



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

2020

ANNUAL REPORT

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* For identification purpose only

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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhang Youlian (*Chairman*)
Mr. Fan Fang
Mr. She Wenjie

Non-executive Director

Ms. Zhang Jinhua

Independent Non-executive Directors

Mr. Zhang Lei
Mr. Li Jiangning
Mr. Tang Jingyan

AUDIT COMMITTEE MEMBERS

Mr. Zhang Lei (*Chairman*)
Mr. Li Jiangning
Mr. Tang Jingyan

NOMINATION COMMITTEE MEMBERS

Mr. Tang Jingyan (*Chairman*)
Mr. Zhang Li
Mr. Fan Fang

REMUNERATION COMMITTEE MEMBERS

Mr. Zhang Li (*Chairman*)
Mr. Tang Jingyan
Mr. Fan Fang

SUPERVISORY COMMITTEE

Mr. Xu Qinsi (*Chairman*)
Mr. Zhang Donglian
Ms. Li Lijiao

JOINT COMPANY SECRETARY

Mr. Chan Hon Wan
Ms. Li Nan

COMPLIANCE OFFICER

Mr. Fan Fang

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan
Mr. Zhang Youlian

Corporate Information

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PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

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Zhejiang Province, PRC

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COMPANY'S WEBSITE

www.renheng.com

STOCK CODE

8139

Financial Highlights

	For the year ended 31 December		
	2020	2019	Changes
	RMB'000	RMB'000	Increase/(Decrease)
Financial Highlights			
Revenue	112,718	100,293	12.4%
Cost of sales	(65,874)	(58,786)	12.1%
Gross profit	46,844	41,507	12.9%
Profit/(Loss) before income tax	1,340	(1,069)	N/A
Profit/(Loss) attributable to the equity holders of the Company	1,177	(901)	N/A
Basic earnings/(losses) per share (RMB)	0.03	(0.02)	N/A
Proposed final dividends per share (HK\$)	NIL	NIL	N/A

	As at 31 December		
	2020	2019	Changes
			Increase/(Decrease)
Current ratio ⁽¹⁾	1.17	1.10	6.4%
Quick ratio ⁽²⁾	0.77	0.71	8.5%
Asset-liability ratio ⁽³⁾	38.1%	37.3%	0.8% pts

Notes:

- (1) Current ratio is calculated as current assets divided by current liabilities.
- (2) Quick ratio is calculated as current assets less inventories divided by current liabilities.
- (3) Asset-liability ratio is calculated as total borrowings divided by total assets and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of Directors, I hereby present the annual report of Zhejiang Chang'an Renheng Technology Company, Limited for the year ended 31 December 2020 (the "Year Under Review") to shareholders (the "Shareholders") and potential investors.

In early 2020, the novel coronavirus (COVID-19) epidemic (the "Epidemic") had a certain negative impact on the operation of the Group. In the second half of 2020, the Epidemic began to stabilize in China and the market began to improve. Under the leadership of the Board, the Group actively responded, adjusted its product structure and market layout, and its business began to rebound. During the Year Under Review, the scale of the Group's production and operation has increased as compared to 2019.

RESULTS OF OPERATION

The Group recorded a revenue of approximately RMB112,718,000 for the year ended 31 December 2020, representing an increase of approximately RMB12,425,000 or 12.4% as compared to the previous year. Profit for the year attributable to the equity holders of the Company was approximately RMB1,177,000, while there was a loss of approximately RMB901,000 for the year ended 31 December 2019. The overall gross profit margin was up to 41.6% and earnings per share was approximately RMB0.03, as compared to the losses per share of approximately RMB0.02 for the previous year. The Board believes that the existing financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

BROADEN SALES MARKETS

In 2020, the Group continued to increase the promotion of bentonite products for paints and coatings, its products were recognized by customers, and its sales and profits increased as compared to 2019. Bentonite products for spray paint wastewater treatment have also been recognized by customers, and its sales has risen steadily. The Group has upgraded the technology of water treatment products to make the products more suitable for market demand. The Group also promotes bentonite products to domestic and foreign customers through platforms such as coating exhibition and non-metal industry association.

DEVELOPING NEW PRODUCTS

During the Year Under Review, in accordance with our business development plan, the Group explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including water-retaining agent for paint and sludge enhancer for paper making, applied for one invention patent. The Group has developed products applied in the field of biological fermentation and has carried out preliminary promotion. The Group has also established a doctoral workstation and introduced one doctor to study the development and utilization of bentonite products in depth.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

The Group will continue to implement the development direction of the Board and increase the product marketing efforts in various fields such as paints and coatings, papermaking chemicals and water treatment. The Group develops new products through platforms such as doctoral workstation; and research and development center, with an aim to increase sources of revenue and enhance the competitiveness of the Group.

ACKNOWLEDGEMENT

On behalf of the Board of Zhejiang Chang'an Renheng Technology Co., Ltd., I would like to take this opportunity to express my heartfelt gratitude to all the partners, colleagues and family members. I thank my colleagues in the Board, management team and all employees for their unremitting efforts, spirit of cooperation and contributions. In 2021, we will continue to work hard to expand the market and seek maximum returns for Shareholders.

Mr. Zhang Youlian
Chairman of the Board

Zhejiang, the PRC, 29 March 2021

Management Discussion and Analysis

INDUSTRY REVIEW

2020 was an extraordinary year for everyone, as well as for the bentonite industry. In early 2020, the Epidemic had a huge negative impact on the bentonite industry. In the second half of 2020, with the adoption of decisive and effective Epidemic prevention measures, the national economy has gradually entered a rapid recovery channel, and the impact of the Epidemic on the economy of the bentonite industry has also begun to diminish.

The main products of the Group are mainly used in two areas: (1) paints and coatings; and (2) papermaking. Among other things, the functional and environmental friendly concept of bentonite in the application of thickening and water-retaining materials; and rheological additives for paints and coatings is in line with the development trend of the coating industry nowadays. The coating industry plays an important role in serving and supporting multiple industries in the national economy. Coatings are widely used in machinery manufacturing, transportation, light industry, chemical and construction industries, and are indispensable functional materials. At present, the research and development of coatings focuses on environmental protection and coatings with special functions.

“The Industrial Structure Adjustment Directory” issued by the China Development and Reform Commission currently mainly encourages water-based woodware, industrial, marine coatings, high solids, solvent-free, radiation curing, functional exterior wall, exterior insulation coatings, environmentally friendly and resource-saving coatings with low-medium VOC content; the production of high-performance anticorrosive coatings used in key areas such as large aircraft and high-speed railways, as well as the production of chlorinated titanium dioxide with a single-line production capacity of 30,000 tons and above per year. The industrial coating industry is also accelerating technological changes, adjusting the industrial structure, shifting to environmentally friendly and multifunctional products such as water-based coatings and radiation curing coatings, and realizing the replacement of new and old production capacity. Bentonite has a very wide range of applications in the coating industry, such as coating thickeners, suspension anti-settling agents, auxiliary binders, etc. Moreover, bentonite has inherent advantages in the process of “oil-to-water” of coatings.

As for the paper industry, in 2020, after a sharp dip in March, the market began to pick up in April. In the third and fourth quarters, as the Epidemic was under control and the market demand began to improve, and major festivals were coming, the frequent release of price increase letters showed that prices continued to rise. According to the report on the production and operation of the paper industry released by China Paper Association on the China Paper Weekly dated 18 November 2020, the production and operation of the industry were improving month by month. It is expected that the production and consumption of paper and paperboard throughout the year will be better than 2019, representing a year-on-year growth of approximately 2.2% and 6.5%, respectively.

BUSINESS REVIEW

In 2020, the Group continued to focus on promoting bentonite for paints and coatings, and its products were recognized by customers, and its sales and profits increased. The production, promotion and application of bentonite products for spray paint wastewater treatment were gradually mature with certain sales scale. The Group also participated in the annual meeting of inorganic non-metal industry and promoted products through this platform. Bentonite for spray paint wastewater treatment has also been listed by the Ministry of Industry and Information Technology as an outstanding project in the field of energy-saving and environmentally-friendly materials. The Group continued to focus on the development of overseas markets and consolidated the Southeast Asian and Middle Eastern markets during the Year Under Review. The Group attached great importance to investment in the research and development of new products. For the year ended 31 December 2020, the Group's research and development expenses amounted to approximately RMB7,368,000.

During the Year Under Review, the Group has undertaken the development of two new products at provincial level, and applied for one invention patent. At the same time, the Group has established a doctoral workstation and introduced one doctor to study the development and application of bentonite products in depth.

Management Discussion and Analysis

FINANCIAL REVIEW

1. Revenue

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

Product	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Papermaking chemicals	53,590	47.6	55,148	55.0
Organic bentonite	45,934	40.8	35,837	35.7
Inorganic gel	9,028	8.0	4,889	4.9
Quality calcium-bentonite	1,483	1.3	2,256	2.2
Bentonite for metallurgy pellet	949	0.8	655	0.7
Other chemicals (i)	1,734	1.5	1,508	1.5
Total	112,718	100.0	100,293	100.0

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

Revenue from sales of papermaking chemicals decreased by approximately RMB1,558,000 or 2.8% from approximately RMB55,148,000 for the year ended 31 December 2019 to approximately RMB53,590,000 for the year ended 31 December 2020. As the average selling price remained stable for the comparative periods, the decrease in revenue was mainly due to the decrease in sales volume, which decreased by approximately 2.2% from approximately 11,782 tonnes for the year ended 31 December 2019 to approximately 11,523 tonnes for the year ended 31 December 2020.

Revenue from sales of organic bentonite increased by approximately RMB10,097,000 or 28.2% from approximately RMB35,837,000 for the year ended 31 December 2019 to approximately RMB45,934,000 for the year ended 31 December 2020. The increase was mainly due to the increase in both the sales volume and selling price.

Revenue from sales of inorganic gel increased by approximately RMB4,139,000 or 84.7% from approximately RMB4,889,000 for the year ended 31 December 2019 to approximately RMB9,028,000 for the year ended 31 December 2020. The increase was mainly due to the increase in both the sales volume and selling price.

Revenue of quality calcium-bentonite for the year ended 31 December 2020 decreased by approximately RMB773,000 or 34.3% to approximately RMB1,483,000 as compared to approximately RMB2,256,000 for the year ended 31 December 2019. The decrease in revenue was mainly due to the decrease in sales volume.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB294,000 or 44.9% from approximately RMB655,000 for the year ended 31 December 2019 to approximately RMB949,000 for the year ended 31 December 2020.

Revenue of other chemicals for the year ended 31 December 2020 increased by approximately RMB226,000 or 15.0% to approximately RMB1,734,000 as compared to approximately RMB1,508,000 for the year ended 31 December 2019. Other chemicals mainly comprise flocculating agent which are principally applied in the coating preparation industry.

Management Discussion and Analysis

2. Cost of sales

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

	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Cost of raw materials and consumable	51,218	77.7	45,332	77.1
Direct labour costs	4,745	7.2	4,314	7.4
Manufacturing overhead cost	8,550	13.0	7,844	13.3
Others	1,361	2.1	1,296	2.2
Total	65,874	100.0	58,786	100.0

The cost of sales increased by approximately RMB7,088,000 or 12.1% from approximately RMB58,786,000 for the year ended 31 December 2019 to approximately RMB65,874,000 for the year ended 31 December 2020.

Cost of raw materials accounted for approximately 77.7% and 77.1% of cost of sales for the year ended 31 December 2020 and 2019, respectively. The cost of raw materials increased by approximately RMB5,886,000 or 13.0% from approximately RMB45,332,000 for the year ended 31 December 2019 to approximately RMB51,218,000 for the year ended 31 December 2020 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 year ended 31 December 2020, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 7.2% and 7.4% of cost of sales for the year ended 31 December 2020 and 2019, respectively. Direct labour costs increased by approximately RMB431,000 or 10.0% from approximately RMB4,314,000 to RMB4,745,000 during the comparative years.

Manufacturing overhead costs accounted for approximately 13.0% and 13.3% of cost of sales for the year ended 31 December 2020 and 2019, respectively. Manufacturing overhead costs increased by approximately RMB706,000 or 9.0% from approximately 7,844,000 for the year ended 31 December 2019 to approximately RMB8,550,000 for the year ended 31 December 2020.

3. Gross profit and gross profit margin

Gross profit margin increased slightly from 41.4% in 2019 to 41.6% in 2020. The increase in gross profit margin was mainly attributable to the increase in sales volume of organic bentonite which has a higher gross profit margin.

Management Discussion and Analysis

4. Distribution costs

The distribution costs for the year ended 31 December 2020 and 2019 amounted to approximately RMB15,952,000 and RMB16,363,000, respectively. The distribution costs decreased by approximately RMB411,000 or 2.5% mainly because of the decrease in transportation expenses of approximately RMB680,000 during the Year Under Review.

5. Administrative expenses

The administrative expenses increased by approximately RMB1,572,000 or 11.0% from approximately RMB14,321,000 for the year ended 31 December 2019 to approximately RMB15,893,000 for the year ended 31 December 2020. The increase was mainly due to the increase in professional service fees and entertainment expenses.

6. Net impairment losses on financial assets

The net impairment loss on financial assets increased by approximately RMB176,000 or 135.4% from approximately RMB130,000 for the year ended 31 December 2019 to approximately RMB306,000 for the year ended 31 December 2020.

7. Research and development expenses

The research and development expenses decreased slightly by approximately RMB59,000 or 0.8% from approximately RMB7,427,000 for the year ended 31 December 2019 to approximately RMB7,368,000 for the year ended 31 December 2020. The decrease was mainly due to the decrease in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for petrochemical engineering.

8. Other gains – net

Other gains for the year ended 31 December 2020 and 2019 amounted to approximately RMB161,000 and RMB2,051,000, respectively. The decrease in other gains was mainly due to the decrease in government grants from approximately RMB2,123,000 for the year ended 31 December 2019 to approximately RMB318,000 for the year ended 31 December 2020.

9. Finance expenses-net

The net finance expenses decreased by approximately RMB240,000 or 3.8% from approximately RMB6,385,000 for the year ended 31 December 2019 to approximately RMB6,145,000 for the year ended 31 December 2020. The decrease was mainly due to the decrease of interest expenses on borrowings as a result of the decrease in average borrowing interest rate. The borrowings were financed for working capital and capital investments in the production facilities.

10. Income tax (expense)/credit

The income tax expense for the year ended 31 December 2020 was approximately RMB163,000, when compared to an income tax credit of approximately RMB167,000 for the year ended 31 December 2019. The income tax credit for 2019 was mainly due to the loss before income tax, the details are set out in Note 11 to the consolidated financial statements.

The effective tax rates were 12.2% and (15.7)% for the years ended 31 December 2020 and 2019, respectively.

11. Profit/(loss) for the year attributable to the equity holders of the Company

As a result of the foregoing, the profit for the year attributable to the equity holders of the Company was approximately RMB1,177,000 for the year ended 31 December 2020, while there was a loss of approximately RMB901,000 for the year ended 31 December 2019.

Management Discussion and Analysis

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Inventories

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Raw materials	34,452	35,522
Finished goods	8,031	7,264
Low-value consumables	113	108
Total	42,596	42,894

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

Provision for impairment of inventories

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

The amount of the provision for impairment of inventories was approximately RMB599,000 at 31 December 2020 (31 December 2019: RMB599,000).

Inventory turnover

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

	Year ended 31 December	
	2020	2019
Average inventory turnover days (<i>note</i>)	237	240

Note:

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

The average inventory turnover days decreased from 240 days for the year ended 31 December 2019 to 237 days for the year ended 31 December 2020. The decreased in average inventory turnover days in 2020 was primarily due to the increase in cost of sales and decrease in average inventories.

Management Discussion and Analysis

2. Trade and other receivables

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	62,414	56,971
Less: provision for impairment	(11,948)	(11,553)
Trade receivables – net	50,466	45,418
Notes receivables	–	10,477
Other receivables	3,295	3,775
Less: provision for impairment	(759)	(848)
Other receivables – net	2,536	2,927
Prepayments	5,512	6,277
Trade and other receivables – net	58,514	65,099
Less: non-current portion	–	–
Current portion	58,514	65,099

Trade receivables

Trade receivables as at 31 December 2020 and 2019 mainly represented the outstanding amounts of receivable from customers less any provision for impairment of trade receivables. The following table sets out an analysis of the trade receivables as at the balance sheet dates indicated:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	62,414	56,971
Less: provision for impairment	(11,948)	(11,553)
Trade receivables – net	50,466	45,418

The customers are normally required to make payment pursuant to the credit terms which is determined by the length of the customers' relationship with the Group and the contract value. The Group generally provides a credit term normally from 90 days to 180 days to its customers.

Management Discussion and Analysis

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 180 days	47,780	41,251
Over 180 days and within 1 year	2,609	3,440
Over 1 year and within 2 years	2,712	3,313
Over 2 years and within 3 years	2,554	2,536
Over 3 years	6,759	6,431
Total	62,414	56,971

The Group's trade receivables increased by approximately RMB5,443,000 or 9.6% from approximately RMB56,971,000 as at 31 December 2019 to approximately RMB62,414,000 as at 31 December 2020. The trade receivables due over 180 days decreased by approximately RMB5,939,000 or 21.5% from approximately RMB27,573,000 as at 31 December 2019 to approximately RMB21,634,000 as at 31 December 2020. The decrease was mainly due to the increase in settlement from our customers during the Year Under Review.

Trade receivables turnover days

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

	Year ended 31 December	
	2020	2019
Trade receivables turnover days (<i>note</i>)	193	195

Note:

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

The Group's trade receivables turnover days for the years ended 31 December 2020 and 2019 were approximately 193 days and 195 days respectively. The decrease of turnover days was mainly due to the increase in revenue.

Provision for impairment of trade receivables

Trade receivables is subject to the expected credit loss model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates of trade receivables is based on the payment profiles of sales over a period of 36 month before 1 January 2020 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Management Discussion and Analysis

3. Trade and other payables

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

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Notes payables	1,200	–
Trade payables	19,829	22,278
Other payables	8,204	7,300
Staff salaries and welfare payables	2,741	2,920
Deposits advances	–	501
Accrued taxes other than income tax	2,582	897
Total	34,556	33,896

As at 31 December 2020 and 2019, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The trade payables decreased by approximately RMB2,449,000 or 11.0% from approximately RMB22,278,000 as at 31 December 2019 to approximately RMB19,829,000 as at 31 December 2020.

Trade payables turnover days

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

	Year ended 31 December	
	2020	2019
Trade payable turnover days (<i>note</i>)	117	121

Note:

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

The trade payables turnover days decreased from 121 days for the year ended 31 December 2019 to 117 days for the year ended 31 December 2020, which was due to the decrease in average trade payables for the Year Under Review.

Management Discussion and Analysis

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.

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB2,079,000, which mainly comprised the net cash generated from operating activities of approximately RMB11,011,000, net cash used in investing activities of approximately RMB10,711,000, net cash used in financing activities of approximately RMB2,306,000, and the foreign exchange loss of approximately RMB73,000. Details of cash flows of the Group are set out on page 48 of the "Consolidated Cash Flow Statement" of this report.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2020 was approximately RMB87,700,000 (31 December 2019: approximately RMB83,912,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Asset-liability ratio

As at 31 December 2020, the Group's asset-liability ratio was approximately 38.1% (31 December 2019: 37.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

3. Pledge of assets

As at 31 December 2020, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB27,554,000 (31 December 2019: approximately RMB28,844,000).

4. Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB10,250,000 and RMB9,182,000 for the year ended 31 December 2020 and 2019, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Year Under Review, the weight average effective annual interest rate of bank borrowings was 7.09% and the weight average effective annual interest rate of other borrowings was 3.38%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2020, the Group had cash and cash equivalents of RMB9,804,000 (31 December 2019: approximately RMB11,883,000) which was mainly generated from operations of the Group.

Management Discussion and Analysis

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had capital commitment of approximately RMB76,000 (31 December 2019: approximately RMB764,000).

SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of bentonite clay products and all of the Group's operations are carried out in China. 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.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2020, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the year ended 31 December 2020.

Management Discussion and Analysis

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

Coatings are important comprehensive materials for the national economy. The global output of coatings is approximately 75 million tons per year, and the output value is approximately US\$200 billion. China's output of coatings maintains an average annual compound growth rate of 7%-10%, with an annual output of 21 million tons and an output value of approximately US\$64 billion, which is close to one-third of the global scale.

From the perspective of the future development strategy of the coatings, water-based coatings have become a key investment area in the industry, and industrial coatings of "oil-to-water" have become the industry trend. Environmental friendly coatings with low VOC content are recognized. Meanwhile, high-performance anti-corrosion coatings are currently still a key demand in the industrial coatings industry. With the increasingly stringent environmental protection policies and increasing national awareness of environmental protection, the market demand for environmental friendly and energy-saving coatings will continue to grow. The Group will also pay more attention to the application and promotion of bentonite in the field of water-based coatings.

In 2020, in order to protect the ecological environment, all major cities across the country have issued plastic restriction orders to restrict the production, sales and use of disposable non-degradable plastic products. Large catering chain stores have successively introduced paper straws instead of plastic straws. The utilization rate of paper products such as paper straws and kraft paper bags has greatly increased in the takeaway catering industry which use a lot of plastic. The use of paper instead of plastic has become a new trend in environmental protection.

China authority continues to promote the policy of banning solid waste, which is an important system reform to promote the formation of green development methods and lifestyles, protect the safety of the ecological environment and the health of the people. The amount of imported waste paper has been significantly reduced. Banning the import of waste paper will have a huge impact on the industry's raw material structure and bring about a significant adjustment in the structure of papermaking raw materials. In order to stabilize the quality of packaging paper products, more attention shall be paid to the use of papermaking chemicals, which is conducive to the development of the Group's paper chemicals business.

In 2021, due to the uncertain impact of the Epidemic, the operation of the Group is facing greater challenges. The Group will continue to adhere to the development strategy of taking profit as the center and innovation as the driving force. On the basis of consolidating existing products, the Group will actively develop new products. To this end, the Group will adhere to the following strategies:

- 1) The Group will continue to strengthen the fine paper chemical market;
- 2) Focus on developing the market of bentonite for paints and coatings, improving product quality, and enlarge market share;
- 3) Increase the promotion and application of water treatment products; and
- 4) Develop new products and find new growth points for the Group.

The Group will further enhance the production management system to ensure a good market sales base. At the same time, through independent innovation and industry-institute-research cooperation, new products and new technical knowhow will be developed to enhance the Group's competitiveness.

Management Discussion and Analysis

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2020, the Group had a total of 109 employees, of which 44 worked at the Group's headquarter in Changxing, and 65 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB14,567,000 (2019: RMB14,486,000). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

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

DIVIDENDS

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

Directors' and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Zhang Youlian (張有連), aged 59, was appointed as a Director and the Chairman of the Board (董事長) on 29 December 2008. Mr. Zhang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1982. He worked for Changxing Agricultural Materials Co. (長興農資公司) between February 1982 and May 1987. He worked as the vice director (理事副主任) of Changxing Litang Supplier (長興里塘供銷社) between May 1987 and December 1999. He founded Changxing Renheng Fine Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in December 2000 and has been a Director of the Board since December 2008. Mr. Zhang has been appointed as Chairman of the board of directors of Shanghai Nongfuguoyuan Co., Ltd. (上海農夫果園有限公司), Changxing Guyinxing Tourism Resort Co., Ltd. (長興古銀杏旅遊度假山莊有限公司) and Changxing Wuguo Agriculture and Technology Co., Ltd. (長興五果農業科技有限公司), since June 2001, February 2003 and August 2010, respectively. Mr. Zhang is a brother of Ms. Zhang Jinhua (張金花), a non-executive Director; and a cousin of Mr. Zhang Donglian (張冬連), a supervisor.

Mr. Fan Fang (范芳), aged 55, was appointed as a Director of the Company on 29 December 2008 and is a member of the Nomination Committee and a member of Remuneration Committee. Mr. Fan graduated from Jinhua Supply and Marketing College in Zhejiang Province (浙江省金華供銷學校) in July 1985. He was responsible for financial matters of a subsidiary of the Changxing County Supplier (長興縣供銷社) between September 1985 and December 1997. Mr. Fan has been appointed as the head of the finance department of the Company since March 2003. Mr. Fan was appointed as the financial controller of the Company as well on 15 August 2019.

Mr. She Wenjie (余文傑先生), aged 33, was appointed as a Director on 19 October 2019. Mr. She has been a salesman of our Company since 2016. From 2012 to 2016, Mr. She worked as a salesman of Zhejiang Hougyu New Materials Co., Ltd.* (浙江紅宇新材料股份有限公司). Mr. She held the position of a sales manager of the Northern West district of Changxing Dingneng Electrical Co., Ltd.* (長興鼎能電源有限公司). He completed his tertiary education at Chagnxing Huasheng Huasheng Hongxi Secondary School* (長興華盛洪溪中學) in 2006.

Non-Executive Director

Ms. Zhang Jinhua (張金花), aged 48, was appointed as a non-executive Director of the Company on 14 May 2016. She worked for Changxing Gulong Hotel (長興古龍大酒店) from January 1994 to December 2002 and was in charge of procurement work for the hotel. She joined the Company in January 2003 and was in charge of finance related work of the Company. Ms. Zhang is the sister of Mr. Zhang Youlian (張有連), the executive Director and Chairman of the Company and a cousin of Mr. Zhang Donglian (張冬連), a supervisor of the Company.

Directors' and Senior Management's Biographies

Independent Non-Executive Directors

Mr. Zhang Lei (章磊), aged 39, was appointed as an independent non-executive Director, the chairman of the Audit Committee and Remuneration Committee, and a member of Nomination Committee on 11 May 2019. He obtained a bachelor's degree in management which was awarded by Zhejiang University of Finance and Economics (浙江財經大學) in June 2003 and a master's degree in accounting which was awarded by Xiamen University (廈門大學) in December 2013. He served as the audit project manager and the department manager in Zhejiang Oriental Accounting Firm and a manager and a partner of Tianjian Certified Public Accountants. He had been a partner of Ruihua Certified Public Accountants. At present, he is a senior partner of Zhonghui Certified Public Accountants. He is a Certified Public Accountant and an International Internal Auditor. He is also a tutor for the program of Master of Accounting at Zhejiang University of Technology (浙江工業大學) and a tutor for the Master of Professional Accounting of Zhejiang University (浙江大學).

Mr. Tang Jingyan (唐靖炎先生), aged 64, was appointed as an independent non-executive Director, the chairman of the Nomination committee and a member of Audit Committee and Remuneration Committee on 19 October 2019. Mr. Tang has been a vice president of the China Non-metallic Minerals Industry Association since August 2016. From 2006 to 2016, Mr. Tang was the chairman and general manager of Suzhou SINOMA Design & Research Institute of Non-metallic Minerals Industry Co., Ltd.* (中國建材集團蘇州中材非金屬礦工業設計研究院有限公司), the director of the National Institute of Non-metallic Mineral Processing Engineering Technology* (國家非金屬礦深加工工程技術研究中心) and a vice president of Sinoma Science & Technology Co., Ltd.* (中材科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 00280). Mr. Tang was awarded the title of professorate senior engineer in 1999. From 1990 to 1996, Mr. Tang worked in Suzhou Non-metallic Mineral Industry Design Academia* (蘇州非金屬礦工業設計研究院) and became the deputy president in 1993 and the president in 1996 respectively. Mr. Tang obtained his doctorate degree in mineral processing engineering from Wuhan University of Technology in 2008 and obtained his bachelor's degree from JiangXi University of Science and Technology in 1982 respectively.

Mr. Li Jiangning (李江寧先生), aged 54, was appointed as an independent non-executive Director and a member of Audit Committee on 19 October 2019. Mr. Li has been a deputy secretary of the China Coating Material Industrial Association* (中國塗料工業協會) since 2018 and a deputy secretary of Guangdong Coating Material Industry Association* (廣東省塗料行業協會) since 2017. Mr. Li has been working in the coating material industry since 1993. From 2014, Mr. Li has gradually taken the positions of the executive chairman of the water soluble wooden coating material industry technology alliance, a deputy secretary of the construction coating material branch, a director of artistic coating material branch and a director of the military coating material specialist committee of the China Coating Material Industrial Association* (中國塗料工業協會). Mr. Li was the marketing and sales director of Guangdong Fortress Chemical Co., Ltd* (廣東千色花化工有限公司) from 2008 to 2013. He was subsequently promoted to deputy general manager in 2013. He has also taken on the position as a general manager of the group development department since 2015. From 1999 to 2008, Mr. Li was the deputy general manager of Guangdong Hualong Coating Industrial Co., Ltd* (廣東華隆塗料實業有限公司). Mr. Li graduated from Beijing Broadcasting Institute (北京廣播學院) (current known as Communication University of China) in 1991 with a tertiary education.

Directors' and Senior Management's Biographies

SUPERVISORY COMMITTEE

Mr. Xu Qinsi (徐勤思), aged 56, is the chairman of the Supervisory Committee and was appointed as a Supervisor on 1 September 2012. He is an economist. Mr. Xu served as the vice plant manager of Changxing Thread Factory (長興線廠) between October 1993 and August 2005. He graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), majored in economic management, in December 1997. Mr. Xu served as the head of the office of the Company between September 2006 and March 2009. He worked for Zhejiang Tailun Insulator Co., Ltd. (浙江泰侖絕緣子有限公司) as a deputy director of its supply department between May 2009 and August 2010. Mr. Xu joined the Company again in August 2010 and has been responsible for human resources management. Mr. Xu Qinsi is a brother of Ms. Xu Qinwei (徐勤偉), the general manager of the Company, and the spouse of Ms. Ling Weixing (凌衛星), a Shareholder. Save as disclosed, Mr. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Zhang Donglian (張冬連), aged 54, was appointed as a Supervisor on 29 December 2008. Mr. Zhang joined the Company in March 2007 and he is now the deputy general manager of Yangyuan Renheng Fine Clay Co., Ltd. (陽原縣仁恒精細粘土有限責任公司). Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian (張有連), an executive Director, and Ms. Zhang Jinhua (張金花), a Shareholder and a non-executive Director. Save as disclosed, Mr. Zhang does not have any relationship with any other Director, Supervisor, senior management of the Company, the Substantial Shareholder or the Controlling Shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Ms. Li Lijiao (李麗姣), aged 31, was elected as the employee representative to serve as a Supervisor on 22 March 2019. Ms. Li graduated from Hanzhou Institute of Technology (杭州職業技術學院) in June 2011. She worked for Changxing County Changshung Motor Sales Services Co. Ltd. (長興縣長順汽車銷售服務有限公司) between June 2011 and July 2014. Ms. Li joined the Company in May 2016. She now serves as an assistant accounting supervisor of the Company.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Ms. Xu Qinwei (徐勤偉), aged 65, is the general manager of the Company. Ms. Xu joined Changxing Jingu Industrial Co. (長興金谷實業公司) in July 1991. She was appointed as the deputy manager of Zhejiang Province Zhongrun Real Estate Co. Changxing Branch (浙江省中潤房地產總公司長興分公司) (in 2004 renamed as Zhejiang Province Zhongrun Food and Oil Trading Co. (浙江省中潤糧油工貿公司)), a subsidiary of Zhejiang Province Food Group Co., Ltd. (浙江省糧食集團有限公司), between April 1994 and March 2006. She has been the general manager of the Company since May 2006. Ms. Xu is a sister of Mr. Xu Qinsi (徐勤思), a Supervisor, and the spouse of Mr. Wang Shunmiao (王順淼), a Shareholder. Save as disclosed, Ms. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Su Pin (蘇品), aged 56, Mr. Su graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), with a graduation certificate in economic management, in December 2001. He is an economist. He served as a deputy general manager of Zhoushan Taihe Local Products Co., Ltd. (舟山市泰和土產有限責任公司) between January 1991 and April 1994, he served as the general manager of Zhoushan Taihe Local Products Co., Ltd. between April 1994 and March 2000. He worked for Zhoushan Hongli Specialty Co., Ltd. (舟山市弘立特產有限公司) as the general manager between April 2000 and June 2004. Mr. Su has been appointed as the deputy general manager of the Company since June 2004. Mr. Su does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Chan Hon Wan (陳漢雲), aged 60, is the joint company secretary of the Company and joined the Group in April 2014. Mr. Chan graduated with a Bachelor's Degree in Economics from Macquarie University in Australia in 1986 and a Master's Degree in Accountancy from the Hong Kong Polytechnic University in 2005. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants (HKICPA), and an associate member of The Institute of Chartered Accountants in Australia. Mr. Chan has over 32 years of extensive experience in accounting and finance fields, gaining from an international accounting firm and various listed corporations. He served as the financial controller of Fairwood Holdings Limited (stock code: 00052), a company listed on the Main Board of the Stock Exchange from 1995 to 1998. He worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a Business Director of Texwood Group from 2006 to 2008. Mr. Chan served from September 2008 to April 2009 as the company secretary, qualified accountant and authorised representative of Freeman Corporation Limited (Stock Code: 00279) (now known as Freeman Financial Corporation Limited), a company listed on the Main Board of the Stock Exchange.

Ms. Li Nan (李男), aged 33, was appointed as a joint company secretary of the Company on 2 December 2019. Ms. Li graduated from Xiangtan University (湘潭大學) with a master degree in polymer materials and physics and an undergraduate degree in material science. She served as an engineer in Elementis Special Chemistry Group (海名思特殊化學公司) from August 2013 to May 2016. Since May 2016, she has served as deputy manager of technology department in the Company. She has 3 years of experience in operational matters involving active interactions with the Directors and the senior management of the Company.

Corporate Governance Report

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

During the Year Under Review, the Company has complied with the code provisions, other than code provisions A.2.1 and A.1.8 of the CG Code.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Year Under Review.

BOARD OF DIRECTORS

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

The Board currently comprises a total of seven Directors, being three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Mr. Zhang Youlian, Mr. She Wenjie and Mr. Fan Fang, served as Executive Directors, Ms. Zhang Jinhua served as Non-executive Director and Mr. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the Independent Non-executive Directors is a qualified accountant who has appropriate professional qualifications or accounting or related financial management expertise. Each Non-executive Director and Independent Non-executive Director has been appointed for a 3-years term of services.

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

Corporate Governance Report

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

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

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

Pursuant to Article 10.2 of the articles of association of the Company (the “Articles of Association”), Directors shall be elected or changed by the Shareholders’ meeting. Every term of a Director is three years. Upon expiry of the term, a Director shall be eligible for re-election and re-appointment.

RESPONSIBILITIES OF THE BOARD

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

BOARD DIVERSITY POLICY

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

Corporate Governance Report

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

All Directors (with the names set out in the section "Board of Directors" in this Corporate Governance Report) are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. On 13 November 2020, the Company organized a training session to provide each of the Directors with an update on the GEM Listing Rules.

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 26 March 2014 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan, 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.

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report. Pursuant to the meeting of the Audit Committee held on 29 March 2021, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2020, the results announcement, this 2020 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this annual report complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosures have been made.

Corporate Governance Report

REMUNERATION COMMITTEE

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

The primary duties of the Remuneration Committee are (among other things) to make recommendation to the Board the terms of remuneration packages, bonuses and other compensation (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) payable to the Directors and senior management and to make recommendations to the Board on the Group’s policy and structure for all remuneration of the Directors and senior management. During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed “Board Proceedings and Individual Attendance” of this report.

NOMINATION COMMITTEE

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

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilizes various methods for identifying potential candidates, including recommendations from the members of the Board, management, and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

The principal responsibilities of the Nomination Committee are (among other things) to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed “Board Proceedings and Individual Attendance” of this report.

Corporate Governance Report

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

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

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate. Minutes of meetings of the Board and Board committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

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

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

Name of Directors	Attendance/Number of meetings					
	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
<i>Executive Directors</i>						
Mr. Zhang Youlian (<i>Chairman</i>)	4/4	-	-	-	1/1	2/2
Mr. Fan Fang	4/4	-	2/2	2/2	1/1	2/2
Mr. She Wenjie	4/4	-	-	-	1/1	2/2
<i>Non-executive Director</i>						
Ms. Zhang Jinhua	4/4	-	-	-	1/1	2/2
<i>Independent Non-executive Directors</i>						
Mr. Zhang Lei	4/4	4/4	2/2	2/2	1/1	2/2
Mr. Li Jiangning	4/4	4/4	-	-	1/1	2/2
Mr. Tang Jingyan	4/4	4/4	2/2	2/2	1/1	2/2

Subsequent to the year ended 31 December 2020 and up to date of this report, the Board held another Board meeting on 29 March 2021 for the main purposes of approving the annual results of the Group for the year ended 31 December 2020, this annual report and formulating business development strategies. All Directors attended such meeting.

Corporate Governance Report

JOINT COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary of the Company on 1 April 2014. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures. Mr. Chan resigned as the financial controller and Company Secretary of the Company on 31 March 2019 and rejoined as the Company Secretary of the Company on 15 August 2019. Mr. Chan was re-designated as a consultant and a joint company secretary on 2 December 2019. Ms. Li Nan was appointed as the other joint company secretary on 2 December 2019.

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

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

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

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

Internal control and risk management

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

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

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

Corporate Governance Report

EXTERNAL AUDITOR

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

For the year ended 31 December 2020, the fees payable to external auditor in respect of its audit services provided to the Group was RMB1,200,000. The external auditor did not provide non-audit service for the Group for the year ended 31 December 2020.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2020.

SHAREHOLDERS' RIGHTS

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

Right to convene extraordinary general meeting

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

The written requisition must state the purposes of the meeting, signed by the requisitioner(s) and deposit it to the Board or the Company Secretary of the Company at the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

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

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

Making Proposals at Shareholders' Meetings

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

Corporate Governance Report

Shareholders who would like to propose new motions in annual general meeting should send the written requisition by post to the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong or by phone at (852) 2526 6311. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there had been certain changes in the Company's constitutional documents. For details, please refer to the circular of the Company dated 5 February 2020 and the announcement of the Company dated 17 March 2020. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

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

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

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

Zhejiang, PRC, 29 March 2021

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2020 (the “Financial Statements”).

BACKGROUND

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

PRINCIPAL BUSINESS

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

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2020 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 44 to 99.

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

For the purpose of determining the Shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Friday, 14 May 2021, the register of members of the Company will be closed from Tuesday, 13 April 2021 to Friday, 14 May 2021 (both days inclusive) during which period no transfer of H shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's H share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. on Monday, 12 April 2021.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the “Management Discussion and Analysis” on pages 7 to 18. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the “Financial Highlights” on page 6. A financial summary for the last five years is provided in the “Financial Summary” section on page 100.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the “Dividend Policy”), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Report of the Directors

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign exchange risk

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

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

Report of the Directors

Liquidity Risk

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

Operational Risk

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

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

PUBLIC FLOAT

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

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

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 19 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 47 of the "Consolidated Statement of Changes in Equity", Notes 21 and 33 to the Financial Statements, respectively.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2020, calculated in accordance with PRC rules and regulation, was retained earnings of approximately RMB18,370,000 (31 December 2019: RMB17,126,000).

FINANCIAL SUMMARY

A Summary of the results, the assets and liabilities of the Group for the last five financial years is set out on page 100.

CHARITY DONATIONS

During the Year Under Review, the Group did not make any charity donations (2019: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2020 are set out in Note 13 to the Financial Statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2020 are set out in Note 32 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2020 and up to the date of this report have been:

Executive Directors

Mr. Zhang Youlian (*Chairman*)
Mr. Fan Fang
Mr. She Wenjie

Non-executive Director

Ms. Zhang Jinhua

Independent Non-executive Directors

Mr. Zhang Lei
Mr. Li Jiangning
Mr. Tang Jingyan

Supervisors

Mr. Xu Qinsi
Mr. Zhang Donglian
Ms. Li Lijiao

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, supervisors and senior management of the Company are set out in pages 19 to 22 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 18.39B of the GEM Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2020.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

Report of the Directors

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

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2019: 2 Directors). Details of the five highest paid individuals are set out in Note 34 to the Financial Statements.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

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

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

As at 31 December 2020, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code 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	50.05%
Ms. Zhang Jinhua	Beneficial owner	398,400	1.04%
Mr. Xu Qinsi ⁽ⁱ⁾	Interest of spouse	100,000	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 31 December 2020, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Report of the Directors

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2020, 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	–	3,576,000	9.31%

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2020.

MANAGEMENT CONTRACTS

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

NON-COMPETITION UNDERTAKING

As disclosed in the Company's prospectus dated 31 December 2014, Mr. Zhang Youlian (the "Controlling Shareholder"), has executed a deed of non-competition through which he has undertaken and procure that none of his associates will (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the Group's existing business activity or any principal business activity of any member of the Group or be in competition with the Group in any business activities which the Group may undertake in the future (the "Restricted Business"); or (b) take any direct or indirect action which constitutes an interference with or a disruption to the Group's business activities including, but not limited to, solicitation of the Group's customers, suppliers or staff. He has warranted that neither he nor any of his associates is currently engaging in and has not had any interest in any business that directly or indirectly competes or may compete with the Group's business. The Controlling Shareholder also undertakes and covenants to the Group that, if any new business opportunity relating to any Restricted Business is made available to him, he will direct the Restricted Business to the Group with such required information to enable the Group to evaluate the merits of the Restricted Business.

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

Report of the Directors

CONNECTED TRANSACTION

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

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

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

PLEDGE OF ASSETS

As at 31 December 2020, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB27,554,000 (31 December 2019: approximately RMB28,844,000).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was from 3.38% to 7.09%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB9,804,000 (31 December 2019: approximately RMB11,883,000) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 29.3% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 11.1% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 59.2% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 46.1% of the total cost of sales of the Group.

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

TAX RELIEF AND EXEMPTION

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

Report of the Directors

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2020 are set out in Note 2.20 and Note 9 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

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

JOINT COMPANY SECRETARY

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

COMPLIANCE OFFICER

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

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

Zhejiang, PRC, 29 March, 2021

Supervisory Committee Report

The Supervisory Committee is pleased to present this report of the Supervisory Board in the annual report of the Company for the year ended 31 December 2020.

In 2020, all members of the Supervisory Committee have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Company Law of the PRC, the Articles of Association, the Terms of Reference of the Supervisory Committee and the relevant provisions in the GEM Listing Rules. Members of the Supervisory Committee carried out examination of the Company's financial accounts and supervision of the Directors, and other senior management officers for their compliance with the laws, administrative regulations and the Articles of Association in executing their respective duties.

MEETING OF THE SUPERVISORY COMMITTEE

For the year ended 31 December 2020, a meeting of the Supervisory Committee was held on 29 April 2020 to consider the 2019 audited financial report of the Company and the report of Supervisory Committee for 2019 and to receive the report on the 2019 results announcement of the Company.

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

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

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

The Supervisory Committee agreed with the audit opinion issued on 29 March 2021 on the 2020 annual financial report of the Company, and that the financial report of the Company has given a true and fair view of the financial position and the operating results of the Company.

INDEPENDENT OPINION ON THE IMPLEMENTATION OF THE RESOLUTIONS OF GENERAL MEETINGS

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

In 2021, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the GEM Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. Xu Qinsi

Zhejiang, PRC, 29 March 2021

Independent Auditor's Report



羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 105, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

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

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter is identified during the audit as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition – sales of goods</p> <p>Refer to Note 2.23 and Note 6 to the consolidated financial statements of the Group.</p> <p>Revenue recognition has significant and wide influence on financial statements. Revenue is recognised when the amounts and the related costs are reliably measured, and the control of the underlying products have been transferred to the customers.</p> <p>Revenue from the sale of goods is recognised when the Group has delivered products to the customers and the customers have confirmed the acceptance of the products. We focused on this area due to that the sales of the Group are derived from a large number of customers which locate across the country with relatively small transaction amounts. As a result, to obtain sufficient audit evidence, magnitude audit work and resources are required.</p>	<p>We understood, evaluated and validated the key controls related to Group's sales process from end to end, from contracts approval and sign-off, customer order's approval, recording of sales, all the way through to reconciliations with cash receipts and customers' records.</p> <p>We inspected contracts with customers, on a sample basis, to understand the terms of the sale transactions, including the terms of delivery and goods acceptance and any sales return arrangements, to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards.</p> <p>We conducted substantive testing of revenue recorded covering different products, locations and customers, using sampling techniques, by examining the relevant supporting documents including customer orders, goods delivery notes and customer receipt notes. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the period, selected on a sample basis by considering the amount, nature and characteristics of those customers.</p> <p>Furthermore, we tested the sales transactions recognised shortly before and after the balance sheet date, including the credit notes issued after that date, whether sales transactions were recorded in the correct reporting periods.</p> <p>Based on our audit work performed, we found the Group's revenue recognition in relation to sales of goods was supported by the evidence that we gathered.</p>

Independent Auditor's Report

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2021

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB	2019 RMB
Revenue	6	112,718,302	100,292,835
Cost of sales	8	(65,873,911)	(58,785,486)
Gross profit		46,844,391	41,507,349
Distribution costs	8	(15,952,159)	(16,363,462)
Administrative expenses	8	(15,893,383)	(14,321,089)
Net impairment losses on financial assets	8	(306,452)	(129,604)
Research and development expenses	8	(7,368,093)	(7,427,102)
Other gains – net	7	160,567	2,050,598
Operating profit		7,484,871	5,316,690
Finance income	10	22,843	193,442
Finance expenses	10	(6,167,735)	(6,578,703)
Finance expenses – net	10	(6,144,892)	(6,385,261)
Profit/(loss) before income tax		1,339,979	(1,068,571)
Income tax (expense)/benefit	11	(162,865)	167,335
Profit/(loss) for the year attributable to the equity holders of the Company		1,177,114	(901,236)
Other comprehensive income		–	–
Total comprehensive profit/(loss) for the year attributable to the equity holders of the Company		1,177,114	(901,236)
Earnings/(losses) per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	12	0.03	(0.02)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 31 December 2020

	Note	As at 31 December	
		2020 RMB	2019 RMB
ASSETS			
Non-current assets			
Property, plant and equipment	13	83,012,598	83,313,181
Right-of-use assets	14	6,403,492	6,038,868
Leasehold improvements	15	11,571,379	11,630,667
Deferred income tax assets	27	3,444,673	3,503,698
		104,432,142	104,486,414
Current assets			
Inventories	18	42,595,536	42,894,158
Trade and other receivables	16	58,513,977	65,098,637
Financial assets at fair value through other comprehensive income (FVOCI)	17	12,950,237	–
Prepaid income tax		783,550	569,462
Restricted cash	19	1,200,855	4,217
Cash and cash equivalents	19	9,803,873	11,883,162
		125,848,028	120,449,636
Total assets		230,280,170	224,936,050
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	20	38,400,000	38,400,000
Other reserves	22	49,569,370	49,569,370
Retained earnings	21	18,302,715	17,125,601
Total equity		106,272,085	105,094,971

Consolidated Balance Sheet (Continued)

as at 31 December 2020

	Note	As at 31 December	
		2020 RMB	2019 RMB
LIABILITIES			
Non-current liabilities			
Deferred government grants	23	408,503	474,092
Provisions for environmental rehabilitation	24	1,291,858	1,520,370
Borrowings	26	14,725,000	8,366,000
		16,425,361	10,360,462
Current liabilities			
Deferred government grants	23	52,471	39,353
Trade and other payables	25	34,555,741	33,895,503
Borrowings	26	72,974,512	75,545,761
		107,582,724	109,480,617
Total liabilities		124,008,085	119,841,079
Total equity and liabilities		230,280,170	224,936,050

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 44 to 105 were approved by the Board of Directors on 29 March 2021 and were signed on its behalf.

Zhang Youlian
Director

Fan Fang
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Note	Attributable to equity holders of the Company			Total RMB
		Share capital RMB	Other reserves RMB	Retained earnings RMB	
As at 1 January 2019		38,400,000	49,806,255	17,789,952	105,996,207
Comprehensive income					
Loss for the year		–	–	(901,236)	(901,236)
Total comprehensive loss for the year		–	–	(901,236)	(901,236)
Appropriation to safety fund		–	141,099	(141,099)	–
Utilisation of safety fund	22	–	(377,984)	377,984	–
As at 31 December 2019		38,400,000	49,569,370	17,125,601	105,094,971
As at 1 January 2020		38,400,000	49,569,370	17,125,601	105,094,971
Comprehensive income					
Profit for the year		–	–	1,177,114	1,177,114
Total comprehensive profit for the year		–	–	1,177,114	1,177,114
Appropriation to statutory reserve	22	–	–	–	–
Appropriation to safety fund	22	–	331,842	(331,842)	–
Utilisation of safety fund	22	–	(331,842)	331,842	–
As at 31 December 2020		38,400,000	49,569,370	18,302,715	106,272,085

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

for the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB	2019 RMB
Cash flows from operating activities			
Cash generated from operations	28(a)	11,329,397	4,436,740
Income tax paid		(317,929)	(83,680)
Net cash generated from operating activities		11,011,468	4,353,060
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		115,776	–
Interest income received from time deposits		22,843	193,442
Purchases of leasehold land improvements		(1,005,586)	(2,644,895)
Purchases of property, plant and equipment		(9,843,806)	(14,320,469)
Net cash used in investing activities		(10,710,773)	(16,771,922)
Cash flows from financing activities			
Proceeds from borrowings		71,462,751	70,892,044
Repayments of borrowings		(67,675,000)	(62,450,808)
Payments of interest expenses		(6,094,441)	(6,343,354)
Net cash (used in)/generated from financing activities		(2,306,690)	2,097,882
Net decrease in cash and cash equivalents		(2,005,995)	(10,320,980)
Cash and cash equivalents at the beginning of the year		11,883,162	22,272,273
Exchange difference on cash and cash equivalents		(73,294)	(68,131)
Cash and cash equivalents at the end of the year	19	9,803,873	11,883,162

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

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 ChangXingRenheng Refined Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in the People's Republic of China (the "PRC") on 4 December 2000. Mr. Zhang Youlian (張有連) is the controlling shareholder of the Company (the "Controlling Shareholder").

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

The address of the Company is Laoyatang, Si'an, Changxing, Zhejiang Province, PRC.

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

As at 29 November 2018, the Company issued 6,400,000 new 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 consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) *Compliance with IFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for the certain financial assets and liabilities

(iii) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.7 Property, plant and equipment

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the profit or loss.

2.8 Leasehold improvements

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

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Inventories

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

2.12 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 16 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

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

2.14 Restricted cash

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

2.15 Share capital

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

2.16 Trade and other payables

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowings

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

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

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

2.18 Borrowing costs

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

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

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

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(b) *Deferred income tax*

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.20 Employee benefits

(a) *Pension obligations*

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

(b) *Housing benefits*

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(c) Bonus entitlements

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

2.21 Provisions

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

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

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

2.22 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax.

Sales of goods

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been transferred to the buyer, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Government grants

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

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.25 Research and development

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

2.26 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Dividend distribution

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

2.28 Safety fund

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

2.29 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions	Cash flow forecasting Sensitivity analysis	Foreign currency forwards and foreign currency options
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Credit risk	Cash and cash equivalents, trade receivables	Aging analysis Credit ratings	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's risk management is predominantly controlled by a central finance department under policies approved by the board of directors. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) *Market risk*

(i) *Foreign exchange risk*

The Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars ("USD") and HK dollars ("HKD"). The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years ended 31 December 2020 and 2019, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2020, if the RMB had strengthened/weakened by 5% against the USD or HKD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB160,184 lower/higher (2019: net loss higher/lower by RMB18) respectively for various financial assets and liabilities denominated in USD or HKD.

(ii) *Cash flow and fair value interest rate risk*

The Group's interest rate risks arise from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2020, no borrowing (2019: RMB 34,000,000) was charged at variable rates while the Group's borrowings of RMB87,699,512 (2019: RMB49,911,761) were charged at fixed rates, respectively. The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

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

(b) *Credit risk*

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The table below shows the maximum credit risk exposure of the Group without consideration of the collateral and pledges:

	Year ended 31 December	
	2020	2019
	RMB	RMB
Financial assets at amortized cost		
-Cash and cash equivalents	9,803,873	11,883,162
-Restricted bank deposits	1,200,855	4,217
-Trade and other receivables	58,513,977	65,098,637
	69,518,705	76,986,016
Financial assets at fair value through profit or loss		
-FVOCI	12,950,237	-
Total	82,468,942	76,986,016

The amounts of the credit risk exposures set out above are the carrying amounts as at 31 December 2020 and 2019. For financial instruments measured at fair value, the risk exposure considered as its carrying value changes in accordance with future fair value.

(i) Risk management

Credit risk is managed on the Grouping basis. Credit risk mainly arises from cash and cash equivalents, restricted cash at banks, fair value through other comprehensive income (FVOCI), trade and other receivables etc.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Risk management (Continued)

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

(ii) Impairment of financial assets

i. Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates of trade receivables are based on the payment profiles of sales over a period of 36 month before 31 December 2020 and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and Producer Price Index to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

i. Trade receivables (Continued)

On that basis, the loss allowance as at 31 December was determined as follows for trade receivables:

	Within 180 days	More than 180 days to one year	More than one year to two years	More than two years to three years	More than three years	Total
31 December 2020						
Expected loss rate	4%	13%	55%	81%	88%	
Gross carrying amount						
- trade receivables (RMB)	47,779,839	2,609,250	2,711,516	2,554,036	6,759,749	62,414,390
Loss allowance						
- trade receivables (RMB)	2,072,587	341,766	1,500,954	2,079,287	5,953,968	11,948,562
31 December 2019						
Expected loss rate	4%	11%	50%	77%	93%	
Gross carrying amount						
- trade receivables (RMB)	41,250,893	3,439,981	3,313,425	2,536,027	6,431,010	56,971,336
Loss allowance						
- trade receivables (RMB)	1,624,904	389,615	1,641,493	1,948,725	5,948,684	11,553,421

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

i. Trade receivables (Continued)

The loss allowances for trade and other receivables as at 31 December reconcile to the opening loss allowances as follows:

	2020 RMB
Opening loss allowance as at 1 January	11,553,421
Increase in loss allowance recognised in profit or loss during this year	395,141
Closing loss allowance at 31 December	11,948,562

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 5 years past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

ii. Other receivables

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

ii Other receivables (Continued)

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of other receivables and adjusts for forward looking macroeconomic data.

	Stage 1	Stage 2	Stage 3	Total
Other receivables				
31 December 2019				
Expected loss rate	22.46%	–	–	22.46%
Gross carrying amount	3,774,940	–	–	3,774,940
Loss allowance provision	(847,768)	–	–	(847,768)
31 December 2020				
Expected loss rate	23.04%	–	–	23.04%
Gross carrying amount	3,294,970	–	–	3,294,970
Loss allowance provision	(759,079)	–	–	(759,079)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

ii Other receivables (Continued)

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2020 RMB
Opening loss allowance as at 1 January	847,768
Write-off against uncollectible receivables	(88,689)
Closing loss allowance at 31 December	759,079

iii. Fair value through other comprehensive income (FVOCI)

The Group applies the simplified approach to provide ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all fair value through other comprehensive income (FVOCI).

As at 31 December 2020, all the fair value through other comprehensive income (FVOCI) were notes receivable, the impact of expected loss of fair value through other comprehensive income (FVOCI) was assessed to be insignificant.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

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

	Within 6 months RMB	Between 6 months and 1 year RMB	Between 1 and 2 years RMB	Between 2 and 3 years RMB	Total RMB
Group					
As at 31 December 2020					
Borrowings, including interest payables	43,120,462	33,494,441	15,338,644	-	91,953,547
Trade and other payables, excluding staff salaries and welfare payables and accrued taxes other than income tax	29,232,134	-	-	-	29,232,134
	72,352,596	33,494,441	15,338,644	-	121,185,681
As at 31 December 2019					
Borrowings, including interest payables	21,303,377	58,362,908	8,945,890	-	88,612,175
Trade and other payables, excluding staff salaries and welfare payables and accrued taxes other than income tax	29,576,927	-	-	-	29,576,927
	50,880,304	58,362,908	8,945,890	-	118,189,102

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

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

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

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

The gearing ratios as at 31 December 2020 and 2019, respectively, are as follows:

	As at 31 December	
	2020 RMB	2019 RMB
Total borrowings (Note 26)	87,699,512	83,911,761
Less: Cash and cash equivalents (Note 19)	(9,803,873)	(11,883,162)
Restricted cash (Note 19)	(1,200,855)	(4,217)
Net debt	76,694,784	72,024,382
Total equity	106,272,085	105,094,971
Total capital	182,966,869	177,119,353
Gearing ratio	42%	41%

3.3 Fair value estimation

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The Group adopts the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

An explanation of each level follows underneath the table.

	As at December 31, 2020			Total
	Level 1	Level 2	Level 3	
Notes receivable	–	–	12,950,237	12,950,237

During the Track Record Period there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

As these instruments are not traded in an active market. The fair value of notes receivable was determined, using discounted cash flow. The fair value would be lower if the discount rate was higher.

Fair value of notes receivable (Note 17) are considered approximate to their carrying amount. The fair value change was insignificant.

Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting judgements

(a) *Impairment of financial assets*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

4.2 Critical accounting estimates

(a) *Provision for credit losses of trade and other receivables*

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of financial assets and adjusts for forward looking macroeconomic data including Gross Domestic Product and Producer Price Index.

(b) *Deferred income taxes*

A deferred tax asset is recognized for the carryforward of unused deductible losses to the extent that it is probable that future taxable profits will be available against which the deductible losses can be utilized. Future taxable profits include taxable profits that can be achieved through normal operations and the increase in taxable profits due to the reversal of taxable temporary differences arising from previous period in future period. The Group needs to apply estimates and judgement in determining the timing and amount of future taxable profits. If there is any difference between the actual and the estimates, adjustment may be made to the carrying amount of deferred tax assets.

(c) *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets (including property, plant and equipment, right-of-use assets and leasehold improvements) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets, observable market prices, or transaction prices of similar assets in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, or other valuation techniques, as appropriate, less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Consolidated Financial Statements

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5 SEGMENT INFORMATION

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

6 REVENUE

	Year ended 31 December	
	2020 RMB	2019 RMB
Papermaking chemicals series	53,590,254	55,148,388
Organic bentonite	45,934,032	35,836,979
Inorganic gel	9,027,624	4,889,052
Quality calcium-bentonite	1,482,708	2,255,974
Bentonite for metallurgy pellet	949,488	654,800
Other chemicals (i)	1,734,196	1,507,642
	112,718,302	100,292,835

For the year ended 31 December 2020, only two external customers contributed 10% or above of the Group's revenue amounted to RMB18,405,119 and RMB12,400,823, respectively.

For the year ended 31 December 2019, only one external customer contributed 10% or above of the Group's revenue amounted to RMB16,917,721.

(i) Other chemicals mainly comprise flocculating agent, which are principally applied in the coating preparation industry.

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7 OTHER GAINS – NET

	Year ended 31 December	
	2020	2019
	RMB	RMB
Government grants		
– Relating to assets (Note 23)	52,471	83,953
– Relating to costs (i)	265,185	2,039,495
Gains on disposal of property, plant and equipment	54,519	–
Fine	(160)	(36,000)
Donations	(50,000)	(1,530)
Foreign exchange gains – net	(153,338)	–
Others	(8,110)	(35,320)
	160,567	2,050,598

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

8 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB	RMB
Changes in finished goods (Note 18)	2,195,808	2,962,496
Raw materials and consumables used	45,538,564	36,638,454
Employee benefit expenses (Note 9)	14,567,001	14,485,982
Utilities	9,848,211	9,571,820
Transportation expenses	11,939,685	12,619,491
Depreciation (Note 13)	7,767,743	7,713,641
Marketing and promotion expenses	317,741	1,219,824
Travelling and communication expenses	2,787,184	2,644,037
Taxes and levies	1,130,710	1,166,033
Depreciation of right-of-use assets (Note 14)	213,376	190,603
Audit remuneration	1,200,000	900,000
Professional service fees	1,613,366	1,134,150
Amortisation of leasehold improvements (Note 15)	934,165	1,626,061
Maintenance expenses	1,125,631	1,486,373
Entertainment expenses	2,052,197	1,475,921
Provision for impairment of trade and other receivables (Note 16)	306,452	129,604
Reversal of provision for inventories (Note 18)	–	(3,764)
Miscellaneous	1,856,164	1,066,017
Total cost of sales, distribution costs, administrative expenses, net impairment losses on financial assets and research and development expenses	105,393,998	97,026,743

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9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB	RMB
Salaries, wages and bonuses	13,970,509	13,219,609
Housing fund, welfare, medical and other benefits	440,975	564,547
Contributions to pension plans	155,517	701,826
	14,567,001	14,485,982

(a) Five highest paid individuals

The emoluments of the five highest paid individuals amounted to RMB1,254,747 for the year ended 31 December 2020 (2019: RMB1,633,383). Their emoluments are reflected in the analysis shown in Note 35.

For the years ended 31 December 2020 and 2019, no director, supervisor or senior management received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

10 FINANCE EXPENSES – NET

	Year ended 31 December	
	2020	2019
	RMB	RMB
Finance income		
– Interest income derived from bank deposits	22,843	193,442
Finance expenses		
– Interest expense	(6,094,441)	(6,489,689)
– Foreign exchange losses on cash and cash equivalents – net	(73,294)	(68,131)
– Unrealised losses from financial assets measured at amortised cost	–	(20,883)
	(6,167,735)	(6,578,703)
Finance expenses – net	(6,144,892)	(6,385,261)

Notes to the Consolidated Financial Statements

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11 INCOME TAX (EXPENSE)/BENEFIT

This note provides an analysis of the Group's income tax (expense)/credit, and shows how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

(a) Income tax (expense)/benefit

	Year ended 31 December	
	2020	2019
	RMB	RMB
Current tax (expense)/benefit	(103,840)	9,420
Deferred tax benefit	(59,025)	157,915
Income tax (expense)/benefit	(162,865)	167,335

The Company renewed the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Zhejiang province, which granted tax preferential rate of 15% for three years from 1 December 2020 to 30 November 2023.

The subsidiary "Renheng Refined Clay" obtained the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Hebei province, which granted tax preferential rate of 15% for three years from 11 September 2018 to 10 September 2021.

The other subsidiary is subject to income tax rate of 25% for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

11 INCOME TAX (EXPENSE)/BENEFIT (Continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

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

	Year ended 31 December	
	2020	2019
	RMB	RMB
Profits/(loss) before tax	1,339,979	(1,068,571)
Calculated at statutory tax rate	(334,995)	267,143
Expenses not deductible for tax purposes	(673,064)	(454,926)
Additional deduction for research and development expenses (i)	1,234,511	1,303,093
Unused tax losses for which no deferred tax asset has been recognised	(343,267)	(635,887)
Preferential tax rate impact of the Company	(46,050)	(312,088)
Income tax (expense)/benefit	(162,865)	167,335

- (i) Pursuant to the Corporate Income Tax Law, the Company can enjoy an additional tax deduction calculated at 75% of the actual research and development expenses recognised under PRC GAAP. The tax deduction can be charged to the profit or loss after obtaining approval from tax authorities.

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12 EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the earnings/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the years ended 31 December 2020 and 2019.

	Year ended 31 December	
	2020	2019
	RMB	RMB
Profit/(loss) attributable to the equity holders of the Company	1,177,114	(901,236)
Weighted average number of ordinary shares in issue	38,400,000	38,400,000
Basic earnings/(losses) per share (RMB per share)	0.03	(0.02)

(b) Diluted

The fully diluted earnings/(losses) per share for the years ended 31 December 2020 and 2019 are the same as the basic earnings/(losses) per share as there were no dilutive potential ordinary share for the years ended 31 December 2020 and 2019.

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13 PROPERTY, PLANT AND EQUIPMENT

	Buildings, fixtures and facilities RMB	Machinery and equipment RMB	Vehicles RMB	Electronic and office equipment RMB	Construction in progress RMB	Total RMB
At 1 January 2019						
Cost	52,760,396	55,388,419	5,992,674	2,126,596	13,636,339	129,904,424
Accumulated depreciation	(15,938,863)	(24,675,067)	(4,178,952)	(1,556,549)	–	(46,349,431)
Net book amount	36,821,533	30,713,352	1,813,722	570,047	13,636,339	83,554,993
Year ended 31 December 2019						
Opening net book amount	36,821,533	30,713,352	1,813,722	570,047	13,636,339	83,554,993
Transfers (Note 15)	1,179,975	4,480,443	–	63,717	(7,434,167)	(1,710,032)
Additions	1,271,870	86,224	323,053	185,374	7,315,340	9,181,861
Depreciation (Note 8)	(2,819,155)	(4,077,949)	(561,145)	(255,392)	–	(7,713,641)
Closing net book amount	36,454,223	31,202,070	1,575,630	563,746	13,517,512	83,313,181
At 31 December 2019						
Cost	55,212,241	59,955,086	6,315,727	2,375,687	13,517,512	137,376,253
Accumulated depreciation	(18,758,018)	(28,753,016)	(4,740,097)	(1,811,941)	–	(54,063,072)
Net book amount	36,454,223	31,202,070	1,575,630	563,746	13,517,512	83,313,181
Year ended 31 December 2020						
Opening net book amount	36,454,223	31,202,070	1,575,630	563,746	13,517,512	83,313,181
Transfers (Note 15)	388,371	350,171	–	–	(3,459,874)	(2,721,332)
Additions	–	58,261	124,068	158,205	9,909,216	10,249,750
Disposals	–	(54,361)	(6,897)	–	–	(61,258)
Depreciation (Note 8)	(2,477,784)	(4,446,345)	(574,047)	(269,567)	–	(7,767,743)
Closing net book amount	34,364,810	27,109,796	1,118,754	452,384	19,966,854	83,012,598
At 31 December 2020						
Cost	55,600,612	59,925,874	6,301,851	2,533,892	19,966,854	144,329,083
Accumulated depreciation	(21,235,802)	(32,816,078)	(5,183,097)	(2,081,508)	–	(61,316,485)
Net book amount	34,364,810	27,109,796	1,118,754	452,384	19,966,854	83,012,598

As at 31 December 2020 and 2019, certain buildings with a carrying amount of RMB21,795,562 and RMB23,251,270, respectively, were pledged as collateral for the borrowings of the Group (Note 31).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Year ended 31 December	
	2020 RMB	2019 RMB
Cost of sales	4,272,412	4,533,059
Administrative expenses	3,495,331	3,180,582
	7,767,743	7,713,641

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14 RIGHT-OF-USE ASSETS

The Group's interests in right-of-use asset represented land use right and mining right located in the PRC, the net book values of which are analysed as follows:

	Land use right RMB	Mining right RMB	Total RMB
As at 1 January 2019			
Cost	7,633,091	338,300	7,971,391
Accumulated amortization	(1,450,899)	(291,021)	(1,741,920)
Net book amount	6,182,192	47,279	6,229,471
Year ended 31 December 2019			
Opening net book amount	6,182,192	47,279	6,229,471
Amortization (Note 8)	(159,083)	(31,520)	(190,603)
Closing net book amount	6,023,109	15,759	6,038,868
As at 31 December 2019			
Cost	7,633,091	338,300	7,971,391
Accumulated amortization	(1,609,982)	(322,541)	(1,932,523)
Net book amount	6,023,109	15,759	6,038,868
Year ended 31 December 2020			
Opening net book amount	6,023,109	15,759	6,038,868
Additions	–	578,000	578,000
Amortization (Note 8)	(159,083)	(54,293)	(213,376)
Closing net book amount	5,864,026	539,466	6,403,492
As at 31 December 2020			
Cost	7,633,091	916,300	8,549,391
Accumulated amortization	(1,769,065)	(376,834)	(2,145,899)
Net book amount	5,864,026	539,466	6,403,492

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for the year ended 31 December 2020

14 RIGHT-OF-USE ASSETS (Continued)

- (a) Amortisation of right-of-use asset has been charged to the consolidated statements of comprehensive income (Note 8) as follows:

	Year ended 31 December	
	2020	2019
	RMB	RMB
Cost of revenue	54,293	31,520
Administrative expenses	159,083	159,083
	213,376	190,603

As at 31 December 2020 and 2019, certain land use right with a carrying amount of RMB7,633,091 and RMB7,633,091, respectively, were pledged as collateral for the borrowings of the Group (Note 31).

Notes to the Consolidated Financial Statements

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15 LEASEHOLD IMPROVEMENTS

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

	<i>RMB</i>
At 1 January 2019	
Cost	19,987,724
Accumulated amortisation	(5,077,371)
Net book amount	14,910,353
Year ended 31 December 2019	
Opening net book amount	14,910,353
Additions	2,644,892
Transfer from construction in progress (<i>Note 13</i>)	1,710,032
Amortisation	(7,634,610)
Closing net book amount	11,630,667
At 31 December 2019	
Cost	24,342,648
Accumulated amortisation	(12,711,981)
Net book amount	11,630,667
Year ended 31 December 2020	
Opening net book amount	11,630,667
Additions	427,587
Transfer from construction in progress (<i>Note 13</i>)	2,721,332
Amortisation	(3,208,207)
Closing net book amount	11,571,379
At 31 December 2020	
Cost	27,491,567
Accumulated amortisation	(15,920,188)
Net book amount	11,571,379

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15 LEASEHOLD IMPROVEMENTS (Continued)

The amortisation of leasehold improvements has been charged to the consolidated statement of comprehensive income (Note 8) and balance sheet as follows:

	Year ended 31 December	
	2020	2019
	RMB	RMB
Cost of sales	934,165	1,626,061
Inventories – raw materials	2,274,042	6,008,549
	3,208,207	7,634,610

16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB	RMB
Trade receivables	62,414,390	56,971,336
Less: provision for impairment	(11,948,562)	(11,553,421)
Trade receivables – net (1)	50,465,828	45,417,915
Notes receivable	–	10,476,740
Other receivables	3,294,970	3,774,940
Less: provision for impairment	(759,079)	(847,768)
Other receivables – net (2)	2,535,891	2,927,172
Prepayments (3)	5,512,258	6,276,810
Trade and other receivables– net	58,513,977	65,098,637
Current portion	58,513,977	65,098,637

As at 31 December 2020 and 2019, the fair values of the trade and other receivables of the Group, except for the prepayments and prepaid value added tax which are not financial assets, approximated their carrying amounts.

Notes to the Consolidated Financial Statements

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16 TRADE AND OTHER RECEIVABLES (Continued)

	As at 31 December	
	2020	2019
	RMB	RMB
RMB	55,026,658	65,098,637
USD	3,487,319	–
	58,513,977	65,098,637

(1) The aging analysis of trade receivables is as follows:

	As at 31 December	
	2020	2019
	RMB	RMB
– Within 180 days	47,779,839	41,250,893
– Over 180 days and within 1 year	2,609,250	3,439,981
– Over 1 year and within 2 years	2,711,516	3,313,425
– Over 2 years and within 3 years	2,554,036	2,536,027
– Over 3 years	6,759,749	6,431,010
	62,414,390	56,971,336

The credit period granted to customers is normally between 90 days to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

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

	Year ended 31 December	
	2020	2019
	RMB	RMB
At the beginning of the year	11,553,421	11,144,899
Write-off against uncollectible receivables	–	(18,796)
Provision for impairment (Note 8)	395,141	427,318
At the end of the year	11,948,562	11,553,421

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

Notes to the Consolidated Financial Statements

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16 TRADE AND OTHER RECEIVABLES (Continued)

(2) As at 31 December 2020 and 2019, details of other receivables are as follows:

	As at 31 December	
	2020 RMB	2019 RMB
Current:		
Related party borrowing (Note 32(d))	28,665	297,775
Staff advances	2,576,247	2,841,091
Deposits	502,832	435,466
Others	187,226	200,608
Total	3,294,970	3,774,940

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

	Year ended 31 December	
	2020 RMB	2019 RMB
At the beginning of the year	847,768	1,145,482
Reversal of impairment (Note 8)	(88,689)	(297,714)
At the end of the year	759,079	847,768

Reversal of impairment for other receivables is charged to expenses in the consolidated statement of comprehensive income.

(3) As at 31 December 2020 and 2019, prepayments are in connection with:

	As at 31 December	
	2020 RMB	2019 RMB
Purchase of raw materials	5,398,970	6,167,268
Service fees	113,288	109,542
Total	5,512,258	6,276,810

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17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	As at 31 December	
	2020	2019
	RMB	RMB
Notes receivable	12,950,237	–

As at 31 December 2020, all the fair value through other comprehensive income (FVOCI) were notes receivable, the impact of expected loss of fair value through other comprehensive income (FVOCI) was assessed to be insignificant.

18 INVENTORIES

	As at 31 December	
	2020	2019
	RMB	RMB
Raw materials	34,451,573	35,521,809
Finished goods	8,031,221	7,264,534
Low value consumables	112,742	107,815
	42,595,536	42,894,158

The cost of inventories recognised as cost of sales amounted to RMB64,588,218 and RMB57,841,109 for the years ended 31 December 2020 and 2019, respectively.

	Year ended 31 December	
	2020	2019
	RMB	RMB
Provision of inventories	598,686	598,686

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19 CASH AND BANK BALANCES

	As at 31 December	
	2020 RMB	2019 RMB
Cash at bank and on hand (1)	11,004,728	11,887,379
Less: Restricted cash (2)	(1,200,855)	(4,217)
Cash and cash equivalents	9,803,873	11,883,162

Cash at bank and in hand are denominated in:

	As at 31 December	
	2020 RMB	2019 RMB
- RMB	10,569,658	11,886,895
- USD	434,166	-
- HKD	904	484
	11,004,728	11,887,379

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at fixed annual rates of 0.35% for the years ended 31 December 2020 and 2019.

(2) As at 31 December 2020 and 2019, details of restricted cash is as follows:

	As at 31 December	
	2020 RMB	2019 RMB
Guaranteed deposits for issuance of note payables	1,200,855	4,217

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20 SHARE CAPITAL

	Number of shares	Share Capital RMB
At 31 December 2019	38,400,000	38,400,000
At 31 December 2020	38,400,000	38,400,000

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21 RETAINED EARNINGS

	Year ended 31 December	
	2020	2019
	RMB	RMB
At beginning of the year	17,125,601	17,789,952
Profit/(loss) for the year	1,177,114	(901,236)
Appropriation to safety fund (Note 22)	(331,842)	(141,099)
Utilisation of safety fund (Note 22)	331,842	377,984
At the end of the year	18,302,715	17,125,601

22 OTHER RESERVES

	Share Premium	Statutory reserve	Safety fund	Total
	RMB	RMB	RMB	RMB
As at 1 January 2019	43,531,246	6,038,124	236,885	49,806,255
Appropriation to statutory reserve (i)	–	–	–	–
Appropriation to safety fund (ii)	–	–	141,099	141,099
Utilisation of safety fund (ii)	–	–	(377,984)	(377,984)
As at 31 December 2019	43,531,246	6,038,124	–	49,569,370
As at 1 January 2020	43,531,246	6,038,124	–	49,569,370
Appropriation to statutory reserve (i)	–	–	–	–
Appropriation to safety fund (ii)	–	–	331,842	331,842
Utilisation of safety fund (ii)	–	–	(331,842)	(331,842)
As at 31 December 2020	43,531,246	6,038,124	–	49,569,370

- (i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company and its subsidiaries, it is required to appropriate certain percentages of the annual statutory net profits of the Company and its subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve before distributing any dividends. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into capital.
- (ii) Pursuant to certain regulations issued by the MOF and Safety Production General Bureau, the Group is required to set aside an amount to a safety fund at RMB2 per ton of raw ore mined. The fund can be used for improvements of safety at the mines and are not available for distribution to shareholders.

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23 DEFERRED GOVERNMENT GRANTS

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

The analysis of deferred government grants is as follows:

	As at 31 December	
	2020	2019
	RMB	RMB
Deferred government grants		
– Current	52,471	39,353
– Non-current	408,503	474,092
	460,974	513,445

Movements in deferred government grants for the years ended 31 December 2020 and 2019 are as follows:

	As at 31 December	
	2020	2019
	RMB	RMB
At the beginning of the year	513,445	597,398
Credited to the consolidated statement of comprehensive income (Note 7)	(52,471)	(83,953)
At the end of the year	460,974	513,445

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24 PROVISION FOR ENVIRONMENTAL REHABILITATION

	Year ended 31 December	
	2020	2019
	RMB	RMB
At the beginning of the year	1,520,370	1,336,956
(Credit)/debited to the consolidated statement of comprehensive income	(228,512)	183,414
At the end of the year	1,291,858	1,520,370

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

25 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB	RMB
Note payables	1,200,000	–
Trade payables	19,828,634	22,277,247
Other payables	8,203,500	7,299,680
Staff salaries and welfare payables	2,741,200	2,919,977
Deposits advances	–	501,199
Accrued taxes other than income tax	2,582,407	897,400
	34,555,741	33,895,503

As at 31 December 2020 and 2019, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2020 and 2019, trade and other payables were all denominated in RMB.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

25 TRADE AND OTHER PAYABLES (Continued)

The aging analysis of the trade payables is as follows:

	As at 31 December	
	2020 RMB	2019 RMB
Trade payables		
– Within 6 months	15,387,586	18,505,991
– Over 6 months and within 1 year	581,153	102,736
– Over 1 year and within 2 years	197,937	202,381
– Over 2 years and within 3 years	193,951	252,893
– Over 3 years	3,468,007	3,213,246
	19,828,634	22,277,247

26 BORROWINGS

	As at 31 December	
	2020 RMB	2019 RMB
Non-current		
Bank borrowings – secured (1)	14,725,000	–
Other borrowings – secured (2)	–	8,366,000
	14,725,000	8,366,000
Current		
Bank borrowings – secured (1)	56,600,000	70,500,000
Other borrowings – secured (2)	8,366,000	–
Other borrowings (3)	8,008,512	5,045,761
	72,974,512	75,545,761
Total borrowings	87,699,512	83,911,761

The weight average effective annual interest rates were as follows:

	As at 31 December	
	2020	2019
Bank borrowings	7.09%	7.91%
Other borrowings – secured (2)	10.00%	10.00%
Other borrowings (3)	3.38%	3.28%

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

26 BORROWINGS (Continued)

At 31 December 2020 and 2019, the Group's borrowings were repayable as follows:

	As at 31 December	
	2020 RMB	2019 RMB
Within 1 year	72,974,512	75,545,761
Between 1 and 2 years	14,725,000	8,366,000
	87,699,512	83,911,761

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

The borrowings are all denominated in RMB.

(1) Bank borrowings – secured

Bank and other borrowings were secured as follows:

	As at 31 December	
	2020	2019
Secured by property, plant and equipment and land use rights, and guaranteed by a third party	39,000,000	41,000,000
Guaranteed by third parties	10,875,000	8,000,000
Secured by property, plant and equipment	16,366,000	8,000,000
Secured by property, plant and equipment and land use rights	13,450,000	13,500,000
	79,691,000	70,500,000

(2) As at 31 December 2020, other borrowings of RMB8,366,000 were obtained from a third party at Yangyuan, secured by certain buildings, fixtures and facilities with carrying value of RMB12,549,000. The due date of the borrowings is September 2021.

(3) As at 31 December 2020, other borrowings of RMB8,008,512 were obtained from financial institutions by discounting bank acceptance notes.

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for the year ended 31 December 2020

27 DEFERRED INCOME TAX

The analysis of deferred tax assets is as follows:

	As at 31 December	
	2020 RMB	2019 RMB
The balance comprises temporary differences attributable to:		
Deductible tax losses	640,492	537,956
Provision for rehabilitation	166,637	228,055
Employee benefit expenses	255,681	360,903
Unrealised profits on intra-group transactions	2,263	7,669
Provision for impairment of financial assets	2,379,600	2,369,115
	3,444,673	3,503,698

Movements in deferred income tax assets for the years ended 31 December 2020 and 2019 are as follows:

Deferred income tax assets	Provision for impairment RMB	Unrealised profits on intra-group transactions RMB	Employee benefit expenses RMB	Provision for rehabilitation RMB	Unrealised financial charges RMB	Deductible tax losses RMB	Total RMB
At 1 January 2019	2,333,770	15,110	280,179	200,543	26,792	489,389	3,345,783
Credited/(debited) to the consolidated statement of comprehensive income (Note 11)	35,345	(7,441)	80,724	27,512	(26,792)	48,567	157,915
At 31 December 2019	2,369,115	7,669	360,903	228,055	-	537,956	3,503,698
At 1 January 2020	2,369,115	7,669	360,903	228,055	-	537,956	3,503,698
Credited/(debited) to the consolidated statement of comprehensive income (Note 11)	10,485	(5,406)	(105,222)	(34,277)	-	75,395	(59,025)
At 31 December 2020	2,379,600	2,263	255,681	193,778	-	613,351	3,444,673

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 December	
	2020 RMB	2019 RMB
Profit/(loss) for the year before income tax	1,339,979	(1,068,571)
Adjustments for:		
– Depreciation of property, plant and equipment (Note 13)	7,767,743	7,713,641
– Depreciation of right-of-use assets (Note 14)	213,376	190,603
– Amortisation of leasehold improvements (Note 15)	934,165	1,626,061
– Provision for impairment of financial assets (Note 16)	306,452	129,604
– Gains on disposal of property, plant and equipment (Note 7)	(54,519)	–
– Reversal of for impairment of inventories (Note 18)	–	(3,764)
– Finance expenses (Note 10)	6,144,892	6,364,378
	16,652,088	14,951,952
Changes in working capital:		
– Changes of restricted cash	(1,196,638)	385,401
– Increase in trade and other receivables	(6,886,116)	(15,065,674)
– Decrease/(increase) in inventories	2,611,196	(2,580,011)
– Increase in trade and other payables	148,867	6,745,072
Cash generated from operations	11,329,397	4,436,740

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Cash and cash equivalents RMB	Borrowings due within One year RMB	Borrowings due after One year RMB	Total RMB
Net debt as at 31 December 2019	11,883,162	(75,545,761)	(8,366,000)	(72,028,599)
Cash flows	(2,005,995)	10,937,249	(14,725,000)	(5,793,746)
Reclassification	-	(8,366,000)	8,366,000	-
Exchange difference	(73,294)	-	-	(73,294)
Net debt as at 31 December 2020	9,803,873	(72,974,512)	(14,725,000)	(77,895,639)

29 CONTINGENCIES

The Group had no material contingent liabilities as at 31 December 2020.

30 COMMITMENTS

Capital commitments

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

	As at 31 December	
	2020 RMB	2019 RMB
Property, plant and equipment	76,000	764,000

31 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	As at 31 December	
	2020 RMB	2019 RMB
Property, plant and equipment (Note 13)	21,795,562	23,251,270
Land use rights	5,758,357	5,593,118
	27,553,919	28,844,388

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

32 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group, the Company and its related parties during the years ended 31 December 2020 and 2019, and balances arising from related party transactions as at 31 December 2020 and 2019.

(a) Name and relationship with related parties

Name of related party	Relationship
Zhang Youlian (張有連)	Controlling shareholder, chairman and chief executive officer of the Company
Yangyuan Huanyou Agricultural Technology Co., Ltd.	Controlled by key management of the Company

(b) Transactions with related parties

As at 31 December 2020, the bank borrowings of RMB44,875,000 (31 December 2019: RMB41,000,000) were guaranteed by Zhang Youlian.

As at 31 December 2020, the other receivables of RMB269,110 (31 December 2019: RMB68,405) were received from Yangyuan Huanyou Agricultural Technology Co., Ltd..

(c) Key management compensation (Note 35)

	Year ended 31 December	
	2020	2019
	RMB	RMB
Salaries, wages and bonuses	1,956,000	2,984,688
Contributions to pension plans	36,834	58,387
Housing fund, welfare, medical and other benefits	39,537	29,184
	2,032,371	3,072,259

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

32 RELATED PARTY TRANSACTIONS (Continued)

(d) Balance with related party

Other receivables

	As at 31 December	
	2020	2019
	RMB	RMB
Yangyuan Huanyou Agricultural Technology Co., Ltd. (Note 16(2))	28,665	297,775

33 SUBSIDIARIES

The following is a list of all the subsidiaries at 31 December 2020:

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

34 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	Note	As at 31 December	
		2020 RMB	2019 RMB
ASSETS			
Non-current assets			
Property, plant and equipment		26,072,366	28,824,716
Prepaid leasing expenses		3,625,700	3,728,881
Investments in subsidiaries	33	26,520,736	26,520,736
Deferred income tax assets		2,084,802	2,116,369
		58,303,604	61,190,702
Current assets			
Inventories		2,238,650	5,728,274
Trade and other receivables		61,669,876	54,651,031
Trade and other receivables due from subsidiaries		54,300,522	51,991,885
Prepaid income tax		970,031	905,315
Restricted cash		1,200,855	3,541
Cash and cash equivalents		7,458,182	9,934,853
		127,838,116	123,214,899
Total assets		186,141,720	184,405,601
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital		38,400,000	38,400,000
Other reserves	(a)	49,569,370	49,569,370
Retained earnings	(a)	14,638,838	15,130,817
Total equity		102,608,208	103,100,187

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

34 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (Continued)

	Note	As at 31 December	
		2020 RMB	2019 RMB
LIABILITIES			
Non-current liabilities			
Deferred government grants		408,503	474,092
Current liabilities			
Deferred government grants		52,471	39,353
Trade and other payables		23,064,026	21,746,208
Borrowings		60,008,512	59,045,761
		83,125,009	80,831,322
Total liabilities		83,533,512	81,305,414
Total equity and liabilities		186,141,720	184,405,601

The balance sheet of the Company was approved by the Board of Directors on 29 March 2021 and was signed on its behalf.

Zhang Youlian
Director

Fan Fang
Director

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

34 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (Continued)

Note (a) Reserves movements of the Company

	Retained earnings RMB	Other reserves RMB
At 1 January 2019	17,579,800	49,728,843
Loss for the year	(2,608,456)	–
Utilisation of safety funds	159,473	(159,473)
At 31 December 2019	15,130,817	49,569,370
At 1 January 2020	15,130,817	49,569,370
Loss for the year	(491,979)	–
At 31 December 2020	14,638,838	49,569,370

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

Directors', supervisors' and senior management's emoluments for the years ended 31 December 2020 and 2019, respectively, are set out as follows:

	Year ended 31 December	
	2020 RMB	2019 RMB
Directors' fees	252,000	310,833
Salaries, wages and bonuses	1,704,000	2,771,955
Contributions to pension plans	36,834	58,387
Housing fund, welfare, medical and other benefits	39,537	29,184
	2,032,371	3,170,359

No director, supervisor or senior management has waived or agreed to waive any emoluments for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

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

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

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:				Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking		Total RMB
	Directors' fees	Salaries, wages and bonuses	Contributions to pension plans	Housing fund, welfare, medical and other benefits			
	RMB	RMB	RMB	RMB	RMB	RMB	
For the year ended 31 December 2020:							
Executive Directors							
Zhang Youlian (張有連) (i)	-	258,000	-	-	-	-	258,000
She Wenjie (iii)	-	48,000	6,139	6,608	-	-	60,747
Fan Fang (范芳)	-	168,000	6,139	6,608	-	-	180,747
Non-executive Directors							
Zhang Jinhua (張金花) (iv)	-	48,000	6,139	6,497	-	-	60,636
Independent Non-executive Directors							
Zhang Lei (章磊) (vii)	92,000	-	-	-	-	-	92,000
Tang Jinyan (唐靖炎) (viii)	80,000	-	-	-	-	-	80,000
Li Jiangning (李江寧) (viii)	80,000	-	-	-	-	-	80,000
Supervisors							
Xu Qinsi (徐勤思) (viii)	-	168,000	6,139	6,608	-	-	180,747
Zhang Donglian (張冬連)	-	120,000	6,139	6,608	-	-	132,747
Li Lijiao (li)	-	78,000	6,139	6,608	-	-	90,747
Senior Management							
Xu Qinwei (徐勤偉)	-	258,000	-	-	-	-	258,000
Su Pin (蘇品)	-	216,000	-	-	-	-	216,000
Chan Hon Wan (陳漢雲) (xii)	-	342,000	-	-	-	-	342,000
	252,000	1,704,000	36,834	39,537	-	-	2,032,371

Notes to the Consolidated Financial Statements

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

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:				Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking		Total RMB
	Directors' fees RMB	Salaries, wages and bonuses RMB	Contributions to pension plans RMB	Housing fund, welfare, medical and other benefits RMB	RMB		
For the year ended 31 December 2019:							
Executive Directors							
Zhang Youlian (張有連) (i)	-	258,000	-	3,648	210,000	471,648	
Sun Wensheng (孫文勝) (ii)	-	86,155	6,951	3,040	189,600	285,746	
She Wenjie (佘文杰) (iii)	-	8,000	1,390	608	-	9,998	
Fan Fang (范芳)	-	168,000	8,341	3,648	96,000	275,989	
Non-executive Directors							
Zhang Jinhua (張金花) (iv)	-	48,000	8,341	3,648	80,000	139,989	
Independent Non-executive Directors							
Shao Chen (邵晨) (v)	80,000	-	-	-	80,000	160,000	
Huang Zemin (黃澤民) (vii)	80,000	-	-	-	80,000	160,000	
Chau Kam Wing, Donald (周錦榮) (vi)	49,500	-	-	-	49,500	99,000	
Zhang Lei (章磊) (viii)	61,333	-	-	-	92,000	153,333	
Tang Jinyan (唐靖炎) (viii)	20,000	-	-	-	80,000	100,000	
Li Jiangning (李江寧) (viii)	20,000	-	-	-	80,000	100,000	
Supervisors							
Xu Qinsi (徐勤思) (viii)	-	168,000	8,341	3,648	-	179,989	
Zhang Donglian (張冬連)	-	120,000	8,341	3,648	-	131,989	
Liang Guoping (梁國平) (x)	-	15,000	2,085	912	-	17,997	
Li Lijiao (李麗蛟) (xi)	-	47,700	6,256	2,736	-	56,692	
Senior Management							
Xu Qinwei (徐勤偉)	-	258,000	-	-	-	258,000	
Su Pin (蘇品)	-	216,000	8,341	3,648	-	227,989	
Chan Hon Wan (陳漢雲) (xii)	-	342,000	-	-	-	342,000	
	310,833	1,734,855	58,387	29,184	1,037,100	3,170,359	

Notes to the Consolidated Financial Statements

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

- (i) Mr. Zhang Youlian was also the chief executive and chairman for the years ended 31 December 2020 and 2019.
- (ii) Mr. Sun Wensheng was appointed as an executive director since September 2012 and resigned as an executive director on 19 October 2019.
- (iii) Mr. She Wenjie was appointed as an executive director since October 2019.
- (iv) Ms. Zhang Jinhua was appointed as a non-executive director since 14 May 2016.
- (v) Mr. Shao Chen, Mr. Huang Zemin and Mr. Wang Xiangyao were appointed as independent non-executive directors since February 2013. Mr. Wang retired as an independent non-executive director on 14 May 2016. Mr. Shao Chen and Mr. Huang Zemin retired as independent non-executive directors on 19 October 2019.
- (vi) Mr. Chau Kam Wing, Donald was appointed as an independent non-executive director since May 2014 and resigned on 11 May 2019.
- (vii) Mr. Zhang Lei was appointed as an independent non-executive director since 11 May 2019.
- (viii) Mr. Tang Jinyan and Mr. Li Jingning were appointed as independent non-executive directors since 19 October 2019.
- (ix) Mr. Xu Qinsi was appointed as a supervisor since September 2012.
- (x) Mr. Liang Guoping was appointed as a supervisor since August 2012 and resigned as a supervisor on 22 March 2019.
- (xi) Ms. Li Lijiao was appointed as a supervisor since 22 March 2019.
- (xii) Mr. Chan Hon Wan, was appointed as a company secretary since April 2014.

Financial Summary

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

	For the year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Results					
Revenue	112,718	100,293	89,231	80,583	75,260
Profit/(loss) before taxation	1,340	(1,069)	1,081	(7,297)	2,059
Income tax (expense)/credit	(163)	167	(142)	933	(223)
Profit/(loss) for the year	1,177	(901)	939	(6,364)	1,836
Attributable to					
Equity holders of the Company	1,177	(901)	939	(6,364)	1,836
	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Assets and liabilities					
Total assets	230,280	224,936	213,565	185,375	199,193
Total liabilities	(124,008)	(119,841)	(107,569)	(96,988)	(104,442)
Equity attributable to equity holders of the Company	106,272	105,095	105,996	88,387	94,751
	As at 31 December				
	2020	2019	2018	2017	2016
Liquidity and Asset-liability Ratio					
Current ratio ⁽¹⁾	1.17	1.10	1.27	0.93	1.27
Quick ratio ⁽²⁾	0.77	0.71	0.86	0.58	0.98
Asset-liability ratio ⁽³⁾	38.1%	37.3%	35.3%	35.1%	37.5%

Note:

- (1) Current ratio is calculated as current assets divided by current liability.
- (2) Quick ratio is calculated as current assets less inventories divided by current liability.
- (3) Asset-liability ratio is calculated as total borrowing divided by total assets and multiplied by 100%.