



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

2021

INTERIM REPORT

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

* For identification purpose only

RESULTS HIGHLIGHTS

For the six months ended 30 June 2021, the results highlights were as follows:

- Revenue increased by 41.6% to approximately RMB69,519,000 (2020: RMB49,089,000).
- Gross profit increased by 34.3% to approximately RMB28,130,000 (2020: RMB20,940,000).
- Gross profit margin was 40.5% (2020: 42.7%).
- Profit for the period attributable to the equity holders of the Company increased by 137.8% to approximately RMB4,116,000 (2020: RMB1,731,000).
- Basic earnings per share increased by 137.8% to approximately RMB0.107 (2020: RMB0.045).
- The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2021 (2020: nil).

UNAUDITED INTERIM RESULTS OF 2021

The board (the “Board”) of Directors of Zhejiang Chang'an Renheng Technology Co., Ltd. is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2021 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2020 as follows:

Unaudited condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2021

	Note	Three months ended 30 June		Six months ended 30 June	
		2021 RMB (unaudited)	2020 RMB (unaudited)	2021 RMB (unaudited)	2020 RMB (unaudited)
Revenue	5	42,721,704	32,356,087	69,519,419	49,088,726
Cost of sales		(25,824,715)	(18,803,094)	(41,389,731)	(28,149,083)
Gross profit		16,896,989	13,552,993	28,129,688	20,939,643
Distribution costs		(4,423,425)	(3,575,539)	(8,040,570)	(6,483,495)
Administrative expenses		(4,867,266)	(3,732,320)	(9,638,672)	(6,847,688)
Research and development expenses		(2,644,281)	(1,704,503)	(3,883,735)	(3,059,756)
Other gains – net	6	476,992	50,764	1,225,758	163,554
Operating profit		5,439,009	4,591,395	7,792,469	4,712,258
Finance income		11,015	9,430	23,697	9,812
Finance expenses		(1,410,115)	(1,398,467)	(2,652,657)	(2,846,505)
Finance expenses – net	7	(1,399,100)	(1,389,037)	(2,628,960)	(2,836,693)
Profit before income tax	8	4,039,909	3,202,358	5,163,509	1,875,565
Income tax expense	9	(995,147)	(438,469)	(1,047,697)	(145,027)
Profit for the period attributable to the equity holders of the Company		3,044,762	2,763,889	4,115,812	1,730,538
Other comprehensive income		-	-	-	-
Total comprehensive income for the period attributable to the equity holders of the Company		3,044,762	2,763,889	4,115,812	1,730,538
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	10	0.079	0.072	0.107	0.045
Dividends	11	-	-	-	-

Unaudited condensed consolidated balance sheet

As at 30 June 2021

	Note	30 June 2021 RMB (unaudited)	31 December 2020 RMB (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	84,971,885	83,012,598
Right-of-use assets		6,269,368	6,403,492
Leasehold improvements		10,160,342	11,571,379
Deferred income tax assets		3,444,673	3,444,673
		104,846,268	104,432,142
Current assets			
Inventories		45,550,576	42,595,536
Trade and other receivables	13	60,064,479	58,513,977
Financial assets at fair value through other comprehensive income (FVOCI)		12,553,228	12,950,237
Prepaid income tax		771,175	783,550
Restricted cash		10,855	1,200,855
Cash and cash equivalents		10,242,592	9,803,873
		129,192,905	125,848,028
Total assets		234,039,173	230,280,170
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	14	38,400,000	38,400,000
Other reserves		49,569,370	49,569,370
Retained earnings		22,418,527	18,302,715
Total equity		110,387,897	106,272,085

		30 June 2021 RMB (unaudited)	31 December 2020 RMB (audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred government grants		382,268	408,503
Provisions for environmental rehabilitation		1,484,065	1,291,858
Borrowings		13,975,000	14,725,000
		15,841,333	16,425,361
Current liabilities			
Deferred government grants		52,471	52,471
Trade and other payables	15	30,837,856	34,555,741
Current income tax liabilities		336,134	–
Borrowings		76,583,482	72,974,512
		107,809,943	107,582,724
Total liabilities		123,651,276	124,008,085
Total equity and liabilities		234,039,173	230,280,170

Unaudited condensed consolidated statement of changes in equity

For the six months ended 30 June 2021

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital RMB	Other reserves RMB	Retained earnings RMB	Total RMB
As at 1 January 2020	38,400,000	49,569,370	17,125,601	105,094,971
Comprehensive income				
Profit for the period	-	-	1,730,538	1,730,538
Total comprehensive income for the period	-	-	1,780,538	1,780,538
As at 30 June 2020	38,400,000	49,569,370	18,856,139	106,825,509
As at 1 January 2021	38,400,000	49,569,370	18,302,715	106,272,085
Comprehensive income				
Profit for the period	-	-	4,115,812	4,115,812
Total comprehensive income for the period	-	-	4,115,812	4,115,812
As at 30 June 2021	38,400,000	49,569,370	22,418,527	110,387,897

Unaudited condensed consolidated cash flow statement

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Net cash generated from operating activities	9,044,448	4,474,178
Net cash used in investing activities	(8,826,042)	(4,634,287)
Net cash used in financing activities	(39,475)	(6,819,950)
Net increase/(decrease) in cash and cash equivalents	178,931	(6,980,059)
Cash and cash equivalents at beginning of the period	9,803,873	11,883,162
Exchange difference on cash and cash equivalents	259,788	206,597
Cash and cash equivalents at end of the period	10,242,592	5,109,700

Notes to the unaudited condensed consolidated financial statements

For the six months ended 30 June 2021

1 GENERAL INFORMATION

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

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

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

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

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

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

On 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 owners are independent third parties.

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

2 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim financial reporting’, and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2021 do not have a material impact on the results and financial position of the Group.

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

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

4 SEGMENT INFORMATION

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

5 REVENUE

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Papermaking chemicals	20,841,861	24,369,678
Organic bentonite	37,566,398	19,016,225
Inorganic gel	6,872,549	3,083,601
Bentonite for metallurgy pellet	492,000	151,737
Quality calcium-bentonite	942,368	578,717
Other chemicals <i>(Note)</i>	2,804,243	1,888,768
	69,519,419	49,088,726

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

6 OTHER GAINS – NET

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Government grants		
– Relating to assets	26,235	83,953
– Relating to costs	1,356,797	126,148
Others	(157,274)	(46,547)
	1,225,758	163,554

7 FINANCE EXPENSES – NET

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Finance income		
– Interest income derived from bank deposits	23,697	9,812
Finance expenses		
– Interest expense	(2,912,445)	(3,053,100)
– Capitalised interest expense	–	–
	(2,912,445)	(3,053,100)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	259,788	206,595
– Unrealised financial charges from financial assets measured at amortised cost	–	–
	(2,652,657)	(2,846,505)
Finance expenses – net	(2,628,960)	(2,836,693)

8 PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Profit for the period has been arrived after charging:		
Depreciation	3,089,667	3,557,860
Amortisation of leasehold land and land use rights	82,759	82,759
Amortisation of mining rights	57,800	15,760
Amortisation of leasehold improvements	622,924	343,650

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Current income tax	1,047,697	137,358
Deferred income tax	–	7,669
	1,047,697	145,027

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 Co., Ltd.” 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 subsidiaries are subject to income tax rate of 25% for the six months ended 30 June 2021 and 2020.

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

	Six months ended 30 June	
	2021 RMB (unaudited)	2020 RMB (unaudited)
Profit before tax	5,163,509	1,875,565
Calculated at statutory tax rate	1,290,877	468,891
Expenses not deductible for tax purposes	18,884	140,423
Additional deduction for research and development expense (<i>Note</i>)	(728,200)	(573,705)
Preferential tax rate impact of the Company	27,121	1,947
Unused tax losses for which no deferred tax asset has been recognised	439,015	107,471
Income tax expense	1,047,697	145,027

Note: 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 consolidated statement of comprehensive income after obtaining approval from tax authorities.

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2021 and 2020.

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Profit attributable to the equity holders of the Company (RMB)	4,115,812	1,730,538
Weighted average number of ordinary shares in issue	38,400,000	38,400,000
Basic earnings per share (RMB per share)	0.107	0.045

(b) Diluted

The fully diluted earnings per share for the six months ended 30 June 2021 and 2020 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the six months ended 30 June 2021 and 2020.

11 DIVIDENDS

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2021 (2020: nil).

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired property, plant and equipment of approximately RMB5,339,192 (2020: RMB3,347,000).

13 TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB (unaudited)	31 December 2020 RMB (audited)
Trade receivables	60,030,261	62,414,390
Less: provision for impairment	(11,948,562)	(11,948,562)
Trade receivables – net	48,081,699	50,465,828
Other receivables	4,699,342	3,294,970
Less: provision for impairment	(759,079)	(759,079)
Other receivables – net	3,940,263	2,535,891
Prepayments	8,042,517	5,512,258
Trade and other receivables – net	60,064,479	58,513,977
Less: non-current portion	–	–
Current portion	60,064,479	58,513,977

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

	30 June 2021 RMB (unaudited)	31 December 2020 RMB (audited)
- Within 180 days	37,985,649	47,779,839
- Over 180 days and within 1 year	9,397,866	2,609,250
- Over 1 year and within 2 years	1,169,216	2,711,516
- Over 2 years and within 3 years	1,201,400	2,554,036
- Over 3 years	10,276,130	6,759,749
	60,030,261	62,414,390

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

14 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Ordinary shares	
	Number	RMB
As at 30 June 2021 (unaudited)	38,400,000	38,400,000

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

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

15 TRADE AND OTHER PAYABLES

	30 June 2021 RMB (unaudited)	31 December 2020 RMB (audited)
Trade payables	21,194,337	21,028,634
Other payables	4,917,695	8,203,500
Staff salaries and welfare payables	2,443,489	2,741,200
Advances from customers	19,209	–
Accrued taxes other than income tax	2,263,126	2,582,407
	30,837,856	34,555,741

The ageing analysis of the trade payables is as follows:

	30 June 2021 RMB (unaudited)	31 December 2020 RMB (audited)
Trade payables		
– Within 6 months	16,965,657	16,587,586
– Over 6 months and within 1 year	226,962	581,153
– Over 1 year and within 2 years	315,616	197,937
– Over 2 years and within 3 years	3,857	193,951
– Over 3 years	3,682,245	3,468,007
	21,194,337	21,028,634

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group continued to focus on promoting bentonite for paints and coatings, and its products were recognized by customers. The Group's sales and gross profit both increased as compared with the six months ended 30 June 2020 as a result of the market recovery from the novel coronavirus (COVID-19) epidemic (the "Epidemic"). 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 out-standing 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 Reporting Period. The Group attached great importance to investment in the research and development of new products. For the six months ended 30 June 2021, the Group's research and development expenses amounted to approximately RMB3,884,000.

Financial Review

Revenue

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

Product	For the six months ended 30 June			
	2021		2020	
	RMB'000	%	RMB'000	%
Papermaking chemicals	20,842	30.0	24,370	49.7
Organic bentonite	37,566	54.0	19,016	38.7
Inorganic gel	6,873	9.9	3,084	6.3
Bentonite for metallurgy pellet	492	0.7	152	0.3
Quality calcium-bentonite	942	1.4	579	1.2
Other chemicals	2,804	4.0	1,888	3.8
Total	69,519	100.0	49,089	100.0

Revenue from sales of papermaking chemicals decreased by approximately RMB3,528,000 or 14.5% from approximately RMB24,370,000 for the six months ended 30 June 2020 to approximately RMB20,842,000 for the six months ended 30 June 2021. As the average unit selling price remained similar for the comparative periods, the decrease in revenue was mainly due to the decrease in sales volume, which decreased by approximately 14.1% from approximately 6,117 tonnes for the six months ended 30 June 2020 to approximately 5,255 tonnes for the six months ended 30 June 2021.

Revenue from sales of organic bentonite increased by approximately RMB18,550,000 or 97.5% from approximately RMB19,016,000 for the six months ended 30 June 2020 to approximately RMB37,566,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in the sales volume.

Revenue from sales of inorganic gel increased by approximately RMB3,789,000 or 122.9% from approximately RMB3,084,000 for the six months ended 30 June 2020 to approximately RMB6,873,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in sales volume.

Revenue of bentonite for metallurgy pellet in increased by approximately RMB340,000 or 223.7% from approximately RMB152,000 for the six months ended 30 June 2020 to approximately RMB492,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in sales volume.

Revenue of quality calcium-bentonite increased by approximately RMB363,000 or 62.7% from approximately RMB579,000 for the six months ended 30 June 2020 to approximately RMB942,000 for the six months ended 30 June 2021. While the average unit selling price remained steady for these two periods, the increase in revenue was mainly due to the increase in sales volume.

Revenue of other chemicals increased by approximately RMB916,000 or 48.5% from approximately RMB1,888,000 for the six months ended 30 June 2020 to approximately RMB2,804,000 for the six months ended 30 June 2021. Other chemicals mainly comprise flocculating agents which are principally applied in the coating preparation industry.

Cost of sales

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

	For the six months ended 30 June			
	2021		2020	
	RMB'000	%	RMB'000	%
Cost of raw materials	32,200	77.8	21,280	75.6
Direct labour costs	2,269	5.5	1,745	6.2
Manufacturing overhead costs	5,713	13.8	4,395	15.6
Others	1,208	2.9	729	2.6
Total	41,390	100.0	28,149	100.0

The cost of sales increased by approximately RMB13,241,000 or 47.0% from approximately RMB28,149,000 for the six months ended 30 June 2020 to approximately RMB41,390,000 for the six months ended 30 June 2021.

Cost of raw materials accounted for approximately 77.8% and 75.6% of cost of sales for the six months ended 30 June 2021 and 2020 respectively. The cost of raw materials increased by approximately 51.3% from approximately RMB21,280,000 for the six months ended 30 June 2020 to approximately RMB32,200,000 for the six months ended 30 June 2021. The increase was mainly due to the increase of quantity consumed of CPAM. CPAM was the major raw material for a kind of product in bentonite with a relatively high unit price. As sales volume of this kind of product increased for the six months ended 30 June 2021, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 5.5% and 6.2% of cost of sales for the six months ended 30 June 2021 and 2020, respectively. Direct labour costs increased by approximately RMB524,000 or 30.0% during the comparative periods.

Manufacturing overhead costs accounted for approximately 13.8% and 15.6% of cost of sales for the six months ended 30 June 2021 and 2020 respectively. Manufacturing overhead costs increased by approximately RMB1,318,000 or 29.9% from approximately RMB4,395,000 for the six months ended 30 June 2020 to approximately RMB5,713,000 for the six months ended 30 June 2021.

Gross profit and gross profit margin

The gross profit increased by approximately RMB7,190,000 or 34.3% from approximately RMB20,940,000 for the six months ended 30 June 2020 to approximately RMB28,130,000 for the Reporting Period.

Gross profit margin decreased slightly from 42.7% for the six months ended 30 June 2020 to 40.5% for the six months ended 30 June 2021. The decrease in gross profit margin was mainly attributable to the decrease in sales volume of papermaking chemicals which has a higher gross profit margin during the Reporting Period.

Distribution costs

The distribution costs for the six months ended 30 June 2021 and 2020 amounted to approximately RMB8,041,000 and RMB6,483,000, respectively. The distribution costs increased by approximately RMB1,558,000 or 24.0% mainly because of the increase in travelling expenses from approximately RMB1,024,000 for the six months ended 30 June 2020 to approximately RMB2,441,000 for the six months ended 30 June 2021.

Administrative expenses

The administrative expenses increased by approximately RMB2,791,000 or 40.8% from approximately RMB6,848,000 for the six months ended 30 June 2020 to approximately RMB9,639,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in professional service fees.

Research and development expenses

The research and development expenses increased by approximately RMB824,000 or 26.9% from approximately RMB3,060,000 for the six months ended 30 June 2020 to approximately RMB3,884,000 for the six months ended 30 June 2021. The increase was mainly due to the increase in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for Petrochemical Engineering.

Other gains – net

Other gains for the six months ended 30 June 2021 and 2020 amounted to approximately RMB1,226,000 and RMB164,000, respectively. The increase in other gains mainly due to the increase in government grants from approximately RMB210,000 for the six months ended 30 June 2020 to approximately RMB1,357,000 for the six months ended 30 June 2021.

Finance expenses – net

The net finance expenses decreased from approximately RMB2,837,000 for the six months ended 30 June 2020 to approximately RMB2,653,000 for the Reporting Period mainly as a result of decrease in average borrowing interest rate.

Income tax expenses

The effective tax rates were 20.3% and 7.7% for the six months ended 30 June 2021 and 2020, respectively. The increase in effective tax rates was mainly due to the increase in expenses not deductible for tax purposes. The details are set out in note 9 to the financial statements.

Profit for the period attributable to the equity holders of the Company

As a result of the foregoing, profit for the period attributable to the equity holders of the Company increased by approximately RMB2,385,000 or 137.8% from approximately RMB1,731,000 for the six months ended 30 June 2020 to approximately RMB4,116,000 for the six months ended 30 June 2021. The net profit margin for the Group increased from approximately 3.5% for the six months ended 30 June 2020 to approximately 5.9% for the six months ended 30 June 2021. The increase in profit for the period of the Group was mainly due to the increase in gross profit during the Reporting Period.

Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Reporting Period, the weight average effective annual interest rate of bank borrowings and other borrowings was 6.87% and 3.09% respectively. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 30 June 2021, the Group had cash and cash equivalents of RMB10,243,000 which was mainly generated from operations of the Group.

Cash Flows

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

During the Year Under Review, the Group's cash and cash equivalents increased by approximately RMB439,000, which mainly comprised the net cash generated from operating activities of approximately RMB9,044,000, net cash used in investing activities of approximately RMB8,826,000, net cash used in financing activities of approximately RMB39,000, and the foreign exchange gain of approximately RMB260,000. Details of cash flows of the Group are set out on page 7 of the "Unaudited condensed consolidated cash flow statement" of this report.

Capital Structure

Indebtedness

The total indebtedness of the Group as at 30 June 2021 was approximately RMB90,558,000 (as at 31 December 2020: approximately RMB87,700,000). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2021, the Group's gearing ratio was approximately 38.7% (as at 31 December 2020: 38.1%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to increase in bank borrowings.

Pledge of assets

As at 30 June 2021, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB27,554,000 (as at 31 December 2020: approximately RMB27,554,000).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, and construction in progress. The Group's capital expenditures amounted to approximately RMB2,186,000 and RMB3,347,000 for the six months ended 30 June 2021 and 2020, respectively.

Foreign exchange risk

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

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

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2021, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisition and Disposal

For the six months ended 30 June 2021, the Group had not made any material acquisition or disposal.

Going Concern

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

Future Outlook

In 2021, 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.

Human Resources and Training

As at 30 June 2021, the Group had a total of 152 employees, of which 53 worked at the Group's headquarters in Changxing, and 99 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB5,827,000 (2020: RMB4,938,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

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

OTHER INFORMATION

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

As at 30 June 2021, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director/ Supervisor	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600	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 shares in the Company held by his spouse, Ms. Ling Weixing.

Save as disclosed above, as at 30 June 2021, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2021, 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%

Saved as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2021.

Directors' and supervisors' rights to acquire shares or debentures

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

Connected transaction

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

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

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

Public float

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

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

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

Capital commitment

As at 30 June 2021, the Group had capital commitment amounted to approximately RMB138,000 (as at 31 December 2020: RMB76,000).

Dividends

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2021 (2020: nil).

Corporate governance practice

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

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

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

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

Model code for securities transactions

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

Audit committee

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

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

The Audit Committee has reviewed the unaudited consolidated financial statements, the results announcement and this interim report of the Company for the six months ended 30 June 2021 with the management of the Group and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this interim report complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosure have been made.

Events after the Reporting Period

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

Disclosure of information

The interim report for the six months ended 30 June 2021 will be dispatched to shareholders of the Company and published on the Company's website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, the PRC, 13 August 2021

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