



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

2018
Interim Report

* For identification purpose only

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

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RESULTS HIGHLIGHTS

For the six months ended 30 June 2018, the financial highlights were as follows:

- Revenue increased by 15.9% to approximately RMB44,619,000 (2017: RMB38,513,000).
- Gross profit increased by 3.2% to approximately RMB19,453,000 (2017: RMB18,854,000).
- Gross profit margin was 43.6% (2017: 49.0%).
- Profit for the six months ended 30 June 2018 increased by 75.2% to approximately RMB643,000 (2017: RMB367,000).
- Basic earnings per share increased by 66.7% to approximately RMB0.020 (2017: RMB0.012).
- The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2018 (2017: nil).

UNAUDITED INTERIM RESULTS OF 2018

The board (the “Board”) of directors (the “Directors”) of Zhejiang Chang'an Renheng Technology Co., Ltd. (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2017 as follows:

Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2018

	Note	Three months ended 30 June		Six months ended 30 June	
		2018 RMB (unaudited)	2017 RMB (unaudited)	2018 RMB (unaudited)	2017 RMB (unaudited)
Revenue	5	24,964,645	21,196,848	44,618,588	38,513,152
Cost of sales		(13,864,514)	(10,321,755)	(25,165,531)	(19,659,621)
Gross profit		11,100,131	10,875,093	19,453,057	18,853,531
Distribution costs		(5,146,756)	(4,070,386)	(7,786,082)	(6,510,434)
Administrative expenses		(3,695,907)	(3,327,304)	(6,857,436)	(6,338,284)
Research and development expenses		(900,615)	(2,427,588)	(1,923,672)	(3,271,118)
Other gains – net	6	229,158	260,614	266,604	210,062
Operating profit		1,586,011	1,310,429	3,152,471	2,943,757
Finance income		1,712	2,266	5,788	22,580
Finance expenses		(1,186,993)	(1,129,782)	(2,565,852)	(2,582,474)
Finance expenses – net	7	(1,185,281)	(1,127,516)	(2,560,064)	(2,559,894)
Profit before income tax	9	400,730	182,913	592,407	383,863
Income tax expense	8	150,938	118,637	50,541	(16,506)
Profit for the period attributable to the equity holders of the Company		551,668	301,550	642,948	367,357
Other comprehensive income		–	–	–	–
Total comprehensive income for the period attributable to the equity holders of the Company		551,668	301,550	642,948	367,357
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	10	0.017	0.010	0.020	0.012
Dividends	11	–	–	–	–

Condensed consolidated balance sheet (unaudited)

As at 30 June 2018

	Note	30 June 2018 RMB (unaudited)	31 December 2017 RMB (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	85,330,229	85,019,650
Prepaid leasing expenses		6,272,817	6,357,709
Mining rights		63,039	78,796
Leasehold improvements		6,892,480	2,097,769
Deferred income tax assets		2,770,441	2,614,562
Trade and other receivables	13	1,152,346	1,156,226
		102,481,352	97,324,712
Current assets			
Inventories		27,698,910	32,936,345
Trade and other receivables	13	59,036,457	52,262,990
Prepaid income tax		959,106	1,005,515
Restricted cash		2,061,901	–
Cash and cash equivalents		2,347,886	1,845,424
		92,104,260	88,050,274
Total assets		194,585,612	185,374,986
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	14	32,000,000	32,000,000
Other reserves		36,612,336	36,634,147
Retained earnings		20,418,010	19,753,251
Total equity		89,030,346	88,387,398

		30 June 2018 RMB (unaudited)	31 December 2017 RMB (audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred government grants		1,590,984	1,597,399
Provisions for environmental rehabilitation		1,239,781	1,142,607
Borrowings		13,600,000	–
		16,430,765	2,740,006
Current liabilities			
Deferred government grants		45,183	83,953
Trade and other payables	15	29,559,500	29,113,629
Borrowings		59,519,818	65,050,000
		89,124,501	94,247,582
Total liabilities		105,555,266	96,987,588
Total equity and liabilities		194,585,612	185,374,986

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2018

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total RMB
As at 1 January 2017	32,000,000	36,572,844	26,178,528	94,751,372
Comprehensive income				
Profit for the period	-	-	367,357	367,357
Total comprehensive income for the period	-	-	367,357	367,357
Utilisation of safety fund	-	(17,330)	17,330	-
As at 30 June 2017	32,000,000	36,555,514	26,563,215	95,118,729
As at 1 January 2018	32,000,000	36,634,147	19,753,251	88,387,398
Comprehensive income				
Profit for the period	-	-	642,948	642,948
Total comprehensive income for the period	-	-	642,948	642,948
Utilisation of safety fund	-	(21,811)	21,811	-
As at 30 June 2018	32,000,000	36,612,336	20,418,010	89,030,346

Condensed consolidated cash flow statement (unaudited)*For the six months ended 30 June 2018*

	<u>Six months ended 30 June</u>	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Net cash generated from operating activities	1,930,784	8,681,611
Net cash used in investing activities	(6,936,166)	(10,309,116)
Net cash generated from/(used in) financing activities	5,520,980	(7,524,388)
Net increase/(decrease) in cash and cash equivalents	515,598	(9,151,893)
Cash and cash equivalents at beginning of the period	1,845,424	13,193,021
Exchange difference on cash and cash equivalents	(13,136)	-
Cash and cash equivalents at end of the period	2,347,886	4,041,128

Notes to the Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2018

1 GENERAL INFORMATION

Zhejiang Chang'an Renheng Technology Co., Ltd. (浙江長安仁恒科技股份有限公司, the "Company") and its subsidiaries (together, the "Group") are principally engaged in the business of development, production and sale of bentonite fine chemicals. The Group uses bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

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

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

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

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

2 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting', and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2018 do not have a material impact on the results and financial position of the Group.

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

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

4 SEGMENT INFORMATION

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

5 REVENUE

	Six months ended 30 June	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Papermaking chemicals	38,374,433	35,525,841
Organic bentonite	945,029	272,561
Bentonite for metallurgy pellet	2,988,396	1,069,234
Quality calcium-bentonite	1,226,102	1,080,615
Other chemicals (<i>Note</i>)	1,084,628	564,901
	44,618,588	38,513,152

Note: Other chemicals mainly comprise inorganic gel and flocculating agent which are principally applied in the coating preparation industry.

6 OTHER GAINS – NET

	Six months ended 30 June	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Government grants		
– Relating to assets	45,184	41,977
– Relating to costs	238,435	255,309
Others	(17,015)	(87,224)
	266,604	210,062

7 FINANCE EXPENSES – NET

	Six months ended 30 June	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Finance income		
– Interest income derived from bank deposits	5,788	22,580
– Unrealised financial income from financial assets measured at amortised cost	–	–
	5,788	22,580
Finance expenses		
– Interest expense	(2,549,386)	(2,544,044)
– Capitalised interest expense	5,047	119,657
	(2,544,339)	(2,424,387)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	(8,377)	(65,736)
– Unrealised financial charges from financial assets measured at amortised cost	(13,136)	(92,351)
	(2,565,852)	(2,582,474)
Finance expenses – net	(2,560,064)	(2,559,894)

8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Current income tax	105,338	284,232
Deferred income tax	(155,879)	(267,726)
	(50,541)	16,506

The Company obtained the certificate of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Zhejiang province, which granted tax preferential rate of 15% for three years from 13 November 2017 to 12 November 2020.

The other subsidiaries are subject to income tax rate of 25% for the six months ended 30 June 2018 and 2017.

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

	Six months ended 30 June	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Profit before tax	592,406	383,863
Calculated at statutory tax rate	148,102	95,966
Expenses not deductible for tax purposes	(29,658)	83,088
Additional deduction for research and development expense (<i>Note</i>)	(349,043)	(352,584)
Preferential tax effecting of the Company	134,730	169,310
Adjustment in respect of prior years	45,328	20,726
Income tax expense	(50,541)	16,506

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

9 PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018 RMB (unaudited)	2017 RMB (unaudited)
Profit for the period has been arrived after charging:		
Depreciation	3,080,580	3,254,872
Amortisation of prepaid leasing expenses	93,712	93,712
Amortisation of mining rights	15,760	15,760
Amortisation of leasehold improvements	329,457	137,276

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2018 and 2017.

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Profit attributable to the equity holders of the Company (RMB)	642,947	367,357
Weighted average number of ordinary shares in issue	32,000,000	32,000,000
Basic earnings per share (RMB per share)	0.020	0.012

(b) Diluted

The fully diluted earnings per share for the six months ended 30 June 2018 and 2017 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the six months ended 30 June 2018 and 2017.

11 DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: nil).

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of approximately RMB2,953,000 (2017: RMB9,240,000).

13 TRADE AND OTHER RECEIVABLES

	30 June 2018 RMB (unaudited)	31 December 2017 RMB (audited)
Trade receivables (<i>Note</i>)	51,353,959	47,052,403
Less: provision for impairment	(7,207,449)	(6,260,379)
Trade receivables – net	44,146,510	40,792,024
Bills receivable	8,814,455	5,087,857
Other receivables	6,731,046	6,301,650
Less: provision for impairment	(290,819)	(309,608)
Other receivables – net	6,440,227	5,992,042
Prepayments	787,611	1,547,293
Trade and other receivables – net	60,188,803	53,419,216
Less: non-current portion	(1,152,346)	(1,156,226)
Current portion	59,036,457	52,262,990

Note: The ageing analysis of trade receivables based on the invoice date is as follows:

	30 June 2018 RMB (unaudited)	31 December 2017 RMB (audited)
– Within 180 days	25,541,325	34,009,079
– Over 180 days and within 1 year	12,021,316	3,636,600
– Over 1 year and within 2 years	5,349,766	2,295,873
– Over 2 years and within 3 years	2,164,296	3,218,180
– Over 3 years	6,277,256	3,892,671
	51,353,959	47,052,403

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

14 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Ordinary shares	
	Number	RMB
As at 30 June 2018 (unaudited)	32,000,000	32,000,000

On 16 January 2015, the H shares of the Company became listed on the GEM of the Stock Exchange. The Company issued a total of 8,000,000 H shares with a par value of RMB1.00 each at a price of HK\$9.70 per share. Number of total issued shares of the Company was increased from 24,000,000 to 32,000,000 shares upon completion of the Listing.

15 TRADE AND OTHER PAYABLES

	30 June 2018 RMB (unaudited)	31 December 2017 RMB (audited)
Trade payables	17,137,402	15,869,462
Other payables	8,560,581	8,231,848
Staff salaries and welfare payables	1,501,318	2,691,909
Advances from customers	950,688	1,113,120
Accrued taxes other than income tax	1,409,511	1,207,290
	29,559,500	29,113,629

The ageing analysis of the trade payables is as follows:

	30 June 2018 RMB (unaudited)	31 December 2017 RMB (audited)
Trade payables		
– Within 6 months	6,383,743	10,237,283
– Over 6 months and within 1 year	6,182,918	1,516,393
– Over 1 year and within 2 years	1,081,009	714,516
– Over 2 years and within 3 years	293,154	38,902
– Over 3 years	3,196,578	3,362,368
	17,137,402	15,869,462

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group stepped up the promotion of new products. The organic bentonite products market had taken a shape which began to be applied in customers at home and overseas and had a good reflecting. We will gradually eliminate relatively small-scale clients with outdated facilities to ensure safe operation of the Group.

The Group continued to focus in the development of overseas markets. The sales of bentonite for manufacturing paper in the Southeast Asia market have been taken shape during the Reporting Period.

The Group attaches great importance to the research and development of new products. During the Reporting Period, the Group developed the application of bentonite in the field of water treatment in accordance with development plan. We cooperated with colleges and universities at home and overseas on the platform of academician expert team. The products of bentonite in the field of water treatment included wastewater in manufacturing paper, printing and dyeing aquaculture.

Financial Review

Revenue

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

Product	For the six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
Papermaking chemicals	38,375	86.0	35,526	92.2
Organic bentonite	945	2.1	442	1.2
Bentonite for metallurgy pellet	2,988	6.7	1,069	2.8
Quality calcium-bentonite	1,226	2.8	1,081	2.8
Other chemicals	1,085	2.4	395	1.0
Total	44,619	100.0	38,513	100.0

Revenue from sales of papermaking chemicals increased by approximately RMB2,849,000 or 8.0% from approximately RMB35,526,000 for the six months ended 30 June 2017 to approximately RMB38,375,000 for the six months ended 30 June 2018. As the average unit selling price decreased for the comparative periods, the increase in revenue was mainly due to the rise in sales volume, which increased by approximately 10.8% from approximately 7,059 tonnes for the six months ended 30 June 2017 to approximately 7,821 tonnes for the six months ended 30 June 2018.

Revenue from sales of organic bentonite increased by approximately RMB503,000 or 113.8% from approximately RMB442,000 for the six months ended 30 June 2017 to approximately RMB945,000 for the six months ended 30 June 2018. The increase was mainly due to the fact that the Group sold more products with lower gross profit margin to the customers in order to increase the sales volume.

Revenue of bentonite for metallurgy pellet increased by approximately RMB1,919,000 or 179.5% from approximately RMB1,069,000 for the six months ended 30 June 2017 to approximately RMB2,988,000 for the six months ended 30 June 2018. The increase was mainly due to the increase in sales volume.

Revenue of quality calcium-bentonite increased by approximately RMB145,000 or 13.4% from approximately RMB1,081,000 for the six months ended 30 June 2017 to approximately RMB1,226,000 for the six months ended 30 June 2018. 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.

Revenue of other chemicals increased by approximately RMB690,000 or 174.7% from approximately 395,000 for the six months ended 30 June 2017 to approximately RMB1,085,000 for the six months ended 30 June 2018. Other chemicals mainly comprise inorganic gel and flocculating agent which are principally applied in the coating preparation industry.

Cost of sales

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

	For the six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
Cost of raw materials	19,152	76.1	14,214	72.3
Direct labour costs	1,585	6.3	1,160	5.9
Manufacturing overhead costs	3,825	15.2	3,769	19.2
Others	604	2.4	517	2.6
Total	25,166	100.0	19,660	100.0

The cost of sales increased by approximately RMB5,506,000 or 28.0% from approximately RMB19,660,000 for the six months ended 30 June 2017 to approximately RMB25,166,000 for the six months ended 30 June 2018.

Cost of raw materials accounted for approximately 76.1% and 72.3% of cost of sales for the six months ended 30 June 2018 and 2017 respectively. The cost of raw materials increased by approximately 34.7% from approximately RMB14,214,000 for the six months ended 30 June 2017 to approximately RMB19,152,000 for the six months ended 30 June 2018. The increase was mainly due to the increase of quantity consumed of CPAM. CPAM was the major raw material for a kind of product in papermaking chemicals with a relatively high unit price. As sales volume of this kind of product increased for the six months ended 30 June 2018, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 6.3% and 5.9% of cost of sales for the six months ended 30 June 2018 and 2017 respectively. Direct labour costs remained stable during the comparative periods.

Manufacturing overhead costs accounted for approximately 15.2% and 19.2% of cost of sales for the six months ended 30 June 2018 and 2017 respectively. Manufacturing overhead costs increased by approximately 1.5% from approximately RMB3,769,000 for the six months ended 30 June 2017 to approximately RMB3,825,000 for the six months ended 30 June 2018.

Gross profit and gross profit margin

Gross profit margin decreased from 49.0% for the six months ended 30 June 2017 to 43.6% for the six months ended 30 June 2018. The drop in gross profit margin was mainly attributable to the decrease in gross profit margin of papermaking chemicals by selling more products with lower gross profit margin to the customers in order to increase the sales volume.

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

Product	For the six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
Papermaking chemicals	17,405	45.4	17,362	48.9
Organic bentonite	131	13.9	85	19.2
Bentonite for metallurgy pellet	1,174	39.3	575	53.8
Quality calcium-bentonite	460	37.5	709	65.6
Other chemicals	283	26.1	123	31.1
Total	19,453	43.6	18,854	49.0

The gross profit margin of papermaking chemicals decreased from 48.9% for the six months ended 30 June 2017 to 45.4% for the six months ended 30 June 2018. The drop in gross profit margin was mainly due to the change of product mix in response to the market demand. The Company sold more products with lower gross profit margin for the six months ended 30 June 2018.

The gross profit margin of organic bentonite was 13.9 and 19.2% for the six months ended 30 June 2018 and 2017 respectively. The gross profit margin decreased during the comparative periods.

The gross profit margin of bentonite for metallurgy pellet was 39.3% and 53.8% for the six months ended 30 June 2018 and 2017 respectively. The gross profit margin decreased slightly during the comparative periods.

The gross profit margin of quality calcium-bentonite was 37.5% and 65.6% for the six months ended 30 June 2018 and 2017 respectively. The gross profit margin decreased during the comparative periods.

The gross profit margin of other chemicals was 26.1% and 31.1% for the six months ended 30 June 2018 and 2017 respectively. The gross profit margin improved during the comparative periods.

Distribution costs

The distribution costs for the six months ended 30 June 2018 and 2017 amounted to approximately RMB7,786,000 and RMB6,510,000 respectively. The distribution costs increased by approximately RMB1,276,000 or 19.6% mainly because of the increase in transportation expenses from approximately RMB5,733,000 for the six months ended 30 June 2017 to approximately RMB6,638,000 for the six months ended 30 June 2018.

Administrative expenses

The administrative expenses increased by approximately RMB519,000 or 8.2% from approximately RMB6,338,000 for the six months ended 30 June 2017 to approximately RMB6,857,000 for the six months ended 30 June 2018. The increase was mainly due to the increase in provision for trade receivables.

Research and development expenses

The research and development expenses decreased by approximately RMB1,347,000 or 41.2% from approximately RMB3,271,000 for the six months ended 30 June 2017 to approximately RMB1,924,000 for the six months ended 30 June 2018. The decrease was mainly due to the reducing in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for Petrochemical Engineering.

Other gains – net

Other gains for the six months ended 30 June 2018 and 2017 amounted to approximately RMB267,000 and RMB210,000, respectively. The increase in other gains mainly due to the decrease in other losses from approximately RMB87,000 for the six months ended 30 June 2017 to approximately RMB17,000 for the six months ended 30 June 2018.

Finance expenses – net

The net finance expenses remained stable at approximately RMB2,560,000 for the six months ended 30 June 2018 and 2017.

Income tax expenses

The effective tax rates were (8.5)% and 4.3% for the six months ended 30 June 2018 and 2017, respectively. The details are set out in note 8 to the financial statements.

Profit for the period

The profit for the period increased by approximately RMB276,000 or 75.2% from approximately RMB367,000 for the six months ended 30 June 2017 to approximately RMB643,000 for the six months ended 30 June 2018. The net profit margin for the Group increased from approximately 1.0% for the six months ended 30 June 2017 to approximately 1.4% for the six months ended 30 June 2018. The increase in profit for the period of the Group was mainly due to the increase in gross profit during the Reporting Period.

Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Reporting Period, the weight average effective annual interest rate of bank borrowings and other borrowings was 7.6% and 4.9% respectively. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 30 June 2018, the Group had cash and cash equivalents of RMB2,348,000 which was mainly generated from operations of the Group.

Cash Flows

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

Net cash generated from operating activities

The Group's cash inflow generated from operating activities primarily derives from the sales proceeds of the Group's products. For the six months ended 30 June 2018, the Group's net cash inflow generated from operating activities amounted to approximately RMB1,931,000, representing a decrease of approximately RMB6,751,000 from approximately RMB8,682,000 for the six months ended 30 June 2017.

Net cash used in investing activities

For the six months ended 30 June 2018, the Group's net cash outflow used in investing activities amounted to approximately RMB6,936,000, representing a decrease of approximately RMB3,373,000 as compared with the cash outflow used in investing activities of approximately RMB10,309,000 for the six months ended 30 June 2017. The decrease was mainly due to the decrease in purchase of property, plant and equipment for the six months ended 30 June 2018.

Net cash generated from/(used in) financing activities

For the six months ended 30 June 2018, the Group's net cash inflow generated from financing activities amounted to approximately RMB5,521,000, representing an increase of approximately RMB13,045,000 as compared with the net cash outflow used in financing activities of approximately RMB7,524,000 for the six months ended 30 June 2017. The increase was mainly due to the renewal of bank borrowings.

Capital Structure

Indebtedness

The total indebtedness of the Group as at 30 June 2018 was approximately RMB73,120,000 (31 December 2017: approximately RMB65,050,000). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2018, the Group's gearing ratio was approximately 37.6% (31 December 2017: 35.1%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to decrease in bank borrowings.

Pledge of assets

As at 30 June 2018, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB27,227,000 (31 December 2017: approximately RMB25,165,000).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, and construction in progress. The Group's capital expenditures amounted to approximately RMB2,953,000 and RMB9,240,000 for the six months ended 30 June 2018 and 2017 respectively.

Foreign exchange risk

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

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

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2018, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisition and Disposal

For the six months ended 30 June 2018, the Group had not made any material acquisition or disposal.

Going Concern

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

Prospects

In 2018, the competition in the market will become more intense with challenge and uncertainty. Faced with the new situation, the Group will continue to adhere to the market-oriented and make the company's business to a higher level by sticking together, working hard and establishing a sense of crisis and innovation and carrying forward the corporate spirit of cultivating the body through the man himself.

The Group's overall mind set of work: profit-centered, innovation-driven, market oriented, sales as a leader to improve the market's rapid response capability. To this end, the Group will formulate and implement the following strategies:

- (1) The Group's work focuses on promoting organic bentonite products, opening up the market scale for new products and establishing new profit growth points;
- (2) The Group further perfects the management of “the Department for Major Clients” and gradually eliminated backward small customers to ensure the safety of funds; and
- (3) Promoting the market application of water treatment bentonite products and the development of a series of products to be used in a variety of water treatment areas, such as paint and aquaculture waste water.

Human Resources and Training

As at 30 June 2018, the Group had a total of 118 employees, of which 47 worked at the Group's headquarters in Changxing, and 71 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB4,853,000 (2017: RMB4,544,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives set out in the prospectus of the Company

By leveraging on the Group's current sales network, its products, technology, patent and production knowhow, as well as the customers recognition, the Group intends to 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 testing for customers, fine tuning and optimizing product formulas;
4. The Group will further extend its existing sales network in Southern China as well as other prospective markets;
5. Developing information technology system includes the establishment of intranet and information system to carry out e-commerce activities; and
6. Reinforcing the training of sales and technical teams.

Actual business progress and use of proceeds from the Listing

The H shares of the Company were listed on the GEM Board of the Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB37,395,000 (equivalent to approximately HK\$47,335,000), after deduction of the underwriting commission and relevant expenses. As at 30 June 2018, the Group had used up all the net proceeds of approximately RMB37,395,000, 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 RMB1,253,000 had been used for research and development of new bentonite products for consumer chemicals and pharmaceutical use, approximately RMB1,704,000 had been used for enhancement of existing sales network, approximately RMB423,000 had been used for training of sales and technical teams, approximately RMB7,868,000 had been used for repayment of bank loans of the Group and approximately RMB3,747,000 as working capital.

OTHER INFORMATION

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

As at 30 June 2018, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

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 30 June 2018, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2018, 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%

Saved 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 30 June 2018.

Directors' and supervisors' rights to acquire shares or debentures

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

Connected transaction

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

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

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

Public float

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

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

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

Capital commitment

As at 30 June 2018, the Group had capital commitment amounted to approximately RMB2,367,000 (31 December 2017: RMB5,865,000).

Dividends

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: nil).

Interest of compliance adviser

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

Corporate governance practice

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

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

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

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

Model code for securities transactions

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

Audit committee

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

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

The Audit Committee has reviewed the unaudited condensed consolidated financial information, the results announcement and this interim report of the Company for the six months ended 30 June 2018 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Events after the Reporting Period

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

Disclosure of information

The interim report for the six months ended 30 June 2018 will be dispatched to shareholders of the Company and published on the Company's website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, the PRC, 11 August 2018

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