

# 2019

Interim Report



长安仁恒

**Zhejiang Chang'an Renheng Technology Co., Ltd.\***

**浙江长安仁恒科技股份有限公司**

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

**Stock Code: 8139**

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

\* For identification purpose only

## RESULTS HIGHLIGHTS

For the six months ended 30 June 2019, the financial highlights were as follows:

- Revenue decreased by 0.1% to approximately RMB44,588,000 (2018: RMB44,619,000).
- Gross profit decreased by 3.3% to approximately RMB18,816,000 (2018: RMB19,453,000).
- Gross profit margin was 42.2% (2018: 43.6%).
- Profit for the six months ended 30 June 2019 decreased by 56.1% to approximately RMB282,000 (2018: RMB643,000).
- Basic earnings per share decreased by 65.0% to approximately RMB0.007 (2018: RMB0.020).
- The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2019 (2018: nil).

## UNAUDITED INTERIM RESULTS OF 2019

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 2019 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2018 as follows:

### Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019 RMB (unaudited)	2018 RMB (unaudited)	2019 RMB (unaudited)	2018 RMB (unaudited)
Revenue	5	25,594,979	24,964,645	44,588,376	44,618,588
Cost of sales		(14,775,086)	(13,864,514)	(25,772,263)	(25,165,531)
<b>Gross profit</b>		<b>10,819,893</b>	<b>11,100,131</b>	<b>18,816,113</b>	<b>19,453,057</b>
Distribution costs		(4,053,571)	(5,146,756)	(6,622,460)	(7,786,082)
Administrative expenses		(2,900,686)	(3,695,907)	(5,992,871)	(6,857,436)
Research and development expenses		(2,003,548)	(900,615)	(3,088,253)	(1,923,672)
Other gains – net	6	128,377	229,158	592,309	266,604
<b>Operating profit</b>		<b>1,990,465</b>	<b>1,586,011</b>	<b>3,704,838</b>	<b>3,152,471</b>
Finance income		2,369	1,712	7,440	5,788
Finance expenses		(1,500,127)	(1,186,993)	(3,116,495)	(2,565,852)
Finance expenses – net	7	(1,497,758)	(1,185,281)	(3,109,055)	(2,560,064)
<b>Profit before income tax</b>	9	<b>492,707</b>	<b>400,730</b>	<b>595,783</b>	<b>592,407</b>
Income tax expense	8	(261,623)	150,938	(313,929)	50,541
<b>Profit for the period attributable to the equity holders of the Company</b>		<b>231,084</b>	<b>551,668</b>	<b>281,854</b>	<b>642,948</b>
Other comprehensive income		–	–	–	–
<b>Total comprehensive income for the period attributable to the equity holders of the Company</b>		<b>231,084</b>	<b>551,668</b>	<b>281,854</b>	<b>642,948</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)</b>					
– Basic and diluted	10	0.006	0.017	0.007	0.020
Dividends	11	–	–	–	–

## Condensed consolidated balance sheet (unaudited)

As at 30 June 2019

	Note	30 June 2019 RMB (unaudited)	31 December 2018 RMB (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	83,991,125	81,402,390
Prepaid leasing expenses		6,105,867	6,182,192
Mining rights		31,519	47,278
Leasehold improvements		13,831,441	14,910,353
Deferred income tax assets		3,676,214	3,345,783
Trade and other receivables	13	1,228,248	1,228,248
		108,864,414	107,116,244
<b>Current assets</b>			
Inventories		32,822,413	34,301,833
Trade and other receivables	13	59,800,391	49,008,624
Prepaid income tax		682,730	476,361
Restricted cash		855	389,618
Cash and cash equivalents		3,423,831	22,272,273
		96,730,220	106,448,709
<b>Total assets</b>		<b>205,594,634</b>	<b>213,564,953</b>
<b>EQUITY</b>			
<b>Capital and reserve attributable to equity holders of the Company</b>			
Share capital	14	38,400,000	38,400,000
Other reserves		49,836,570	49,806,255
Retained earnings		18,041,491	17,789,952
<b>Total equity</b>		<b>106,278,061</b>	<b>105,996,207</b>

		30 June 2019 RMB (unaudited)	31 December 2018 RMB (audited)
	<i>Note</i>		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants		513,445	513,445
Provisions for environmental rehabilitation		1,434,129	1,336,956
Borrowings		21,766,000	21,866,000
		23,713,574	23,716,401
<b>Current liabilities</b>			
Deferred government grants		41,977	83,953
Trade and other payables	15	20,906,388	30,163,867
Borrowings		54,654,634	53,604,525
		75,602,999	83,852,345
<b>Total liabilities</b>		<b>99,316,573</b>	<b>107,568,746</b>
<b>Total equity and liabilities</b>		<b>205,594,634</b>	<b>213,564,953</b>

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2019

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total RMB
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
<b>Total comprehensive income for the period</b>	-	-	642,948	642,948
Utilisation of safety fund	-	(21,811)	21,811	-
<b>As at 30 June 2018</b>	<b>32,000,000</b>	<b>36,612,336</b>	<b>20,418,010</b>	<b>89,030,346</b>
As at 1 January 2019	38,400,000	49,806,255	17,789,952	105,996,207
Comprehensive income				
Profit for the period	-	-	281,854	281,854
<b>Total comprehensive income for the period</b>	-	-	281,854	281,854
Appropriation to safety fund	-	88,228	(88,228)	-
Utilisation of safety fund	-	(57,913)	57,913	-
<b>As at 30 June 2019</b>	<b>38,400,000</b>	<b>49,836,570</b>	<b>18,041,491</b>	<b>106,278,061</b>

## Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Net cash (used in)/generated from operating activities	(11,767,440)	1,930,784
Net cash used in investing activities	(4,914,617)	(6,936,166)
Net cash (used in)/generated from financing activities	(2,119,350)	5,520,980
Net (decrease)/increase in cash and cash equivalents	(18,801,407)	515,598
Cash and cash equivalents at beginning of the period	22,272,274	1,845,424
Exchange difference on cash and cash equivalents	(47,036)	(13,136)
<b>Cash and cash equivalents at end of the period</b>	<b>3,423,831</b>	<b>2,347,886</b>



## Notes to the Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2019

### 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 2019 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 2018, 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 2018, 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 2019 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	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Papermaking chemicals	26,690,891	30,588,536
Organic bentonite	13,508,818	10,302,795
Inorganic gel	1,847,429	1,210,893
Bentonite for metallurgy pellet	380,699	809,796
Quality calcium-bentonite	1,510,531	1,226,102
Other chemicals ( <i>Note</i> )	650,008	480,466
	<b>44,588,376</b>	<b>44,618,588</b>

*Note:* Other chemicals mainly comprise flocculating agents which are principally applied in the coating preparation industry.

## 6 OTHER GAINS – NET

	Six months ended 30 June	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Government grants		
– Relating to assets	41,977	45,184
– Relating to costs	560,332	238,435
Others	(10,000)	(17,015)
	592,309	266,604

## 7 FINANCE EXPENSES – NET

	Six months ended 30 June	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Finance income		
– Interest income derived from bank deposits	7,440	5,788
Finance expenses		
– Interest expense	(3,069,459)	(2,549,386)
– Capitalised interest expense	–	5,047
	(3,069,459)	(2,544,339)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	(47,036)	(8,377)
– Unrealised financial charges from financial assets measured at amortised cost	–	(13,136)
	(3,116,495)	(2,565,852)
Finance expenses – net	(3,109,055)	(2,560,064)

## 8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Current income tax	1,440	105,338
Deferred income tax	312,489	(155,879)
	313,929	(50,541)

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 2019 and 2018.

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	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Profit before tax	595,783	592,406
Calculated at statutory tax rate	148,946	148,102
Expenses not deductible for tax purposes	610,593	(29,658)
Additional deduction for research and development expense ( <i>Note</i> )	(386,032)	(349,043)
Preferential tax effecting of the Company	(59,578)	134,730
Adjustment in respect of prior years	-	45,328
Income tax expense	313,929	(50,541)

*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	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Profit for the period has been arrived after charging:		
Depreciation	3,237,066	3,080,580
Amortisation of prepaid leasing expenses	82,578	93,712
Amortisation of mining rights	15,760	15,760
Amortisation of leasehold improvements	1,482,628	329,457

## 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 2019 and 2018.

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
Profit attributable to the equity holders of the Company (RMB)	281,854	642,947
Weighted average number of ordinary shares in issue	38,400,000	32,000,000
Basic earnings per share (RMB per share)	0.007	0.020

### (b) Diluted

The fully diluted earnings per share for the six months ended 30 June 2019 and 2018 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the six months ended 30 June 2019 and 2018.

## 11 DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: nil).

## 12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment of approximately RMB1,254,000 (2018: RMB2,953,000).

## 13 TRADE AND OTHER RECEIVABLES

	30 June 2019 RMB (unaudited)	31 December 2018 RMB (audited)
Trade receivables ( <i>Note</i> )	55,715,206	50,112,498
Less: provision for impairment	(11,144,899)	(11,144,899)
Trade receivables – net	44,570,307	38,967,599
Bills receivable	6,176,596	3,997,328
Other receivables	7,853,829	6,018,281
Less: provision for impairment	(1,145,482)	(1,145,482)
Other receivables – net	6,708,347	4,872,799
Prepayments	3,573,389	2,399,146
Trade and other receivables – net	61,028,639	50,236,872
Less: non-current portion	(1,228,248)	(1,228,248)
Current portion	59,800,391	49,008,624

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

	30 June 2019 RMB (unaudited)	31 December 2018 RMB (audited)
– Within 180 days	38,892,169	35,112,201
– Over 180 days and within 1 year	4,304,362	2,982,115
– Over 1 year and within 2 years	3,540,594	3,478,094
– Over 2 years and within 3 years	2,800,930	1,800,910
– Over 3 years	6,177,151	6,739,178
	<b>55,715,206</b>	<b>50,112,498</b>

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 2019 (unaudited)	38,400,000	38,400,000

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.

As at 29 November 2018, the Company issued 6,400,000 new H shares at a price of HKD3.50 per share by way of placement to not less than six parties, who and whose ultimate beneficial owner are independent third parties. The net proceeds was HKD22,400,000, after deducting the placing related expenses amounted to HKD22,149,965 equivalent to RMB19,407,799 translated on December 28, 2018, being credited to share capital of RMB6,400,000 and share premium of RMB13,007,799 respectively.

## 15 TRADE AND OTHER PAYABLES

	30 June 2019 RMB (unaudited)	31 December 2018 RMB (audited)
Trade payables	9,163,392	16,624,194
Other payables	7,694,445	9,401,764
Staff salaries and welfare payables	2,328,288	2,274,996
Advances from customers	441,147	628,570
Accrued taxes other than income tax	1,279,116	1,234,343
	<b>20,906,388</b>	<b>30,163,867</b>

The ageing analysis of the trade payables is as follows:

	30 June 2019 RMB (unaudited)	31 December 2018 RMB (audited)
Trade payables		
– Within 6 months	6,531,454	11,270,289
– Over 6 months and within 1 year	102,852	950,112
– Over 1 year and within 2 years	819,952	759,952
– Over 2 years and within 3 years	444,280	452,280
– Over 3 years	1,264,854	3,191,561
	<b>9,163,392</b>	<b>16,624,194</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the Reporting Period, the Group stepped up the promotion of new products and promoted the Company's organic bentonite products to local and overseas customers proactively. The organic bentonite product market has taken a shape with positive response from local and overseas customers.

The Group continued to focus on the development of overseas markets. The sales of bentonite products for manufacturing paper in the Southeast Asian market have exceeded 1,000 tons during the Reporting Period.

The Group attached great importance to the research and development of new products. We explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including pesticide adjuvants and papermaking filler modifier. Some of the customers started to apply and recognize the papermaking filler modifier, which can increase the retention rate for the sales papermaking filler and lower the production cost.

### 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			
	2019		2018	
	RMB'000	%	RMB'000	%
Papermaking chemicals	26,691	59.9	30,589	68.6
Organic bentonite	13,509	30.3	10,303	23.1
Inorganic gel	1,847	4.1	1,211	2.7
Bentonite for metallurgy pellet	381	0.8	810	1.8
Quality calcium-bentonite	1,510	3.4	1,226	2.7
Other chemicals	650	1.5	480	1.1
<b>Total</b>	<b>44,588</b>	<b>100.0</b>	<b>44,619</b>	<b>100.0</b>

Revenue from sales of papermaking chemicals decreased by approximately RMB3,898,000 or 12.7% from approximately RMB30,589,000 for the six months ended 30 June 2018 to approximately RMB26,691,000 for the six months ended 30 June 2019. As the average unit selling price increased slightly for the comparative periods, the decrease in revenue was mainly due to the drop in sales volume, which decreased by approximately 14.8% from approximately 7,821 tonnes for the six months ended 30 June 2018 to approximately 6,663 tonnes for the six months ended 30 June 2019.

Revenue from sales of organic bentonite increased by approximately RMB3,206,000 or 31.1% from approximately RMB10,303,000 for the six months ended 30 June 2018 to approximately RMB13,509,000 for the six months ended 30 June 2019. 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 from sales of inorganic gel increased by approximately RMB636,000 or 52.5% from approximately RMB1,211,000 for the six months ended 30 June 2018 to approximately RMB1,847,000 for the six months ended 30 June 2019. The increase was mainly due to the increase in sales volume.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB429,000 or 53.0% from approximately RMB810,000 for the six months ended 30 June 2018 to approximately RMB381,000 for the six months ended 30 June 2019. The decrease was mainly due to the decrease in sales volume.

Revenue of quality calcium-bentonite increased by approximately RMB284,000 or 23.2% from approximately RMB1,226,000 for the six months ended 30 June 2018 to approximately RMB1,510,000 for the six months ended 30 June 2019. 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 RMB170,000 or 35.4% from approximately RMB480,000 for the six months ended 30 June 2018 to approximately RMB650,000 for the six months ended 30 June 2019. Other chemicals mainly comprise flocculating agents 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			
	2019		2018	
	RMB'000	%	RMB'000	%
Cost of raw materials	19,535	75.8	19,152	76.1
Direct labour costs	1,675	6.5	1,585	6.3
Manufacturing overhead costs	3,969	15.4	3,825	15.2
Others	593	2.3	604	2.4
<b>Total</b>	<b>25,772</b>	<b>100.0</b>	<b>25,166</b>	<b>100.0</b>

The cost of sales increased by approximately RMB606,000 or 2.4% from approximately RMB25,166,000 for the six months ended 30 June 2018 to approximately RMB25,772,000 for the six months ended 30 June 2019.

Cost of raw materials accounted for approximately 75.8% and 76.1% of cost of sales for the six months ended 30 June 2019 and 2018 respectively. The cost of raw materials increased by approximately 2.0% from approximately RMB19,152,000 for the six months ended 30 June 2018 to approximately RMB19,535,000 for the six months ended 30 June 2019. 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 2019, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 6.5% and 6.3% of cost of sales for the six months ended 30 June 2019 and 2018, respectively. Direct labour costs remained stable during the comparative periods.

Manufacturing overhead costs accounted for approximately 15.4% and 15.2% of cost of sales for the six months ended 30 June 2019 and 2018 respectively. Manufacturing overhead costs increased by approximately 3.8% from approximately RMB3,825,000 for the six months ended 30 June 2018 to approximately RMB3,969,000 for the six months ended 30 June 2019.

#### *Gross profit and gross profit margin*

Gross profit margin decreased from 43.6% for the six months ended 30 June 2018 to 42.2% for the six months ended 30 June 2019. The drop in gross profit margin was mainly attributable to the decrease in sales of papermaking chemicals which has a higher gross profit margin to the customers.

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

Product	For the six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
Papermaking chemicals	15,186	56.9	16,678	54.5
Organic bentonite	2,013	14.9	1,401	13.6
Inorganic gel	739	40.0	482	39.8
Bentonite for metallurgy pellet	142	37.3	305	37.6
Quality calcium-bentonite	572	37.9	467	38.1
Other chemicals	164	25.2	120	25.1
<b>Total</b>	<b>18,816</b>	<b>42.2</b>	<b>19,453</b>	<b>43.6</b>

The gross profit margin of papermaking chemicals increased from 54.5% for the six months ended 30 June 2018 to 56.9% for the six months ended 30 June 2019. The increase 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 higher gross profit margin for the six months ended 30 June 2019.

The gross profit margin of organic bentonite was 14.9 and 13.6% for the six months ended 30 June 2019 and 2018, respectively. The gross profit margin increased slightly during the comparative periods.

The gross profit margin of inorganic gel was 40.0 and 39.8% for the six months ended 30 June 2019 and 2018, respectively. The gross profit margin remained stable during the comparative periods.

The gross profit margin of bentonite for metallurgy pellet was 37.3% and 37.6% for the six months ended 30 June 2019 and 2018, respectively. The gross profit margin decreased slightly during the comparative periods.

The gross profit margin of quality calcium-bentonite was 37.9% and 38.1% for the six months ended 30 June 2019 and 2018, respectively. The gross profit margin decreased slightly during the comparative periods.

The gross profit margin of other chemicals was 25.2% and 25.1% for the six months ended 30 June 2019 and 2018, respectively. The gross profit margin remained stable during the comparative periods.

#### ***Distribution costs***

The distribution costs for the six months ended 30 June 2019 and 2018 amounted to approximately RMB6,622,000 and RMB7,786,000, respectively. The distribution costs decreased by approximately RMB1,164,000 or 14.9% mainly because of the decrease in transportation expenses from approximately RMB6,638,000 for the six months ended 30 June 2018 to approximately RMB5,748,000 for the six months ended 30 June 2019.

#### ***Administrative expenses***

The administrative expenses decreased by approximately RMB864,000 or 12.6% from approximately RMB6,857,000 for the six months ended 30 June 2018 to approximately RMB5,993,000 for the six months ended 30 June 2019. The decrease was mainly due to the decrease in provision for trade receivables.

*Research and development expenses*

The research and development expenses increased by approximately RMB1,164,000 or 60.5% from approximately RMB1,924,000 for the six months ended 30 June 2018 to approximately RMB3,088,000 for the six months ended 30 June 2019. The increase was mainly due to the increase 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 2019 and 2018 amounted to approximately RMB592,000 and RMB267,000, respectively. The increase in other gains mainly due to the increase in government grants from approximately RMB284,000 for the six months ended 30 June 2018 to approximately RMB602,000 for the six months ended 30 June 2019.

*Finance expenses – net*

The net finance expenses increased from approximately RMB2,560,000 for the six months ended 30 June 2018 to approximately RMB3,109,000 for the Reporting Period mainly as a result of increase in bank borrowings.

*Income tax expenses*

The effective tax rates were 52.7% and (8.5)% for the six months ended 30 June 2019 and 2018, respectively. The increase in effective tax rates was mainly due to the increase in expenses not deductible for tax purposes. The details are set out in note 8 to the financial statements.

*Profit for the period*

The profit for the period decreased by approximately RMB361,000 or 56.1% from approximately RMB643,000 for the six months ended 30 June 2018 to approximately RMB282,000 for the six months ended 30 June 2019. The net profit margin for the Group decreased from approximately 1.4% for the six months ended 30 June 2018 to approximately 0.6% for the six months ended 30 June 2019. The decrease in profit for the period of the Group was mainly due to the decrease in gross profit and increase in research and development expenses 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 7.9% and 4.5% 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 2019, the Group had cash and cash equivalents of RMB3,424,000 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 (used in)/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 2019, the Group's net cash outflow used in operating activities amounted to approximately RMB11,767,000, representing a decrease of approximately RMB13,698,000 from a net cash inflow generated from operating activities of approximately RMB1,931,000 for the six months ended 30 June 2018.

### *Net cash used in investing activities*

For the six months ended 30 June 2019, the Group's net cash outflow used in investing activities amounted to approximately RMB4,915,000, representing a decrease of approximately RMB2,021,000 as compared with the cash outflow used in investing activities of approximately RMB6,936,000 for the six months ended 30 June 2018. The decrease was mainly due to the decrease in purchase of property, plant and equipment for the six months ended 30 June 2019.



### *Net cash (used in)/generated from financing activities*

For the six months ended 30 June 2019, the Group's net cash outflow used in financing activities amounted to approximately RMB2,119,000, representing a decrease of approximately RMB7,640,000 as compared with the net cash inflow generated from financing activities of approximately RMB5,521,000 for the six months ended 30 June 2018. The decrease was mainly due to the repayment of bank borrowings.

## **Capital Structure**

### *Indebtedness*

The total indebtedness of the Group as at 30 June 2019 was approximately RMB76,421,000 (as at 31 December 2018: approximately RMB75,471,000). 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 2019, the Group's gearing ratio was approximately 37.2% (as at 31 December 2018: 35.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to decrease in bank borrowings.

### *Pledge of assets*

As at 30 June 2019, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB40,476,000 (as at 31 December 2018: approximately RMB40,476,000).

### *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 RMB1,254,000 and RMB2,953,000 for the six months ended 30 June 2019 and 2018, 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 2019, 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 2019, 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 2019, the market is full of challenges and uncertainties. The Group will continue to promote the transformation, upgrading and technological reform of our main products, optimise the product range mix and improve the market competitiveness of our products. We will step up the promotion of new products, strive to create new sources of profit and take the Company's business to the next level.

The Group's overall business strategy: improve responsiveness to the market by adopting a profit-centered, innovation-driven, market-oriented and sales-led mentality. Therefore, the Group has formulated and will implement the following strategies:

- 1) The Group's work focuses on promoting organic bentonite products and opening up the market scale for new products, particularly the application of organic bentonite in the fields such as paints and coatings as well as water treatment;

- 2) The Group will further expand the development of fine paper chemical market in Southeast Asia; and
- 3) The Group will promote the application of its products in the new sectors, such as pesticide adjuvants and aquaculture.

### **Human Resources and Training**

As at 30 June 2019, the Group had a total of 105 employees, of which 43 worked at the Group's headquarters in Changxing, and 62 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB4,707,000 (2018: RMB4,853,000). 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 2019. 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.

### **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 2019, 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 2019, 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)	50.05%
Ms. Zhang Jinhua	Beneficial owner	398,400 (Domestic Shares)	1.04%
Mr. Xu Qinsi (i)	Interest of spouse	100,000 (Domestic Shares)	0.26%

- (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 2019, 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 2019, 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)	9.31%

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 2019.

### **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 2019, the Group had capital commitment amounted to approximately RMB593,000 (as at 31 December 2018: RMB989,000).

## Dividends

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: nil).

## 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. Zhang Lei, who are independent non-executive Directors. Mr. Zhang, 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 2019 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 2019 will be dispatched to shareholders of the Company and published on the Company's website at [www.renheng.com](http://www.renheng.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in due course.

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

Zhejiang, the PRC, 14 August 2019

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