrative expenses

The administrative expenses decreased slightly by approximately 0.3% from approximately RMB15,898,000 for the year ended 31 December 2015 to approximately RMB15,853,000 for the year ended 31 December 2016. The decrease was mainly due to the decrease in professional fee.

6. Research and development expenses

The research and development expenses decreased by approximately RMB1,116,000 or 23.0% from approximately RMB4,860,000 for the year ended 31 December 2015 to approximately RMB3,744,000 for the year ended 31 December 2016 due to a decrease in research and development projects.

Management Discussion and Analysis

7. **Other gains – net**

Other gains for the year ended 31 December 2015 and 2016 amounted to approximately RMB1,818,000 and RMB1,129,000 respectively. The decrease in other gains mainly due to the decrease in government grants from approximately RMB2,767,000 for the year ended 31 December 2015 to approximately RMB947,000 for the year ended 31 December 2016.

8. **Finance income and expenses**

The net finance expenses increased by approximately RMB906,000 or 22.1% from approximately RMB4,093,000 for the year ended 31 December 2015 to approximately RMB4,999,000 for the year ended 31 December 2016. The increase was mainly due to the increase of interest expenses on borrowings as a result of the increase in bank borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

9. **Income tax expense**

The income tax expense decreased by approximately RMB352,000 or 61.1% from approximately RMB576,000 for the year ended 31 December 2015 to approximately RMB224,000 for the year ended 31 December 2016. The decrease was mainly due to a decrease in profit before tax.

The effective tax rates were 22.7% and 10.9% for the years ended 31 December 2015 and 2016, respectively.

10. **Net profit**

The net profit decreased by approximately RMB127,000 or 6.5% from approximately RMB1,963,000 for the year ended 31 December 2015 to approximately RMB1,836,000 for the year ended 31 December 2016. The net profit margin for the Group decreased slightly from approximately 2.5% for the year ended 31 December 2015 to approximately 2.4% for the year ended 31 December 2016. The decrease in net profit margin of the Group was mainly due to the increase in distribution cost and partially off-set by the increase in gross profit margin during the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. **Inventories**

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**19,088**	16,393
Finished goods	**6,376**	5,139
Low-value consumables	**134**	213
Total	**25,598**	21,745

Management Discussion and Analysis

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

Provision for impairment of inventories

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

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

Inventory turnover

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

	Year ended 31 December	
	2016	2015
Average inventory turnover days *(note)*	**260**	184

Note:

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

The average inventory turnover days increased from 184 days for the year ended 31 December 2015 to 260 days for the year ended 31 December 2016. The increase in average inventory turnover days in 2016 was primarily due to the increase in raw materials and decrease in cost of sales.

Management Discussion and Analysis

2. Trade and other receivables

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

	As at 31 December 2016 RMB'000	2015 RMB'000
Trade receivables	47,218	48,383
Less: provision for impairment	(3,887)	(4,028)
Trade receivables – net	43,331	44,355
Other receivables	10,934	12,360
Less: provision for impairment	(213)	(397)
Other receivables – net	10,721	11,963
Interest receivables on time deposits	54	12
Bills receivable	13,647	14,021
Prepayments	1,988	1,894
Trade and other receivables – net	69,741	72,245
Less: non-current portion	(1,120)	(642)
Current portion	68,621	71,603

Trade receivables

Trade receivables as at 31 December 2015 and 2016 mainly represented the outstanding amounts of receivable from customers less any provision for impairment of trade receivables. The following table sets out an analysis of the trade receivables as at the balance sheet dates indicated:

	As at 31 December 2016 RMB'000	2015 RMB'000
Trade receivables	47,218	48,383
Less: provision for impairment	(3,887)	(4,028)
Trade receivables – net	43,331	44,355

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

Management Discussion and Analysis

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 180 days	**30,732**	32,142
Over 180 days and within 1 year	**4,997**	6,504
Over 1 year and within 2 years	**4,843**	9,008
Over 2 years and within 3 years	**6,120**	600
Over 3 years	**526**	129
Total	**47,218**	48,383

The Group's trade receivables decreased by approximately RMB1,165,000 or 2.4% from approximately RMB48,383,000 as at 31 December 2015 to approximately RMB47,218,000 as at 31 December 2016. The trade receivables due over 180 days increased by approximately RMB245,000 or 1.5% from approximately RMB16,241,000 as at 31 December 2015 to approximately RMB16,486,000 as at 31 December 2016. The increase was mainly due to the fact that more customers delayed their settlements during the Year Under Review.

Trade receivable turnover days

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

	Year ended 31 December	
	2016	2015
Trade receivable turnover days *(note)*	**232**	237

Note:

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

The Group's trade receivables turnover days for the years ended 31 December 2015 and 2016 were approximately 237 days and 232 days respectively. The decrease of turnover days was mainly due to the decrease in trade receivables.

Provision for impairment of trade receivables

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

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

Management Discussion and Analysis

3. Trade and other payables

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**16,483**	12,671
Other payables	**6,542**	6,443
Staff salaries and welfare payables	**2,897**	2,695
Advances from customers	**877**	177
Accrued taxes other than income tax	**1,022**	1,653
Total	**27,821**	23,639

As at 31 December 2015 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The trade payables increased by approximately RMB3,812,000 or 30.1% from approximately RMB12,671,000 as at 31 December 2015 to approximately RMB16,483,000 as at 31 December 2016.

In order to meet the production needs, the Group purchased more CPAM especially from the major overseas supplier for the year ended 31 December 2016. As the purchase of raw materials increased during the Year Under Review, the balance of trade payables as at 31 December 2016 increased accordingly.

Trade payables turnover days

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

	Year ended 31 December	
	2016	2015
Trade payable turnover days *(note)*	**160**	124

Note:

The number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year then divided by 2) divided by cost of sales for the year multiplied by 365. The trade payables turnover days increased to 160 days for the year ended 31 December 2016, which was due to the increase in purchase of raw materials during the Year Under Review.

Management Discussion and Analysis

CASH FLOW

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

1. Cash flows from operating activities

The net cash inflow from operating activities for the year ended 31 December 2015 amounted to approximately RMB9,566,000 which was mainly attributable to the cash generated from operating activities amounting to approximately RMB11,515,000, as adjusted by the payment of income tax of approximately RMB1,949,000.

The cash generated from operating activities of approximately RMB11,515,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB15,850,000 as adjusted by (i) an decrease in trade and other receivables of approximately RMB1,483,000, (ii) an increase in inventories of approximately RMB4,366,000, and (iii) a decrease in trade and other payables of approximately RMB1,452,000.

The net cash inflow from operating activities for the year ended 31 December 2016 amounted to approximately RMB14,733,000, which was mainly attributable to the cash generated from operating activities amounted to approximately RMB15,292,000, as adjusted by the payment of income tax of approximately RMB559,000.

The cash generated from operating activities of approximately RMB15,292,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB13,481,000, as adjusted by (i) a decrease in trade and other receivables of approximately RMB1,029,000 due to the collection of overdue trade receivables, (ii) an increase in inventories of approximately RMB3,853,000, and (iii) an increase in trade and other payables of approximately RMB4,635,000.

2. Cash flows from investing activities

For the year ended 31 December 2015, the Group had net cash outflow from investing activities of approximately RMB16,113,000, which was primarily attributable to (i) payment of prepaid leasing expenses and leasehold improvements of approximately RMB1,825,000, (ii) purchase of property, plant and equipment of approximately RMB21,176,000 and (iii) deposit of guaranteed deposits and time deposits of approximately RMB6,000,000, partially offset by (i) withdraw of guaranteed deposits and time deposits of approximately RMB12,775,000 and (ii) interest income received from time deposits of approximately RMB113,000.

For the year ended 31 December 2016, the Group had net cash outflow from investing activities of approximately RMB19,690,000, which was primarily attributable to purchase of property, plant and equipment of approximately RMB20,355,000.

3. Cash flows from financing activities

For the year ended 31 December 2015, the Group had net cash inflow from financing activities of approximately RMB15,561,000, which was primarily attributable to (i) proceed from borrowings of approximately RMB67,362,000, and (ii) proceed from issuance of ordinary share of approximately RMB50,172,000; partially offset by (i) repayment of borrowings of approximately RMB89,488,000, (ii) payment of interest expenses of approximately RMB5,197,000, (iii) dividends to Company's Shareholders of approximately RMB7,286,000.

For the year ended 31 December 2016, the Group had net cash inflow from financing activities of approximately RMB1,060,000, which was primarily attributable to the proceeds from borrowings of approximately RMB74,611,000, partially off-set by repayment of borrowings of approximately RMB68,422,000 and payments of interest expenses of RMB5,129,000.

Management Discussion and Analysis

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2016 was approximately RMB74,611,000 (31 December 2015: approximately RMB68,422,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Gearing ratio

As at 31 December 2016, the Group's gearing ratio was approximately 37.5% (31 December 2015: 36.6%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to a increase in bank borrowings.

3. Pledge of assets

As at 31 December 2016, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB13,118,000 (31 December 2015: approximately RMB13,647,000).

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB21,567,000 and RMB24,722,000 for the year ended 31 December 2016 and 2015 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Year Under Review, the weight average effective annual interest rate of bank borrowings was 7.37% and the weight average effective annual interest rate of other borrowings was 4.73%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2016, the Group had cash and cash equivalents of RMB13,193,000 (31 December 2015: approximately RMB17,024,000) which was mainly generated from operations of the Group.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2016, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment of approximately RMB1,626,000 (31 December 2015: approximately RMB3,891,000).

SEGMENT INFORMATION

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

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2016, the Group had not made any material acquisition or disposal.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2016.

FUTURE PLANS FOR CAPITAL ASSETS

Future plans for capital assets of the Company are set out in the "Comparison of business objectives with actual business progress" section on pages 19 to 20.

FUTURE OUTLOOK

With the slowing down of macro economy growth and transformation and upgrading the industrial structure, the chemical industry where the Group operates in is affected by rising labor costs and insufficient consumer motivations in the downstream. Meanwhile, the increased competitions among the industry shrink the profitability of the Company each year. As a result, the Group will adjust our development strategies according to new situations and formulate and implement the following strategies:

1) The Group will establish a management department for major clients to further optimize the management of quality major clients; and will gradually eliminate relatively small-scale clients with outdated facilities to reduce risks, and thus ensuring safe operation of the Group.

2) The Group will pay more attention to exploring the overseas market. It is expected to set up sales organizations in Southeast Asia in 2017 to carry out marketing promotion in such region.

3) The Group will rely on its Shanghai sales branches as a platform to promote organic soil products, developing new business and enhancing its profitability.

4) The Group will conduct cooperation with colleges and universities to develop new products in the field of water treatment, based on the "South Taihu Elite Program".

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2016, the Group had a total of 118 employees, of which 47 worked at the Group's headquarter in Changxing, and 71 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB11,843,000 (2015: RMB10,348,000). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

During the Year Under Review, the Group adhered to the "human-oriented" management concept to have its staff closely involved in the development of the Group and provided them with skills training. The Group formulates workflow and service specifications for its employees, conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly.

DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2016 (2015: nil).

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 continue the following plans in 2017. 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 has started to 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;

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

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

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

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

6. Reinforcing the training of sales and technical teams.

Comparison of Business Objectives with Actual Business Progress

ACTUAL BUSINESS PROGRESS 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 RMB37,395,000 (equivalent to approximately HK$47,335,000), after deduction of the underwriting commission and relevant expenses. As at 31 December 2016, the Group had used net proceeds of approximately RMB36,372,000, of which approximately RMB21,200,000 had been used for purchase of high-purity water-purifying bentonite production machinery and equipment, approximately RMB1,200,000 had been used for advanced research and development of papermaking chemicals, approximately RMB1,050,000 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.

Directors' and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Zhang Youlian (張有連), aged 55, was appointed as a Director and the Chairman of the Board (董事長) on 29 December 2008. Mr. Zhang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1982. He worked for Changxing Agricultural Materials Co. (長興農資公司) between February 1982 and May 1987. He worked as the vice director (理事副主任) of Changxing Litang Supplier (長興里塘供銷社) between May 1987 and December 1999. He founded Changxing Renheng Fine Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in December 2000 and has been a Director of the Board since December 2008. Mr. Zhang has been appointed as Chairman of the board of directors of Shanghai Nongfuguoyuan Co., Ltd. (上海農夫果園有限公司), Changxing Guyinxing Tourism Resort Co., Ltd. (長興古銀杏旅遊度假山莊有限公司) and Changxing Wuguo Agriculture and Technology Co., Ltd. (長興五果農業科技有限公司), since June 2001, February 2003 and August 2010, respectively. Mr. Zhang is a brother of Ms. Zhang Jinhua (張金花), a non-executive Director; and a cousin of Mr. Zhang Donglian (張冬連), a supervisor.

Mr. Sun Wensheng (孫文勝), aged 47, was appointed as a Director on 1 September 2012. Mr. Sun graduated from Dalian Polytechnic University (大連輕工業學院) with a bachelor's degree in pulp and papermaking (製漿造紙工程) in July 1991. He served as a deputy general manager of Yanbian Shixian Bailu Papermaking Co., Ltd. (延邊石峴白麓紙業股份有限公司) (stock code: 600462) listed on the Shanghai Stock Exchange (上海證券交易所) between July 2001 and June 2008 and served as a senior engineer on pulping and papermaking in January 2003. He joined Zhejiang Chang'an Renheng Chemicals Co., Ltd. (浙江長安仁恒化工有限公司) in June 2008 and he is now a sales manager of the Company.

Mr. Fan Fang (范芳), aged 51, was appointed as a Director of the Company on 29 December 2008 and is a member of the Nomination Committee and a member of Remuneration Committee. Mr. Fan graduated from Jinhua Supply and Marketing College in Zhejiang Province (浙江省金華供銷學校) in July 1985. He was responsible for financial matters of a subsidiary of the Changxing County Supplier (長興縣供銷社) between September 1985 and December 1997. Mr. Fan has been appointed as the head of the finance department of the Company since March 2003.

Mr. Chen Weidong (陳衛東), aged 48, was appointed as a Director of the Company on 29 December 2008. Mr. Chen joined the Group in 2000. Mr. Chen has been in charge of sales and marketing of bentonite for metallurgy pellet of the Company since May 2004 and is still responsible for sales and marketing of bentonite for metallurgy pellet of the Company after his appointment as a director of the Company in 2008. Mr. Chen graduated from Changxing County Si'an Town Xianshan Junior High School (長興縣泗安鎮仙山中學初中) in July 1982. He was granted various awards by the Company, for example, award of "2003 Excellent Employee" in January 2004, award of "Sales Expert" in December 2007 and "2011 Outstanding Contribution Award" in January 2012. Mr. Chen was responsible for sales and marketing matters at Changxing County Xian Shan Xiang Xin Lian Cun Printing Factory (長興縣仙山鄉新聯村印刷廠) between February 1990 and November 2000. Mr. Chen resigned as an executive Director of the Company on 14 May 2016.

Directors' and Senior Management's Biographies

Non-Executive Director

Ms. Zhang Jinqin (張金琴), aged 38, was appointed as a non-executive Director of the Company on 8 May 2014. She graduated from the University of Wales Institute Cardiff in June 2004 and obtained a Higher National Diploma in Tourism Management. Ms. Zhang worked for the Company from February 2005 to February 2008 and was responsible for product delivery, payment collection and inventory arrangement. She joined Zhejiang Chang'an Renheng Chemicals Co., Ltd. (浙江長安仁恒化工有限公司) in February 2008 and is responsible for equipment procurement and inventory management. Ms. Zhang is a sister of Mr. Zhang Youlian (張有連), an executive Director; a sister of Ms. Zhang Jinhua (張金花), a Shareholder and a cousin of Mr. Zhang Donglian (張冬連), a Supervisor. Ms. Zhang resigned as a non-executive Director of the Company on 14 May 2016.

Ms. Zhang Jinhua (張金花), aged 44, was appointed as a non-executive Director of the Company on 14 May 2016. She worked for Changxing Gulong Hotel (長興古龍大酒店) from January 1994 to December 2002 and was in charge of procurement work for the hotel. She joined the Company in January 2003 and was in charge of finance related work of the Company. Ms. Zhang is the sister of Mr. Zhang Youlian (張有連), the executive Director and Chairman of the Company and a cousin of Mr. Zhang Donglian (張冬連), a supervisor of the Company.

Independent Non-Executive Directors

Mr. Shao Chen (邵晨), aged 54, was appointed as an independent non-executive Director, a member of the Audit Committee and the chairman of the Nomination Committee of the Company on 24 February 2013. Mr. Shao graduated from Zhejiang Normal University (浙江師範學院) in July 1982 and obtained a bachelor's degree in Arts. He worked for Zhejiang Gaohan Information Technology Co., Ltd. (浙江高漢信息科技有限公司) as a general manager of the marketing department and a general manager of the network security department between July 1991 and December 1997. He served as a general manager of Hangzhou Chaofan Transgenic Engineering Co., Ltd. (杭州超凡轉基因工程有限公司) between October 1999 and May 2007. Mr. Shao is now the deputy secretary general of China Non-Metallurgical Mining Industry Association (中國非金屬礦工業協會) and the secretary general of its Professional Committee on Bentonite (膨潤土專業委員會).

Dr. Wang Xiangyao (汪祥耀), aged 59, was appointed as an independent non-executive Director, a member of the Nomination Committee and the chairman of the Remuneration Committee of the Company on 24 February 2013. He graduated from Zhongnan University of Finance & Economics (中南財經大學) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in July 1985 and obtained a master's degree in Economics and is an accountant. Dr. Wang studied for his doctorate at Zhongnan University of Finance & Economics (中南財經大學) between September 1994 and December 1997 and obtained a doctoral degree in accounting. He joined Zhejiang University of Finance & Economics (浙江財經大學) in 1985. Dr. Wang currently serves as the dean of the Accounting School at Zhejiang

Directors' and Senior Management's Biographies

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

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

Dr. Wang retired as an independent non-executive Director of the Company on 14 May 2016.

Dr. Huang Zemin (黃澤民), aged 63, was appointed as an independent non-executive Director and a member of the Audit Committee and a member of the Remuneration Committee of the Company on 24 February 2013. He studied at East China Normal University (華東師範大學) between September 1989 and July 1996 and graduated with a doctoral degree in Economics. Dr. Huang was promoted to associate professor in October 1992. He has been a professor of the School of International Finance (國際金融系) at East China Normal University (華東師範大學) since August 1996 and was engaged as a tenured professor (終身教授) by East China Normal University (華東師範大學) in December 2002. Dr. Huang was also a member of the 10th, 11th and 12th Chinese People's Political Consultative Conference (全國政協委員). He served as an independent director (獨立董事) of Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司) (stock code: 300171) listed on the Shenzhen Stock Exchange between March 2011 and March 2014. He has been an independent director of Shanghai Jinfeng Wine Company Limited (上海金楓酒業股份有限公司) (stock code: 600616) listed on the Shanghai Stock Exchange since May 2013.

Directors' and Senior Management's Biographies

Mr. Chau Kam Wing, Donald (周錦榮), aged 54, was appointed as an independent non-executive Director and the chairman of the Audit Committee of the Company on 8 May 2014. He was also appointed as the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company on 14 May 2016. He has over 22 years' experience in audit, tax and financial management. Mr. Chau obtained an MBA from the University of San Francisco in the USA in 2000. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is the Finance Director of Winox Holdings Limited (stock code: 06838) listed on Main Board. He is also an independent non-executive director of China Water Affairs Group Ltd. (stock code: 00855) and Carpenter Tan Holdings Ltd., (stock code: 00837), companies listed on the Main Board. He is also the independent non-executive director of Ching Lee Holdings Limited (Stock code: 8318) and Eco-Tek Holdings Limited (stock code: 08169), both companies are listed on GEM. He was also an independent non-executive director of Zhejiang Shibao Co. Ltd. (Hong Kong stock code: 01057 and Shenzhen stock code: 002703) which is a company listed on the Main Board and the Small and Medium Enterprise Board (中小企業板) of the Shenzhen Stock Exchange from November 2009 to June 2015.

Supervisory Committee

Mr. Xu Qinsi (徐勤思), aged 52, is the chairman of the Supervisory Committee and was appointed as a Supervisor on 1 September 2012. He is an economist. Mr. Xu served as the vice plant manager of Changxing Thread Factory (長興線廠) between October 1993 and August 2005. He graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), majored in economic management, in December 1997. Mr. Xu served as the head of the office of the Company between September 2006 and March 2009. He worked for Zhejiang Tailun Insulator Co., Ltd. (浙江泰侖絕緣子有限公司) as a deputy director of its supply department between May 2009 and August 2010. Mr. Xu joined the Company again in August 2010 and has been responsible for human resources management. Mr. Xu Qinsi is a brother of Ms. Xu Qinwei (徐勤偉), the general manager of the Company, and the spouse of Ms. Ling Weixing (凌衞星), a Shareholder. Save as disclosed, Mr. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Zhang Donglian (張冬連), aged 50, and was appointed as a Supervisor on 29 December 2008. Mr. Zhang joined the Company in March 2007 and he is now the deputy general manager of Yangyuan Renheng Fine Clay Co., Ltd. (陽原縣仁恒精細粘土有限責任公司). Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian (張有連), an executive Director, Ms. Zhang Jinqin (張金琴), a non-executive Director (who resigned on 14 May 2016), and Ms. Zhang Jinhua (張金花), a Shareholder and a non-executive Director (who was appointed on 14 May 2016). Save as disclosed, Mr. Zhang does not have any relationship with any other Director, Supervisor, senior management of the Company, the Substantial Shareholder or the Controlling Shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Liang Guoping (梁國平), aged 57, was elected as the employee representative to serve as a Supervisor on 16 August 2012. Mr. Liang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1981. He worked for Changxing County Native Products Corporation (長興縣土特產總公司) between September 1981 and July 1999. Mr. Liang joined the Company since its establishment in December 2000. He now serves as a cashier of the Company. Mr. Liang does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Directors' and Senior Management's Biographies

Senior Management

Ms. Xu Qinwei (徐勤偉), aged 61, is the general manager of the Company. Ms. Xu joined Changxing Jingu Industrial Co. (長興金谷實業公司) in July 1991. She was appointed as the deputy manager of Zhejiang Province Zhongrun Real Estate Co. Changxing Branch (浙江省中潤房地產總公司長興分公司) (in 2004 renamed as Zhejiang Province Zhongrun Food and Oil Trading Co. (浙江省中潤糧油工貿公司)), a subsidiary of Zhejiang Province Food Group Co., Ltd. (浙江省糧食集團有限公司), between April 1994 and March 2006. She has been the general manager of the Company since May 2006. Ms. Xu is a sister of Mr. Xu Qinsi (徐勤思), a Supervisor, and the spouse of Mr. Wang Shunmiao (王順淼), a Shareholder. Save as disclosed, Ms. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Su Pin (蘇品), aged 52, Mr. Su graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), with a graduation certificate in economic management, in December 2001. He is an economist. He served as a deputy general manager of Zhoushan Taihe Local Products Co., Ltd. (舟山市泰和土產有限責任公司) between January 1991 and April 1994, he served as the general manager of Zhoushan Taihe Local Products Co., Ltd. between April 1994 and March 2000. He worked for Zhoushan Hongli Specialty Co., Ltd. (舟山市弘立特產有限公司) as the general manager between April 2000 and June 2004. Mr. Su has been appointed as the deputy general manager of the Company since June 2004. Mr. Su does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Chan Hon Wan (陳漢雲), aged 56, is the financial controller and company secretary of the Company and joined the Group in April 2014. Mr. Chan graduated with a Bachelor's Degree in Economics from Macquarie University in Australia in 1986 and a Master's Degree in Accountancy from the Hong Kong Polytechnic University in 2005. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants (HKICPA), and an associate member of The Institute of Chartered Accountants in Australia. Mr. Chan has over 29 years of extensive experience in accounting and finance fields, gaining from an international accounting firm and various listed corporations. He served as the financial controller of Fairwood Holdings Limited (stock code: 00052), a company listed on the Main Board of the Stock Exchange from 1995 to 1998. He worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a Business Director of Texwood Group from 2006 to 2008. Mr. Chan served from September 2008 to April 2009 as the company secretary, qualified accountant and authorised representative of Freeman Corporation Limited (Stock Code: 00279) (now known as Freeman Financial Corporation Limited), a company listed on the Main Board of the Stock Exchange.

Corporate Governance Report

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

During the Year Under Review, 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 Year Under Review, the Company did not take out directors and officers liability insurance to cover liabilities arising from legal action against its directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. 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 Year Under Review.

BOARD OF DIRECTORS

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

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

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

Corporate Governance Report

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

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

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

Pursuant to Article 10.2 of the articles of association of the Company (the "Articles of Association"), Directors shall be elected or changed by the Shareholders' meeting. Every term of a Director is three years. Upon expiry of the term, a Director shall be eligible for re-election and re-appointment. Accordingly, Mr. Chau Kam Wing, Donald will be nominated for re-election by the Shareholders at the forthcoming annual general meeting of the Company as Independent Non-executive Director.

RESPONSIBILITIES OF THE BOARD

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

The Board has performed the abovementioned corporate governance functions during the Year Under Review.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

BOARD DIVERSITY POLICY

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

Corporate Governance Report

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

All Directors (with the names set out in the section "Board of Directors" in this Corporate Governance Report) are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In May 2016, the Company organized a training session to provide each of the Directors with an update on the GEM Listing Rules.

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report. Pursuant to the meeting of the Audit Committee held on 18 March 2017, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2016, the results announcement, this 2016 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Remuneration Committee currently has three members, namely Mr. Fan Fang, an Executive Director, Dr. Huang Zemin and Mr. Chau Kam Wing, Donald, both Independent Non-executive Directors. Mr. Chau has been appointed as the chairman of the Remuneration Committee.

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

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Nomination Committee currently has three members, namely Mr. Fan Fang, an Executive Director, Mr. Chau Kam Wing, Donald and Mr. Shao Chen, both Independent Non-executive Directors. Mr. Shao has been appointed as the chairman of the Nomination Committee.

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

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

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

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

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

Corporate Governance Report

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

Details of the attendance records of Directors on Board meetings, Board committee meetings and annual general meeting for the Year Under Review are as follows:

	Attendance/Number of meetings				
Name of Directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhang Youlian *(Chairman)*	4/4	-	-	-	1/1
Mr. Sun Wensheng	4/4	-	-	-	1/1
Mr. Fan Fang	4/4	-	2/2	2/2	1/1
Mr. Chen Weidong (resigned on 14 May 2016)	1/4	-	-	-	-
Non-executive Director					
Ms. Zhang Jinqin (resigned on 14 May 2016)	1/4	-	-	-	-
Ms. Zhang Jinhua (appointed on 14 May 2016)	3/4	-	-	-	1/1
Independent Non-executive Directors					
Mr. Shao Chen	4/4	4/4	-	2/2	1/1
Dr. Huang Zemin	4/4	4/4	2/2	-	1/1
Mr. Chau Kam Wing, Donald	4/4	4/4	1/2	1/2	1/1
Dr. Wang Xiangyao (retired on 14 May 2016)	1/4	-	1/2	1/2	-

Subsequent to the year ended 31 December 2016 and up to date of this report, the Board held another Board meeting on 18 March 2017 for the main purposes of approving the annual results of the Group for the year ended 31 December 2016, this annual report and formulating business development strategies. All Directors attended such meeting.

COMPANY SECRETARY

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

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

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

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

Corporate Governance Report

Internal control and risk management

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the Year Under Review. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The Group's risk management framework includes the following elements: (i) identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business; (ii) develop necessary measures to manage those risks; and (iii) monitor and review the effectiveness of such measures. The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews the Group's risk management systems from time to time in accordance with the prevailing Group's business environment.

Audit Committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the reports from the Group's internal control department and the Audit Committee, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (the "SFO") (Cap 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including: (i) arousing the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly; and (iii) disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

EXTERNAL AUDITOR

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

For the year ended 31 December 2016, the fees payable to PricewaterhouseCoopers in respect of its audit services provided to the Group was RMB1,000,000 and the permissible non-audit services provided by the external auditors amounted to RMB200,000, represents remuneration for quarter and interim review services.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

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

Right to convene extraordinary general meeting

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

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

Corporate Governance Report

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

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

Making Proposals at Shareholders' Meetings

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

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

Right to put enquiries to the Board

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016, an annual general meeting of the Company was held on 14 May 2016 to amend the article 10.1 of the Articles of Association of the Company. The amendments mainly involve amendments to the relevant provision of the Articles of Association for the purpose of complying with the requirements of the relevant laws and regulations. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

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

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

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

Zhejiang, PRC, 18 March 2017

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Financial Statements").

BACKGROUND

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

PRINCIPAL BUSINESS

The Group is principally engaged in the business of development, production and sale of bentonite fine chemicals. The Group uses bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 46 to 97.

The Board did not recommend the payment of any final dividends for the year ended 31 December 2016 (2015: nil).

CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

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

The register of members of the Company will be closed from Thursday, 13 April 2017 to Saturday, 13 May 2017 (both days inclusive) during which period no transfer of H shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's H share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. on Wednesday, 12 April 2017.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 18. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Highlights" on page 4. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

Report of the Directors

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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.

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Report of the Directors

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2016, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

GOING CONCERN

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

PUBLIC FLOAT

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

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 20 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 49 of the Consolidated Statement of Changes in Equity and Note 22 to the Financial Statements.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2016, calculated in accordance with PRC rules and regulation, was retained profits of approximately RMB26,179,000. Detail of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 49 of this annual report.

FINANCIAL SUMMARY

A Summary of the results, the assets and liabilities of the Group for the last five financial years is set out on page 98.

CHARITY DONATIONS

During the Year Under Review, the Group did not make any charity donations (2015: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2016 are set out in Note 13 to the Financial Statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2016 are set out in Note 32 to the Financial Statements.

Report of the Directors

DIRECTORS

The Directors of the Company during the year ended 31 December 2016 and up to the date of this report have been:

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Sun Wensheng
Mr. Fan Fang
Mr. Chen Weidong (resigned on 14 May 2016)

Non-executive Director

Ms. Zhang Jinqin (resigned on 14 May 2016)
Ms. Zhang Jinhua (appointed on 14 May 2016)

Independent non-executive Directors

Mr. Shao Chen
Dr. Huang Zemin
Mr. Chau Kam Wing, Donald
Dr. Wang Xiangyao (retired on 14 May 2016)

Supervisors

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

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

With effect from 14 May 2016:

(1) Mr. Chen Weidong (陳衛東) tendered his resignation to the Board of the Company as an Executive Director of the Company.

(2) Ms. Zhang Jinqin (張金琴) tendered her resignation to the Board of the Company as a Non-executive Director of the Company.

(3) Dr. Wang Xiangyao (汪祥耀) retired as an Independent Non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Nomination Committee of the Board.

(4) Ms. Zhang Jinhua (張金花) was appointed as a Non-executive Director of the Company.

(5) Mr. Chau Kam Wing, Donald (周錦榮) was appointed as the chairman of the Remuneration Committee and a member of the Nomination Committee of the Board.

Report of the Directors

The term of office of the staff representative supervisor, Mr. Liang Guoping (梁國平) ended on 31 January 2016 and Mr. Liang retired from office. A staff representative meeting was held by the staff of the Company on 30 January 2016. At the election at the staff representative meeting, Mr. Liang was re-elected as staff representative supervisor of the supervisory committee of the Company. The appointment of Mr. Liang as the staff representative supervisor was effective on 1 February 2016.

Details of the above changes are set out in the announcements of the Company dated 1 February 2016 and 29 February 2016 respectively.

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, supervisors and senior management of the Company are set out in pages 21 to 25 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 18.39B of the GEM Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2016.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 34 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2015: 2 Directors). Details of the five highest paid individuals are set out in Note 34 to the Financial Statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

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

Report of the Directors

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

As at 31 December 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 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, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

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

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

Save as disclosed above, as at 31 December 2016, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 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%

Report of the Directors

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2016.

MANAGEMENT CONTRACTS

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

NON-COMPETITION UNDERTAKING

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

The Controlling Shareholder has confirmed in writing to the Company of his compliance with the deed of non-competition for disclosure in this report during the Year Under Review.

CONNECTED TRANSACTION

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

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors or supervisors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

INTEREST OF COMPLIANCE ADVISER

As notified by 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 Year Under Review pursuant to Rule 6A.32 of the GEM Listing Rules.

PLEDGE OF ASSETS

As at 31 December 2016, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB13,118,000 (31 December 2015: approximately RMB13,647,000).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 4.73% to 7.37%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2016, the Group had cash and cash equivalents of RMB13,193,000 (31 December 2015: approximately RMB17,024,000) which was mainly generated from operations of the Group.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 30.6% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 10.2% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 67.3% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 53.8% of the total cost of sales of the Group.

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

TAX RELIEF AND EXEMPTION

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

USE OF PROCEEDS FROM PLACING OF H SHARES

The H shares of the Company were listed on the GEM Board of The Hong Kong Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB37,395,000 (equivalent to approximately HK$47,335,000), after deduction of the underwriting commission and relevant expenses. As at 31 December 2016, the Group had used net proceeds of approximately 36,372,000. Details of the usage of proceeds from the placing of H shares are set forth in the section headed "Comparison of Business Objectives with Actual Business Progress" in this report.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2016 are set out in Note 9 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

At no time during the Year Under Review and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

COMPANY SECRETARY

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

COMPLIANCE OFFICER

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

EVENTS AFTER THE REPORTING PERIOD

There is no material events after the reporting period as at the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

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

Zhejiang, PRC, 18 March, 2017

Supervisory Committee Report

The Supervisory Committee is pleased to present this report of the Supervisory Board in the annual report of the Company for the year ended 31 December 2016.

In 2016, all members of the Supervisory Committee have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Company Law of the PRC, the Articles of Association, the Terms of Reference of the Supervisory Committee and the relevant provisions in the GEM Listing Rules. Members of the Supervisory Committee carried out examination of the Company's financial accounts and supervision of the Directors, and other senior management officers for their compliance with the laws, administrative regulations and the Articles of Association in executing their respective duties.

MEETING OF THE SUPERVISORY COMMITTEE

For the year ended 31 December 2016, a meeting of the Supervisory Committee was held on 19 March 2016 to consider the 2015 audited financial report of the Company and the report of Supervisory Committee for 2015 and to receive the report on the 2015 results announcement of the Company.

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

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

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

The Supervisory Committee agreed with the audit opinion issued on 18 March 2017 on the 2016 annual financial report of the Company, and that the financial report of the Company has given a true and fair view of the financial position and the operating results of the Company.

INDEPENDENT OPINION ON THE IMPLEMENTATION OF THE RESOLUTIONS OF GENERAL MEETINGS

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

In 2017, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the GEM Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. Xu Qinsi

Zhejiang, PRC, 18 March 2017

Independent Auditor's Report

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 46 to 97, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

A key audit matter of revenue recognition is identified as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition - sales of goods Refer to Note 2.23 and Note 6 to the Group consolidated financial statements Revenue recognition has significant and wide influence on financial statements. Revenue is recognised when the amounts and the related costs are reliably measured, and the risks and rewards of the underlying products have been transferred to the customers. Revenue from the sale of goods is recognised when the Group has delivered products to the customers and the customers have confirmed the acceptance of the products. The sales of the Group are derived from a large number of customers which locate over the country with relatively small amount transactions. As a result, to obtain sufficient audit evidence, magnitude audit work and resource is required.	We understood, evaluated and validated the key controls related to Group's sales process from end to end, from contracts approval and sign-off, customer order's approval, recording of sales,, all the way through to reconciliations with cash receipts and customers' records. We tested the completeness of journal entries compared to financial statements; as well as if there any exception existed that the debit accounts of sales recognition were not related to cash and bank, trade receivable or advances from customers. We found no material misstatements from our testing. We conducted substantive testing of revenue recorded covering different products, locations and customers, using sampling techniques, by examining the relevant supporting documents including customer orders, goods delivery notes and customs declaration notes. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the period, selected on a sample basis by considering the amount, nature and characteristics of those customers. No material issues were found that would impact our audit work. Furthermore, we tested the sales transactions recognized shortly before and after the balance sheet date, including the credit notes issued after that date, to exam whether sales transactions were recorded in the correct reporting periods. No exception were noted. Based on our audit work performed, we found the Group's revenue recognition in relation to sales of goods was supported by the evidence that we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2017

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
Tel: +852 2289 8888, Fax: +852 2810 9888, www.pwchk.com

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	***RMB***	*RMB*
Revenue	*6*	**75,259,548**	77,443,648
Cost of sales	*8*	**(33,206,553)**	(38,785,382)
Gross profit		**42,052,995**	38,658,266
Distribution costs	*8*	**(16,527,458)**	(11,942,223)
Administrative expenses	*8*	**(15,852,686)**	(15,898,089)
Listing expenses	*8*	**–**	(1,143,945)
Research and development expenses	*8*	**(3,743,530)**	(4,860,423)
Other gains - net	*7*	**1,129,228**	1,817,947
Operating profit		**7,058,549**	6,631,533
Finance income	*10*	**108,061**	153,574
Finance expenses	*10*	**(5,107,287)**	(4,246,472)
Finance expenses – net	*10*	**(4,999,226)**	(4,092,898)
Profit before income tax		**2,059,323**	2,538,635
Income tax expense	*11*	**(223,561)**	(575,760)
Profit for the year attributable to the equity holders of the Company		**1,835,762**	1,962,875
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to the equity holders of the Company		**1,835,762**	1,962,875
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	*12*	**0.06**	0.06

The notes on pages 51 to 97 are an integral part of these consolidated financial statements

Consolidated Balance Sheet

as at 31 December 2016

		As at 31 December	
		2016	2015
	Note	*RMB*	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	75,742,781	61,759,333
Prepaid leasing expenses	*14*	6,538,698	6,347,762
Mining rights	*15*	110,318	141,840
Leasehold improvements	*16*	2,287,722	2,034,645
Deferred income tax assets	*27*	1,568,085	1,553,838
Trade and other receivables	*17*	1,120,524	642,049
		87,368,128	72,479,467
Current assets			
Inventories	*18*	25,597,938	21,744,965
Trade and other receivables	*17*	68,620,671	71,602,529
Prepaid income tax		913,816	366,654
Restricted cash	*19*	3,500,000	3,500,000
Cash and cash equivalents	*19*	13,193,021	17,024,100
		111,825,446	114,238,248
Total assets		199,193,574	186,717,715
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*20*	32,000,000	32,000,000
Other reserves	*22*	36,572,844	36,502,717
Retained earnings	*21*	26,178,528	24,412,893
Total equity		94,751,372	92,915,610

Consolidated Balance Sheet *(Continued)*

as at 31 December 2016

		As at 31 December	
		2016	2015
	Note	*RMB*	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants	23	**681,305**	768,465
Provisions for environmental rehabilitation	24	**964,454**	817,275
Borrowings	26	**14,800,000**	666,481
		16,445,759	2,252,221
Current liabilities			
Deferred government grants	23	**84,000**	84,000
Trade and other payables	25	**27,821,277**	23,638,887
Current income tax liabilities		**279,773**	71,538
Borrowings	26	**59,811,393**	67,755,459
		87,996,443	91,549,884
Total liabilities		**104,442,202**	93,802,105
Total equity and liabilities		**199,193,574**	186,717,715

The notes on pages 51 to 97 are an integral part of these consolidated financial statements

The financial statements on pages 46 to 97 were approved by the Board of Directors on 18 March 2017 and were signed on its behalf.

Zhang Youlian *Fan Fang*

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

		Attributable to equity holders of the Company			
	Note	Share capital *RMB*	Other reserves *RMB*	Retained earnings *RMB*	Total *RMB*
As at 1 January 2015		24,000,000	6,920,604	29,924,016	60,844,620
Comprehensive income					
Profit for the year		–	–	1,962,875	1,962,875
Total comprehensive income for the year		–	–	1,962,875	1,962,875
Proceeds from shares issued	22	8,000,000	29,394,515	–	37,394,515
Appropriation to statutory reserve	22	–	300,441	(300,441)	–
Utilisation of safety funds	22	–	(112,843)	112,843	–
Dividends relating to 2014		–	–	(7,286,400)	(7,286,400)
As at 31 December 2015		32,000,000	36,502,717	24,412,893	92,915,610
As at 1 January 2016		**32,000,000**	**36,502,717**	**24,412,893**	**92,915,610**
Comprehensive income					
Profit for the year		**–**	**–**	**1,835,762**	**1,835,762**
Total comprehensive income for the year		**–**	**–**	**1,835,762**	**1,835,762**
Appropriation to statutory reserve	22	**–**	**89,203**	**(89,203)**	**–**
Appropriation to safety funds		**–**	**79,712**	**(79,712)**	**–**
Utilisation of safety funds	22	**–**	**(98,788)**	**98,788**	**–**
As at 31 December 2016		**32,000,000**	**36,572,844**	**26,178,528**	**94,751,372**

The notes on pages 51 to 97 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2016

		Year ended 31 December	
	Note	2016 *RMB*	2015 *RMB*
Cash flows from operating activities			
Cash generated from operations	*28(a)*	15,291,714	11,514,884
Income tax paid		(558,724)	(1,948,761)
Net cash generated from operating activities		14,732,990	9,566,123
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	*28(b)*	1,049,387	–
Withdraw of guaranteed deposits and time deposits		–	12,775,216
Deposit of guaranteed deposits and time deposits		–	(6,000,000)
Interest income received from time deposits		66,099	112,452
Payments of prepaid leasing expenses and leasehold improvements		(451,004)	(1,824,808)
Purchases of property, plant and equipment		(20,354,796)	(21,175,956)
Net cash used in investing activities		(19,690,314)	(16,113,096)
Cash flows from financing activities			
Proceeds from issuance of ordinary share	*20*	–	50,172,010
Proceeds from borrowings		74,611,393	67,360,525
Repayments of borrowings		(68,421,940)	(89,487,687)
Payments of interest expenses		(5,129,294)	(5,197,203)
Dividends to Company's shareholders		–	(7,286,400)
Net cash generated from financing activities		1,060,159	15,561,245
Net (decrease)/increase in cash and cash equivalents		(3,897,165)	9,014,272
Cash and cash equivalents at beginning of the year		17,024,100	7,051,265
Exchange gains on cash and cash equivalents		66,086	958,563
Cash and cash equivalents at end of the year	*19(a)*	13,193,021	17,024,100

The notes on pages 51 to 97 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 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 address of the Company is Laoyatang, Si'an, Changxing, Zhejiang Province, PRC.

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

The Company issued a total of 8,000,000 H shares with a per value of RMB1.00 each at a price of HKD9.70 per share on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "Listing").

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 18 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38,
- Annual improvements to IFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1.

The amendments are not material to the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- *IFRS 9, 'Financial instruments'*

  The new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

  IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) ***New standards and interpretations not yet adopted*** *(Continued)*

- *IFRS 15, 'Revenue from contracts with customers'*

  The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  Management is currently assessing the effects of applying the new standard on the Group's financial statements. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

  IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

- *IFRS 16, 'Leases'*

  IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

  The accounting for lessors will not significantly change.

  The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

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

2.2.2 Business combination

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net'.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.6 Prepaid leasing expenses

Prepaid leasing expenses (land use rights) are stated at cost and amortized over the remaining period of the leases on a straight-line basis, net of any impairment losses, if any (Note 2.9).

2.7 Mining rights

Mining rights are stated at cost and amortized over the remaining period of the license periods on a straight-line basis, net of any impairment losses, if any (Note 2.9).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Leasehold improvements

Leasehold improvements are stated at cost and amortized over the lower of expected beneficial periods or lease periods on a straight-line basis, net of any impairment losses, if any (Note 2.9).

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group only has financial assets classified as "loans and receivables" during the years ended 31 December 2016 and 2015.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted cash" and "cash and cash equivalents", in the consolidated balance sheets (Notes 17 and 19).

2.10.2 Recognition and measurement

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

2.11 Impairment of financial assets

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of financial assets *(Continued)*

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

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

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

2.12 Inventories

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Restricted cash

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

2.16 Share capital

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

2.17 Trade and other payables

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

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

2.18 Borrowings

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

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

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

2.19 Borrowing costs

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax

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

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

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

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

Inside basis differences

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

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

Outside basis differences

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

(c) ***Offsetting***

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Employee benefits

(a) ***Pension obligations***

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

(b) ***Housing benefits***

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

(c) ***Bonus entitlements***

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

2.22 Provisions

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition

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

(a) ***Sales of goods***

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

(b) ***Interest income***

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

2.24 Government grants

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

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

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

2.25 Research and development

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Operating leases

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

2.27 Dividend distribution

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

2.28 Safety fund

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) ***Market risk***

(i) *Foreign exchange risk*

The Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to HK dollars ("HKD"). The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years ended 31 December 2016 and 2015, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2016, if the RMB had strengthened/weakened by 5% against the HKD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB52,000 (2015: RMB49,000) higher/lower respectively for various financial assets and liabilities denominated in HKD.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

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

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2016, the Group's borrowings of RMB36,000,000 (2015: RMB37,061,415) were charged at variable rates while the Group's borrowings of RMB38,611,393 (2015: RMB31,360,525) were charged at fixed rates, respectively.

The Group has not hedged its respective cash flow and fair value interest rate risks. The interest rates, terms of repayments and fair value of borrowings are disclosed in Note 26.

As at 31 December 2016, if the interest rates on the Group's borrowing charged at variable rates had been 50 basis points higher/lower, the net profit for the years would have been approximately RMB160,000 (2015:RMB158,000) lower/higher, respectively.

(b) ***Credit risk***

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

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

In addition, the Group has policies to limit the credit exposure on trade and other receivables. The Group assesses the credit quality of and sets credit limits on their customers by taking into account their financial position, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent. See Note 17 for further disclosure on credit risk.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

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

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

	Within 6 months *RMB*	Between 6 months and 1 year *RMB*	Between 1 and 2 years *RMB*	Between 2 and 3 years *RMB*	Over 3 years *RMB*	Total *RMB*
Group						
As at 31 December 2016						
Borrowings, including interest payables	26,017,290	37,636,765	15,581,110	–	–	79,235,165
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	23,025,141	–	–	–	–	23,025,141
	49,042,431	37,636,765	15,581,110	–	–	102,260,306

	Within 6 months *RMB*	Between 6 months and 1 year *RMB*	Between 1 and 2 years *RMB*	Between 2 and 3 years *RMB*	Over 3 years *RMB*	Total *RMB*
As at 31 December 2015						
Borrowings, including interest payables	59,188,652	10,276,728	443,124	253,925	–	70,162,429
Trade and other payables, excluding staff salaries and welfare payables, advances from customers, and accrued taxes other than income tax	19,113,574	–	–	–	–	19,113,574
	78,302,226	10,276,728	443,124	253,925	–	89,276,003

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

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

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

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

The gearing ratios as at 31 December 2016 and 2015, respectively, are as follows:

	As at 31 December	
	2016 *RMB*	2015 *RMB*
Total borrowings *(Note 26)*	74,611,393	68,421,940
Less: Cash and cash equivalents and restricted cash *(Note 19)*	(16,693,021)	(20,524,100)
Net debt	57,918,372	47,897,840
Total equity	94,751,372	92,915,610
Total capital	152,669,744	140,813,450
Gearing ratio	38%	34%

The increase in the gearing ratio was resulted primarily from the increase in borrowings during this year.

3.3 Fair value estimation

Financial assets and liabilities not measured at fair value

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

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4 CRITICAL ACCOUNTING ESTIMATES

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

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

(a) Impairment of receivables

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

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

(b) Environment rehabilitation obligations

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

(c) Income taxes

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

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5 SEGMENT INFORMATION

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

6 REVENUE

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Papermaking chemicals series	**68,409,430**	70,474,929
Bentonite for metallurgy pellet	**2,525,160**	5,191,348
Quality calcium-bentonite	**1,459,723**	310,872
Organic bentonite	**863,047**	–
Others *(i)*	**2,002,188**	1,466,499
	75,259,548	77,443,648

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

Only one external customer contributed 10% or above of the Group's revenue amounted to RMB7,670,352 for the year ended 31 December 2016 (RMB6,582,294 for the year ended 31 December 2015).

7 OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Profit on disposal of property, plant and equipment – net	**218,133**	–
Government grants		
– Relating to assets *(Note 23)*	**87,160**	87,160
– Relating to costs *(i)*	**860,300**	2,680,065
Others	**(36,365)**	(949,278)
	1,129,228	1,817,947

(i) The government grants relating to costs were certain cost-related unconditional subsidies which were granted to award the Group's effort on product development and innovation.

Notes to the Consolidated Financial Statements

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8 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Changes in finished goods *(Note 18)*	(1,237,494)	(1,016,837)
Raw materials and consumable used	22,870,483	31,777,145
Employee benefit expenses *(Note 9)*	11,842,585	10,347,726
Utilities	3,085,017	1,953,114
Transportation expenses	14,992,015	10,650,625
Depreciation *(Note 13)*	5,827,613	5,658,117
Travelling and communication expenses	3,969,139	2,210,315
Taxes and levies	1,539,867	1,288,670
Amortisation of prepaid leasing expenses *(Note 14)*	179,402	179,629
Amortisation of mining rights *(Note 15)*	31,522	35,836
Listing expenses	–	1,143,945
Audit remuneration		
– Audit service	1,000,000	1,000,000
– Non-audit service	–	250,000
Professional service	1,512,267	1,218,161
Amortisation of leasehold improvements *(Note 16)*	492,710	216,416
Maintenance expenses	631,918	184,408
Entertainment expenses	1,315,126	1,440,116
Provision for impairment of receivables *(Note 17)*	108,980	3,051,152
Miscellaneous	1,169,077	1,041,524
Total cost of sales, distribution costs, administrative expenses, listing expenses and research and development expenses	69,330,227	72,630,062

Notes to the Consolidated Financial Statements

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9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016 *RMB*	2015 *RMB*
Salaries, wages and bonuses	11,086,847	9,636,520
Contributions to pension plans	320,923	371,217
Housing fund, welfare, medical and other benefits	434,815	339,989
	11,842,585	10,347,726

(a) Five highest paid individuals

The emoluments of the five highest paid individuals amounted to RMB1,437,998 (2015: RMB1,271,368) for the year ended 31 December 2016. Their emoluments are reflected in the analysis shown in Note 34.

For the years ended 31 December 2016 and 2015, no director, supervisor or senior management received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

10 FINANCE EXPENSES – NET

	Year ended 31 December	
	2016 *RMB*	2015 *RMB*
Finance income		
– Interest income derived from bank deposits	108,061	153,574
Finance expenses		
– Interest expense	(5,368,608)	(5,285,173)
– Capitalised interest expense	239,314	87,970
	(5,129,294)	(5,197,203)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	66,086	958,563
– Unrealised financial charges from financial assets measured at amortised cost	(44,079)	(7,832)
	(5,107,287)	(4,246,472)
Finance expenses – net	(4,999,226)	(4,092,898)

Notes to the Consolidated Financial Statements

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11 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Current income tax	237,807	1,031,759
Deferred income tax *(Note 27)*	(14,246)	(455,999)
	223,561	575,760

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

The other subsidiaries are subject to income tax rate of 25% for the years ended 31 December 2016 and 2015.

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

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Profit before tax	2,059,323	2,538,635
Calculated at statutory tax rate	514,831	634,659
Expenses not deductible for tax purposes	325,044	726,564
Additional deduction for research and development expense *(i)*	(548,329)	(522,337)
Preferential tax rate of the Company	(67,984)	(263,126)
Income tax expense	223,561	575,760

(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.

Notes to the Consolidated Financial Statements

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12 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 years ended 31 December 2016 and 2015.

	Year ended 31 December	
	2016	2015
Profit attributable to the equity holders of the Company *(RMB)*	**1,835,762**	1,962,875
Weighted average number of ordinary shares in issue	**32,000,000**	31,649,315
Basic earnings per share *(RMB per share)*	**0.06**	0.06

(b) Diluted

The fully diluted earnings per share for the years ended 31 December 2016 and 2015 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the years ended 31 December 2016 and 2015.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings, fixtures and facilities *RMB*	Machinery and equipment *RMB*	Vehicles *RMB*	Electronic and office equipment *RMB*	Construction in progress *RMB*	Total *RMB*
At 1 January 2015						
Cost	29,820,655	22,247,781	3,979,126	1,095,454	6,421,697	63,564,713
Accumulated depreciation	(5,451,830)	(12,227,670)	(2,257,505)	(932,518)	–	(20,869,523)
Net book amount	24,368,825	10,020,111	1,721,621	162,936	6,421,697	42,695,190
Year ended 31 December 2015						
Opening net book amount	24,368,825	10,020,111	1,721,621	162,936	6,421,697	42,695,190
Transfers	156,328	6,426,828	54,968	410,995	(7,049,119)	–
Additions	1,504,355	274,975	1,365,047	26,817	21,551,066	24,722,260
Depreciation *(Note 8)*	(2,516,748)	(2,620,932)	(447,677)	(72,710)	–	(5,658,117)
Closing net book amount	23,512,760	14,100,932	2,693,959	520,038	20,923,644	61,759,333
At 31 December 2015						
Cost	31,481,338	28,949,584	5,399,141	1,533,266	20,923,644	88,286,973
Accumulated depreciation	(7,968,578)	(14,848,652)	(2,705,182)	(1,005,228)	–	(26,527,640)
Net book amount	23,512,760	14,100,932	2,693,959	528,038	20,923,644	61,759,333

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13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings, fixtures and facilities *RMB*	Machinery and equipment *RMB*	Vehicles *RMB*	Electronic and office equipment *RMB*	Construction in progress *RMB*	Total *RMB*
Year ended 31 December 2016						
Opening net book amount	23,512,760	14,100,932	2,693,959	528,038	20,923,644	61,759,333
Transfers	2,616,382	14,086,686	–	108,847	(17,736,459)	–
Additions	–	1,732,724	31,368	99,609	19,703,158	21,566,859
Disposals	–	(702,771)	(128,483)	–	–	(831,254)
Depreciation *(Note 8)*	(2,599,235)	2,500,079	(584,147)	(144,152)	–	(5,827,613)
Closing net book amount	23,529,907	26,717,492	2,012,697	592,342	22,890,343	75,742,781
At 31 December 2016						
Cost	34,097,720	44,066,223	5,271,256	1,741,722	22,890,343	108,067,264
Accumulated depreciation	(10,567,813)	(17,348,731)	(3,258,559)	(1,149,380)	–	(32,324,483)
Net book amount	23,529,907	26,717,492	2,012,697	592,342	22,890,343	75,742,781

As at 31 December 2016 and 2015, certain buildings with a carrying amount of RMB9,423,962 and RMB13,476,561, respectively, were pledged as collateral for the borrowings of the Group (Note 26).

During the year, the Group has capitalised borrowing costs amounted to RMB239,314 (2015: RMB87,970) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 6.10% (2015: 6.09%).

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

	Year ended 31 December	
	2016 *RMB*	2015 *RMB*
Cost of sales	3,581,897	3,563,730
Administrative expenses	2,245,716	2,072,430
Distribution costs	–	21,957
	5,827,613	5,658,117

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

14 PREPAID LEASING EXPENSES

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

	RMB
At 1 January 2015	
Cost	7,262,753
Accumulated amortization	(735,362)
Net book amount	6,527,391
Year ended 31 December 2015	
Opening net book amount	6,527,391
Amortisation *(Note 8)*	(179,629)
Closing net book amount	6,347,762
At 31 December 2015	
Cost	7,262,753
Accumulated amortisation	(914,991)
Net book amount	6,347,762
Year ended 31 December 2016	
Opening net book amount	**6,347,762**
Additions	**370,338**
Amortisation *(Note 8)*	**(179,402)**
Closing net book amount	**6,538,698**
At 31 December 2016	
Cost	**7,633,091**
Accumulated amortisation	**(1,094,393)**
Net book amount	**6,538,698**

As at 31 December 2016 and 2015, certain land use rights with a carrying value of RMB3,693,827 and RMB3,767,369, respectively, were pledged as collateral for the borrowings of the Group (Note 26).

The amortisation of prepaid leasing expenses in the amount of RMB179,402 and RMB179,629 have been charged to cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015, respectively (Note 8).

Notes to the Consolidated Financial Statements

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15 MINING RIGHTS

	RMB
At 1 January 2015	
Cost	180,700
Accumulated amortisation	(160,624)
Net book amount	20,076
Year ended 31 December 2015	
Opening net book amount	20,076
Additions	157,600
Amortisation charges (*Note 8*)	(35,836)
Closing net book amount	141,840
At 31 December 2015	
Cost	338,300
Accumulated amortisation	(196,460)
Net book amount	141,840
Year ended 31 December 2016	
Opening net book amount	**141,840**
Amortisation charges (*Note 8*)	**(31,522)**
Closing net book amount	**110,318**
At 31 December 2016	
Cost	**338,300**
Accumulated amortisation	**(227,982)**
Net book amount	**110,318**

The amortisation of mining rights in the amounts of RMB31,522 and RMB35,836 have been charged to cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015, respectively (Note 8).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

16 LEASEHOLD IMPROVEMENTS

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

	RMB
At 1 January 2015	
Cost	1,116,035
Accumulated amortisation	(532,182)
Net book amount	583,853
Year ended 31 December 2015	
Opening net book amount	583,853
Additions	1,667,208
Amortisation (*Note 8*)	(216,416)
Closing net book amount	2,034,645
At 31 December 2015	
Cost	2,783,243
Accumulated amortisation	(748,598)
Net book amount	2,034,645
Year ended 31 December 2016	
Opening net book amount	**2,034,645**
Additions	**745,787**
Amortisation (*Note 8*)	**(492,710)**
Closing net book amount	**2,287,722**
At 31 December 2016	
Cost	**3,529,030**
Accumulated amortisation	**(1,241,308)**
Net book amount	**2,287,722**

The amortisation of leasehold improvements in the amounts of RMB492,710 and RMB216,416 have been charged to cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015, respectively (Note 8).

Notes to the Consolidated Financial Statements

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17 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB	*RMB*
Trade receivables	**47,218,149**	48,383,236
Less: provision for impairment	**(3,887,109)**	(4,028,283)
Trade receivables – net *(1)*	**43,331,040**	44,354,953
Bills receivable *(2)*	**13,647,221**	14,020,530
Other receivables	**10,934,250**	12,359,691
Less: provision for impairment	**(213,409)**	(396,710)
Other receivables – net *(3)*	**10,720,841**	11,962,981
Prepayments *(4)*	**1,987,614**	1,893,597
Interest receivables on time deposits	**54,479**	12,517
Trade and other receivables – net	**69,741,195**	72,244,578
Less: non-current portion *(3)*	**(1,120,524)**	(642,049)
Current portion	**68,620,671**	71,602,529

As at 31 December 2016 and 2015, the fair values of the trade and other receivables of the Group, except for the prepayments and prepaid value added tax which are not financial assets, approximated their carrying amounts.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

17 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December	
	2016	2015
	RMB	*RMB*
– RMB	**68,620,671**	71,602,529

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

	As at 31 December	
	2016	2015
	RMB	*RMB*
– Within 180 days	**30,731,910**	32,142,275
– Over 180 days and within 1 year	**4,997,349**	6,503,661
– Over 1 year and within 2 years	**4,842,864**	9,008,362
– Over 2 years and within 3 years	**6,119,627**	600,070
– Over 3 years	**526,399**	128,868
	47,218,149	48,383,236

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

As at 31 December 2016 and 2015, trade receivables of RMB30,731,910 and RMB32,142,275 were fully performing, respectively.

As at 31 December 2016 and 2015, trade receivables of RMB16,486,239 and RMB16,240,961 respectively were partially impaired. The amounts of the provisions were RMB3,887,109 and RMB4,028,283 as at 31 December 2016 and 2015, respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Notes to the Consolidated Financial Statements

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17 TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing of these receivables is as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
– Over 180 days and within 1 year	**4,997,349**	6,503,661
– Over 1 year and within 2 years	**4,842,864**	9,008,362
– Over 2 years and within 3 years	**6,119,627**	600,070
– Over 3 years	**526,399**	128,868
	16,486,239	16,240,961

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

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
At beginning of the year	**4,028,283**	1,669,921
Provision for impairment *(Note 8)*	**292,281**	2,855,674
Write-off against uncollectible receivables	**(433,455)**	(497,312)
At the end of the year	**3,887,109**	4,028,283

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

(2) The ageing of bills receivable is within 180 days, which is within the credit term. Bills receivable of RMB8,611,393 and RMB6,360,525 have been discounted to financial institutions to obtain working capital of RMB8,468,855 and RMB6,261,710 as at 31 December 2016 and 2015, respectively (Note 26(2)).

Notes to the Consolidated Financial Statements

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17 TRADE AND OTHER RECEIVABLES *(Continued)*

(3) As at 31 December 2016 and 2015, details of other receivables are as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	**1,120,524**	642,049
Current:		
Staff advances	**6,789,693**	8,332,159
Other deposits	**1,165,116**	1,101,061
Others	**1,858,917**	2,284,422
Current subtotal	**9,813,726**	11,717,642
Total	**10,934,250**	12,359,691

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

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
At beginning of the year	**396,710**	201,232
Provision for/(reversal of) impairment *(Note 8)*	**(183,301)**	195,478
At the end of the year	**213,409**	396,710

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

17 TRADE AND OTHER RECEIVABLES *(Continued)*

(4) As at 31 December 2016 and 2015, prepayments are in connection with:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Service fees	**676,366**	–
Purchase of raw materials	**1,311,248**	1,823,597
Guarantee fees	**–**	70,000
	1,987,614	1,893,597

18 INVENTORIES

	As at 31 December	
	2016	2015
	RMB	*RMB*
Raw materials	**19,087,600**	16,393,063
Finished goods	**6,376,188**	5,138,694
Low value consumables	**134,150**	213,208
	25,597,938	21,744,965

No provision for impairment of inventories has been made as at 31 December 2016 and 2015.

The cost of inventories recognised as cost of sales amounted to RMB32,619,127 and RMB37,903,174 for the years ended 31 December 2016 and 2015, respectively.

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19 CASH AND BANK BALANCES

	As at 31 December	
	2016	2015
	RMB	*RMB*
Cash at bank and on hand *(1)*	**16,693,021**	20,524,100
Less: Restricted cash *(2)*	(3,500,000)	(3,500,000)
Cash and cash equivalents	**13,193,021**	17,024,000

Cash at bank and in hand are denominated in:

	As at 31 December	
	2016	2015
	RMB	*RMB*
– RMB	**15,460,061**	19,369,424
– HKD	**1,232,960**	1,154,676
	16,693,021	20,524,100

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at fixed annual rates of 0.35% for the years ended 31 December 2016 and 2015.

(2) As at 31 December 2016 and 2015, details of restricted cash are as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Time deposits (a)	**3,500,000**	3,500,000

(a) Time deposits are all within one year term. In 2016 the Group earns interest on time deposits at fixed annual rates ranging from 1.5% to 1.65% (2015: 1.75% to 3.30%). As at 31 December 2016, time deposits of RMB1,000,000 were restricted for securing bank borrowings as a preferential lending rate (Note 26(1)).

Notes to the Consolidated Financial Statements

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20 SHARE CAPITAL

On 31 December 2008, the Company was converted into a joint stock company with limited liability by converting total equity as at 30 November 2008 into 12,000,000 ordinary shares of RMB1 each at par value. The difference of RMB1,128,932 between the total equity as at 30 November 2008 of RMB13,128,932 and nominal value of total issued ordinary shares of RMB12,000,000 was recorded in share premium (Note 22).

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

The Company issued a total of 8,000,000 H shares with a per value of RMB1.00 each at a price of HK$9.70 per share on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 16 January 2015. The listing proceeds to the Company, netting off listing expenses, were HK$47,334,829 (equivalent to RMB37,394,515), resulting in an increase of share capital of the Company by RMB8,000,000 and the share premium by RMB29,394,515 (Note 22).

Ordinary shares, issued and fully paid:

	Number of shares	Share capital *RMB*
At 1 January 2015	24,000,000	24,000,000
– Proceeds from shares issued in 2015	8,000,000	8,000,000
At 31 December 2015 and 2016	32,000,000	32,000,000

21 RETAINED EARNINGS

	Year ended 31 December	
	2016 ***RMB***	2015 *RMB*
At beginning of the year	**24,412,893**	29,924,016
Profit for the year	**1,835,762**	1,962,875
Appropriation to statutory reserve *(Note 22)*	**(89,203)**	(300,441)
Appropriation to safety fund *(Note 22)*	**(79,712)**	–
Utilisation of safety fund *(Note 22)*	**98,788**	112,843
Dividends relating to 2014	**–**	(7,286,400)
At end of the year	**26,178,528**	24,412,893

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

22 OTHER RESERVES

	Share premium *RMB* *(Note 20)*	Statutory reserve *RMB*	Safety fund *RMB*	Total *RMB*
As at 1 January 2015	1,128,932	5,483,513	308,159	6,920,604
Proceeds from shares issued *(Note 20)*	29,394,515	–	–	29,394,515
Appropriation to statutory reserve *(i)*	–	300,441	–	300,441
Utilisation of safety fund *(ii)*	–	–	(112,843)	(112,843)
As at 31 December 2015	30,523,447	5,783,954	195,316	36,502,717
As at 1 January 2016	**30,523,447**	**5,783,954**	**195,316**	**36,502,717**
Appropriation to statutory reserve *(i)*	**–**	**89,203**	**–**	**89,203**
Appropriation to safety fund *(ii)*	**–**	**–**	**79,712**	**79,712**
Utilisation of safety fund *(ii)*	**–**	**–**	**(98,788)**	**(98,788)**
As at 31 December 2016	**30,523,447**	**5,873,157**	**176,240**	**36,572,844**

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

23 DEFERRED GOVERNMENT GRANTS

Government grants relating to integrated utilization project of associated mine are deferred. The Group benefits from the government grants by using the production lines which are depreciated on a straight-line basis to the grants. So the government grants are recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related production lines.

The analysis of deferred government grants is as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Deferred government grants		
– Current	**87,160**	87,160
– Non-current	**678,145**	765,305
	765,305	852,465

Movements in deferred government grants for the years ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
At beginning of the year	**852,465**	939,625
Credited to the consolidated statement of comprehensive income (*Note 7*)	**(87,160)**	(87,160)
At the end of the year	**765,305**	852,465

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

24 PROVISION FOR ENVIRONMENTAL REHABILITATION

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
At beginning of the year	**817,275**	634,533
Debited to the consolidated statement of comprehensive income	**147,179**	182,742
At the end of the year	**964,454**	817,275

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

25 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
Trade payables	**16,483,286**	12,670,603
Other payables	**6,541,855**	6,442,971
Staff salaries and welfare payables	**2,896,693**	2,694,706
Advances from customers	**877,118**	177,420
Accrued taxes other than income tax	**1,022,325**	1,653,187
	27,821,277	23,638,887

As at 31 December 2016 and 2015, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2016 and 2015, trade and other payables were all denominated in RMB.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

25 TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Trade payables		
– Within 6 months	**12,633,636**	8,924,889
– Over 6 months and within 1 year	**321,151**	95,509
– Over 1 year and within 2 years	**121,343**	3,531,959
– Over 2 years and within 3 years	**3,331,198**	97,207
– Over 3 years	**75,958**	21,039
	16,483,286	12,670,603

26 BORROWINGS

	As at 31 December	
	2016	2015
	RMB	*RMB*
Non-current		
Bank borrowings – secured *(1)*	**14,800,000**	666,481
Current		
Bank borrowings – secured *(1)*	**51,200,000**	61,394,934
Other borrowings *(2)*	**8,611,393**	6,360,525
	59,811,393	67,755,459
Total borrowings	**74,611,393**	68,421,940

The weight average effective annual interest rates were as follows:

	As at 31 December	
	2016	2015
Bank borrowings	**7.37%**	7.73%
Other borrowings	**4.73%**	5.33%

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

26 BORROWINGS *(Continued)*

At 31 December 2016, the Group's borrowings were repayable as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Within 1 year	**59,811,393**	67,755,459
Between 1 and 2 years	**14,800,000**	417,056
Between 2 and 5 years	**–**	249,425
	74,611,393	68,421,940

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

The borrowings are all denominated in RMB.

(1) Bank borrowings – secured

Bank borrowings were secured as follows:

	As at 31 December	
	2016	2015
Secured by property, plant and equipment and land use rights, and guaranteed by a third party *(i)*	**33,500,000**	26,000,000
Guaranteed by third parties *(ii)*	**17,500,000**	15,000,000
Secured by property, plant and equipment *(iii)*	**15,000,000**	15,000,000
Secured by property, plant and equipment and land use rights	**–**	6,061,415
	66,000,000	62,061,415

(i) The bank borrowings of RMB33,500,000 and RMB26,000,000 were secured by certain buildings, fixtures and facilities (Note 13) and land use rights (Note 14) of the Group, which had an aggregate carrying amount of RMB7,841,077 and RMB8,186,557 as at 31 December 2016 and 2015, respectively; and a corporate guarantee of a third party;

(ii) The bank borrowings of RMB5,000,000 and RMB5,000,000 were guaranteed by third party companies as at 31 December 2016 and 2015 respectively. The guarantee fees were RMB190,000 and RMB40,000 for the years ended 31 December 2016 and 2015, respectively;

The bank borrowings of RMB10,000,000 and RMB10,000,000 were guaranteed by a third party as at 31 December 2016 and 2015, respectively;

The bank borrowings of RMB2,500,000 were guaranteed by a third party and Mr. Zhang Youlian who is the executive director of the Company as at 31 December 2016;

(iii) The bank borrowings of RMB15,000,000 and RMB15,000,000 were secured by certain buildings, fixtures and facilities (Note 13) of the Group, which had an aggregate carrying amount of RMB5,276,713 and RMB5,460,343 as at 31 December 2016 and 2015, respectively;

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

26 BORROWINGS *(Continued)*

(2) Other borrowings of RMB8,611,393 and RMB6,360,525 were obtained from financial institutions by discounting bank acceptance notes with aggregate carrying amounts of RMB8,611,393 and RMB6,360,525 as at 31 December 2016 and 2015, respectively (Note 17(2)).

27 DEFERRED INCOME TAX

The analysis of deferred tax assets is as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Deferred income tax assets:		
– To be recovered within 12 months	**540,227**	546,419
– To be recovered after more than 12 months	**1,027,858**	1,007,419
	1,568,085	**1,553,838**

Movements in deferred income tax assets for the years ended 31 December 2016 and 2015 are as follows:

Deferred income tax assets	Provision for impairment of receivables	Unrealized profits on intra-group transactions	Accrued expenses	Employee benefit expenses	Provision for rehabilitation	Unrealised financial charges	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January 2015	353,411	57,301	150,000	348,438	158,633	30,056	1,097,839
Credited/(debited) to the consolidated statement of comprehensive income	417,675	(9,313)	37,500	(37,507)	45,686	1,958	455,999
At 31 December 2015	771,086	47,988	187,500	310,931	204,319	32,014	1,553,838
At 1 January 2016	**771,086**	**47,988**	**187,500**	**310,931**	**204,319**	**32,014**	**1,553,838**
(Debited)/credited to the consolidated statement of comprehensive income	**(27,376)**	**21,139**	**(37,500)**	**10,170**	**36,794**	**11,020**	**14,247**
At 31 December 2016	**743,710**	**69,127**	**150,000**	**321,101**	**241,113**	**43,034**	**1,568,085**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	Year ended 31 December	
	2016 *RMB*	2015 *RMB*
Profit for the year before income tax	2,059,323	2,538,635
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 13)*	5,827,613	5,658,117
– Amortisation of prepaid leasing expenses *(Note 14)*	179,402	179,629
– Amortisation of mining rights *(Note 15)*	31,522	35,836
– Amortisation of leasehold improvements *(Note 16)*	492,710	216,416
– Provision for impairment of receivables *(Note 17)*	108,980	3,051,152
– Gains on disposal of property, plant and equipment-net *(Note 7)*	(218,133)	–
– Finance expenses *(Note 10)*	4,999,226	4,169,762
	13,480,643	15,849,547
Changes in working capital:		
– Decrease in trade and other receivables	1,029,453	1,483,093
– Increase in inventories	(3,852,973)	(4,366,150)
– Increase/(decrease) in trade and other payables	4,634,591	(1,451,606)
Cash generated from operations	15,291,714	11,514,884

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

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

	Year ended 31 December	
	2016 *RMB*	2015 *RMB*
Net book amount *(Note 13)*	831,254	–
Proceeds from disposal of property, plant and equipment *(Note 7)*	218,133	–
Proceeds from disposal of property, plant and equipment	1,049,387	–

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

29 CONTINGENCIES

The Group had no material contingent liabilities as at 31 December 2016.

30 COMMITMENTS

Capital commitments

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

	As at 31 December	
	2016	2015
	RMB	*RMB*
Property, plant and equipment	**1,626,044**	3,891,154

31 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group, the Company and its related parties during the years ended 31 December 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

(a) Transactions with related parties

As at 31 December 2016, the bank borrowings of RMB2,500,000 were guaranteed by a third party and Mr. Zhang Youlian who is the executive director of the Company.

For the years ended 31 December 2016 and 2015, the Group had no other significant transactions with related parties.

(b) Key management compensation (Note 34)

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Salaries, wages and bonuses	**2,269,908**	2,239,520
Contributions to pension plans	**19,216**	32,202
Housing fund, welfare, medical and other benefits	**26,281**	35,982
	2,315,405	2,307,704

Key management including executive directors, non-executive directors, independent non-executive directors, supervisors and senior management.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

32 SUBSIDIARIES

The following is a list of all the subsidiaries at 31 December 2016:

Name	Place and date of establishment	Principal activities and place of operation	Registered and fully paid capital	Proportion of intend directly held by parent (%)
陽原縣仁恒精細粘土有限責任公司 ("Renheng Refined Clay")	Yangyuan, Hebei 25 March 2004	Clay mining and processing, PRC	24,335,000	100%
浙江長安仁恒化工有限公司 ("Renheng Chemicals")	Changxing, Zhejiang 21 November 2002	Wholesaling and retailing chemicals and equipment, PRC	5,000,000	100%

33 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

		As at 31 December	
		2016	2015
	Note	*RMB*	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		36,243,717	28,175,160
Prepaid leasing expenses		4,076,763	3,827,616
Investment in subsidiaries	*32*	26,520,736	26,520,736
Deferred income tax assets		909,817	1,001,175
		67,751,033	59,524,687
Current assets			
Inventories		11,490,429	10,884,119
Trade and other receivables		55,961,266	55,857,934
Trade and other receivables due from subsidiaries		19,834,729	20,002,934
Prepaid income tax		1,239,513	713,738
Restricted cash		1,000,000	1,000,000
Cash and cash equivalents		13,045,968	15,952,524
		102,571,905	104,411,249
Total assets		170,322,938	163,935,936

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

33 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

		As at 31 December	
	Note	2016 RMB	2015 RMB
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital		32,000,000	32,000,000
Other reserves	(a)	36,556,077	36,466,874
Retained earnings	(a)	23,659,935	22,857,113
Total equity		92,216,012	91,323,987
LIABILITIES			
Non-current liabilities			
Deferred government grants		681,305	768,465
Borrowings		–	666,481
		681,305	1,434,946
Current liabilities			
Deferred government grants		84,000	84,000
Trade and other payables		17,730,228	18,337,544
Borrowings		59,611,393	52,755,459
		77,425,621	71,177,003
Total liabilities		78,106,926	72,611,949
Total equity and liabilities		170,322,938	163,935,936

The balance sheet of the Company was approved by the Board of Directors on 18 March 2017 and was signed on its behalf.

Zhang Youlian

Fan Fang

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

33 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

Note (a) Reserves movements of the Company

	Retained earnings	Other reserves
	RMB	*RMB*
At 1 January 2015	27,439,544	6,771,918
Profit for the year	3,004,410	–
Proceeds from shares issued	–	29,394,515
Dividends relating to 2014	(7,286,400)	–
Appropriation to statutory reserve	(300,441)	300,441
At 31 December 2015	22,857,113	36,466,874
At 1 January 2016	**22,857,113**	**36,466,874**
Profit for the year	**892,025**	**–**
Appropriation to statutory reserve	**(89,203)**	**–**
At 31 December 2016	**23,659,935**	**36,466,874**

34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

Directors', supervisors' and senior management's emoluments for the years ended 31 December 2016 and 2015, respectively, are set out as follows:

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Directors' fees	**–**	–
Salaries, wages and bonuses	**2,269,908**	2,239,520
Contributions to pension plans	**19,216**	32,202
Housing fund, welfare, medical and other benefits	**26,281**	35,982
	2,315,405	2,307,704

No director, supervisor or senior management has waived or agreed to waive any emoluments for the years ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

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

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:				Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
	Directors' fee	Salaries, wages and bonuses	Contributions to pension plans	Housing fund, welfare, medical and other benefits		Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
For the year ended 31 December 2016:						
Executive Directors						
Zhang Youlian (張有連) *(i)*	–	111,000	2,402	3,789	152,000	269,191
Sun Wensheng (孫文勝) *(ii)*	–	60,000	2,402	3,589	240,000	305,991
Fan Fang (范芳)	–	49,707	2,402	3,789	100,500	156,398
Non-executive Director						
Zhang Jinhua (張金花) *(vi)*	–	46,136	2,402	3,639	–	52,177
Independent Non-executive Directors						
Shao Chen (邵晨) *(v)*	–	80,000	–	–	–	80,000
Huang Zemin (黃澤民) *(v)*	–	80,000	–	–	–	80,000
Chau Kam Wing, Donald (周錦榮) *(vii)*	–	132,000	–	–	–	132,000
Supervisors						
Xu Qinsi (徐勤思) *(iii)*	–	150,207	2,402	3,789	–	156,398
Zhang Donglian (張冬連)	–	150,207	2,402	3,639	–	156,248
Liang Guoping (梁國平) *(iv)*	–	57,995	2,402	3,789	–	64,186
Senior Management						
Xu Qinwei (徐勤偉)	–	256,800	–	258	–	257,058
Su Pin (蘇品)	–	243,356	2,402	–	–	245,758
Chan Hon Wan (陳漢雲) *(viii)*	–	360,000	–	–	–	360,000
	–	1,777,408	19,216	26,281	492,500	2,315,405

Notes to the Consolidated Financial Statements

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34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:				Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	
	Directors' fee	Salaries, wages and bonuses	Contributions to pension plans	Housing fund, welfare, medical and other benefits		Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
For the year ended 31 December 2015:						
Executive Directors						
Zhang Youlian (張有連) *(i)*	–	60,000	3,578	3,998	152,400	219,976
Sun Wensheng (孫文勝) *(ii)*	–	60,000	3,578	3,998	245,000	312,576
Fan Fang (范芳)	–	24,000	3,578	3,998	108,536	140,112
Chen Weidong (陳衛東) *(ix)*	–	12,000	3,578	3,998	52,436	72,012
Non-executive Director						
Zhang Jinqin (張金琴) *(vi)*	–	78,000	3,578	3,998	–	85,576
Independent Non-executive Directors						
Shao Chen (邵晨) *(v)*	–	80,000	–	–	–	80,000
Huang Zemin (黃澤民) *(v)*	–	80,000	–	–	–	80,000
Wang Xiangyao (汪祥耀) *(v)*	–	80,000	–	–	–	80,000
Chau Kam Wing, Donald (周錦榮) *(vii)*	–	156,000	–	–	–	156,000
Supervisors						
Xu Qinsi (徐勤思) *(iii)*	–	132,536	3,578	3,998	–	140,112
Zhang Donglian (張冬連)	–	132,536	3,578	3,998	–	140,112
Liang Guoping (梁國平) *(iv)*	–	54,836	3,578	3,998	–	62,412
Senior Management						
Xu Qinwei (徐勤偉)	–	202,080	–	–	–	202,080
Su Pin (蘇品)	–	169,160	3,578	3,998	–	176,736
Chan Hon Wan (陳漢雲) *(viii)*	–	360,000	–	–	–	360,000
	–	1,681,148	32,202	35,982	558,372	2,307,704

Notes to the Consolidated Financial Statements

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34 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

(i) Mr. Zhang Youlian was also the chief executive for the year ended 31 December 2016 and 2015.

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

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

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

(v) Mr. Shao Chen, Mr. Huang Zemin and Mr. Wang Xiangyao were appointed as independent non-executive directors since February 2013. Mr. Wang retired as an independent non-executive director on 14 May 2016.

(vi) Ms. Yu Hua was appointed as a non-executive director of the Company from December 2008 to April 2014 with no emolument. Ms. Zhang Jinqin was appointed as an non-executive director to replace Ms. Yu Hua's position from May 2014 to May 2016, Ms. Zhang Jinhua was appointed as a non-executive director to replace Ms. Zhang Jinqin since 14 May 2016.

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

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

(ix) Mr. Chen Weidong resigned as an executive director on 14 May 2016.

Financial Summary

The following table sets out the financial summary of our Group for the five years ended 31 December:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**75,260**	77,444	92,029	86,077	78,852
Profit before taxation	**2,059**	2,539	14,455	13,752	12,191
Income tax	**(223)**	(576)	(2,312)	(2,006)	(2,121)
Profit for the year	**1,836**	1,963	12,143	11,746	10,070
Attributable to					
Owners of the Company	**1,836**	1,963	12,143	11,746	10,070
Assets and liabilities					
Total assets	**199,193**	186,718	176,657	161,762	154,530
Total liabilities	**(104,442)**	(93,802)	(115,812)	(113,060)	(117,574)
Equity attributable to owners of the Company	**94,751**	92,916	60,845	48,702	36,956
Liquidity and Asset-liability Ratio					
Current ratio (1)	**1.27**	1.25	1.10	1.04	1.09
Quick ratio (2)	**0.98**	1.01	0.95	0.91	0.96
Asset-liability ratio (3)	**37.5%**	36.6%	51.3%	52.6%	53.3%

Note:

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

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

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

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