

2019

Third Quarterly 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

* For identification purpose only

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

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

* For identification purpose only

RESULTS HIGHLIGHTS

For the nine months ended 30 September 2019, the financial highlights were as follows:

- Revenue increased by 3.6% to approximately RMB68,435,000 (2018: approximately RMB66,026,000).
- Gross profit increased by 4.7% to approximately RMB29,320,000 (2018: approximately RMB28,017,000).
- Gross profit margin was 42.8% (2018: 42.4%).
- Profit for the nine months ended 30 September 2019 was approximately RMB503,000 (2018: loss was approximately RMB977,000).
- Basic earnings per share was approximately RMB0.01 (2018: basic loss per share was approximately RMB0.03).
- The Board did not recommend the payment of any dividends for the nine months ended 30 September 2019 (2018: nil).

UNAUDITED THIRD QUARTERLY 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 nine months ended 30 September 2019 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2018 as follows:

Unaudited condensed consolidated statement of comprehensive income

For the nine months ended 30 September 2019

	Note	Three months ended 30 September		Nine months ended 30 September	
		2019 RMB (Unaudited)	2018 RMB (Unaudited)	2019 RMB (Unaudited)	2018 RMB (Unaudited)
Revenue	4	23,846,183	21,407,014	68,434,559	66,025,602
Cost of sales		(13,342,054)	(12,843,008)	(39,114,317)	(38,008,539)
Gross profit		10,504,129	8,564,006	29,320,242	28,017,063
Distribution costs		(4,428,824)	(1,605,292)	(11,051,284)	(9,391,374)
Administrative expenses		(2,227,226)	(6,265,331)	(8,220,097)	(13,122,767)
Research and development expenses		(2,280,547)	(1,911,819)	(5,368,800)	(3,835,491)
Other gains – net		3,250	1,003,637	595,559	1,270,241
Operating profit/(loss)		1,570,782	(214,799)	5,275,620	2,937,672
Finance income		3,282	91,357	10,722	97,145
Finance expenses		(1,434,658)	(1,507,000)	(4,551,153)	(4,072,852)
Finance expenses – net		(1,431,376)	(1,415,643)	(4,540,431)	(3,975,707)
Profit/(loss) before income tax		139,406	(1,630,442)	735,189	(1,038,035)
Income tax expense	5	81,480	10,474	(232,449)	61,015
Profit/(loss) for the period attributable to the equity holders of the Company		220,886	(1,619,968)	502,740	(977,020)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the period attributable to the equity holders of the Company		220,886	(1,619,968)	502,740	(977,020)
Earnings/(loss) per share for profit/ (loss) attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	6	0.01	(0.05)	0.01	(0.03)
Dividends	7	-	-	-	-

Unaudited condensed consolidated statement of changes in equity

For the nine months ended 30 September 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				
Loss for the period	-	-	(977,020)	(977,020)
Total comprehensive loss for the period	-	-	(977,020)	(977,020)
Appropriation to statutory reserve	-	18,000	(18,000)	-
Utilisation of safety funds	-	(27,207)	27,207	-
As at 30 September 2018	32,000,000	36,624,940	18,785,438	87,410,378
As at 1 January 2019	38,400,000	49,806,255	17,789,952	105,996,207
Comprehensive income				
Profit for the period	-	-	502,740	502,740
Total comprehensive income for the period	-	-	502,740	502,740
Appropriation to statutory reserve	-	305,426	(305,426)	-
Utilisation of safety fund	-	(152,857)	152,857	-
As at 30 September 2019	38,400,000	49,958,824	18,140,123	106,498,947

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the nine months ended 30 September 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 (collectively, the “Group”) are principally engaged in the business of development, production and sale of bentonite fine chemicals. The Group uses bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

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

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

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

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

2 BASIS OF PREPARATION

This unaudited condensed consolidated financial information for the nine months ended 30 September 2019 has been prepared in accordance with the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 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 for the nine months ended 30 September 2019 are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for the nine months ended 30 September 2019 that could be expected to have a material impact on this Group.

4 REVENUE

	<u>Nine months ended 30 September</u>	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Papermaking chemicals	41,280,983	39,791,009
Organic bentonite	20,879,585	17,462,888
Bentonite for metallurgy pellet	510,613	1,179,625
Quality calcium-bentonite	1,778,230	1,930,167
Other chemicals (i)	3,985,148	5,661,913
	68,434,559	66,025,602

- (i) Other chemicals mainly comprise inorganic gel and flocculating agent which are principally applied in the coating preparation industry.

5 INCOME TAX EXPENSE

	<u>Nine months ended 30 September</u>	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Current income tax	476,726	429,508
Deferred income tax	(244,277)	(490,523)
	232,449	(61,015)

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 nine months ended 30 September 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:

	<u>Nine months ended 30 September</u>	
	2019 RMB (unaudited)	2018 RMB (unaudited)
Profit/(loss) before tax	735,189	(1,038,035)
Calculated at statutory tax rate	183,797	(259,509)
Expenses not deductible for tax purposes	23,874	120,169
Additional deduction for research and development expense (i)	(494,380)	(479,437)
Preferential tax saving of the Company	519,158	167,378
Adjustment in respect of prior years	-	390,384
Income tax expense	232,449	(61,015)

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

6 EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the nine months ended 30 September 2019 and 2018.

	<u>Nine months ended 30 September</u>	
	2019 (unaudited)	2018 (unaudited)
Profit/(loss) attributable to the equity holders of the Company (RMB)	502,740	(977,020)
Weighted average number of ordinary shares in issue	38,400,000	32,000,000
Basic earnings/(loss) per share (RMB per share)	<u>0.01</u>	<u>(0.03)</u>

(b) Diluted

The fully diluted earnings/(loss) per share for the nine months ended 30 September 2019 and 2018 is the same as the basic earnings/(loss) per share as there is no dilutive potential ordinary share for the nine months ended 30 September 2019 and 2018.

7 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2019 (2018: nil).

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 of the Group for the nine months ended 30 September 2019 amounted to approximately RMB68,435,000, representing an increase of approximately RMB2,409,000 or 3.6% compared to approximately RMB66,026,000 for the nine months ended 30 September 2018. The increase in sales was mainly due to the increase in sales of organic bentonite during the Reporting Period.

Gross profit of the Group for the nine months ended 30 September 2019 amounted to approximately RMB29,320,000, representing an increase of approximately RMB1,303,000 or 4.7% compared to approximately RMB28,017,000 for the nine months ended 30 September 2018. The increase in gross profit was mainly due to the increase in revenue and the increase of gross profit margin from 42.4% for the nine months ended 30 September 2018 to 42.8% for the nine months ended 30 September 2019.

The distribution costs, mainly including transportation expenses, salaries and benefits, and travelling expenses, amounted to approximately RMB11,051,000 for the nine months ended 30 September 2019, representing an increase of approximately RMB1,660,000 or 17.7% as compared to RMB9,391,000 for the nine months ended 30 September 2018. This increase was mainly as a result of the increase in transportation expenses for the Reporting Period.

The administrative expenses of the Group were approximately RMB8,220,000 for the nine months ended 30 September 2019, representing a decrease of approximately RMB4,903,000 or 37.4% as compared to approximately RMB13,123,000 for the nine months ended 30 September 2018. The decrease was primarily due to a decrease in provision for trade receivables, legal and professional fees.

The research and development expenses increased by approximately RMB1,534,000 or 40.0% from approximately RMB3,835,000 for the nine months ended 30 September 2018 to approximately RMB5,369,000 for the nine months ended 30 September 2019. The increase was mainly due to the increasing in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for Petrochemical Engineering.

The profit for the nine months ended 30 September 2019 was approximately RMB503,000, while there was a loss of approximately RMB977,000 in the corresponding period in 2018. The increase in profit was mainly due to the increase in gross profit and the decrease in administrative expenses during the Reporting Period.

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.

OTHER INFORMATION

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

As at 30 September 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 September 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.

Directors' and supervisors' rights to acquire shares or debentures

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

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

As at 30 September 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 September 2019.

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.

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. Li Jiangning, Mr. Tan Jingyan, 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 quarterly report of the Company for the nine months ended 30 September 2019 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Use of proceeds from placing of H shares on 29 November 2018

The issue of in total 6,400,000 H Shares was completed in full on 29 November 2018 from which the net proceeds were approximately HK\$22.15 million (equivalent to approximately RMB19.37 million).

As at 30 September 2019, all the net proceeds from the Placing has been utilised as follows:

Planned use of net proceeds	Planned use of net proceeds (RMB million)	Actual utilised amount as at 30 September 2019 (RMB million)
Business development of the Group	4.84	4.84
Research and development of new bentonite products, including mainly bentonite fine chemicals for producing pharmaceutical products	3.87	3.87
Investment in environmental protection facilities for production	3.88	3.88
Construction of mining production safety facilities and keep track of customers' demand and enhancing product applications	1.94	1.94
Replenishing the general working capital of the Group	4.84	4.84
Total	19.37	19.37

It is confirmed that there is no other change in the use of proceeds from the Placing. The Directors are of the view that the actual use of the net proceeds is in the interest of the Company and the Shareholders as a whole.

Events after the Reporting Period

The extraordinary general meeting and the shareholders' class meetings were held on Saturday, 19 October 2019. The shareholders approved (1) the election of Mr. She Wenjie as an executive Director; (2) the election of Mr. Li Jiangning as an independent non-executive Director; and (3) the election of Mr. Tang Jingyan as an independent non-executive Director. But the H share shareholders did not approve the amendments to the Articles of Association of the Company and complete all relevant registration and filing procedures as the Directors think fit so as to reflect the new capital structure of the Company upon the exercise of power to allot and issue the H shares.

Disclosure of information

The quarterly report for the nine months ended 30 September 2019 will be dispatched to shareholders of the Company and published on the Company's website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, PRC, 12 November 2019

As at the date of this report, the executive Directors are Mr. Zhang Youlian, Mr. She Wenjie and Mr. Fan Fang; the non-executive Director is Ms. Zhang Jinhua and the independent non-executive Directors are Mr. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan.