長安仁恒

Zhejiang Chang'an Renheng Technology Co., Ltd.*
浙江長安仁恒科技股份有限公司

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

(Stock Code: 8139)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

This announcement, for which the directors 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 of Hong Kong Limited 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 announcement is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* *For identification purpose only*

RESULTS HIGHLIGHTS

- Revenue increased by 6.9% to approximately RMB92,029,000 (2013: RMB86,077,000).
- Gross profit increased slightly by 0.2% to approximately RMB43,203,000 (2013: RMB43,128,000).
- Gross profit margin down by 3.2% to 46.9% (2013: 50.1%).
- Profit before taxation increased by 5.1% to approximately RMB14,455,000 (2013: RMB13,752,000).
- Profit for the year ended 31 December 2014 increased by 3.4% to approximately RMB12,143,000 (2013: RMB11,746,000).
- Basic earnings per share increased by 4.1% to approximately RMB51 cents (2013: RMB49 cents).
- The Board recommended the distribution of a final dividend of RMB22.77 cents (equivalent to HK28.79 cents) per share for the year ended 31 December 2014 (2013: nil)(the calculation of dividend per share includes the 8,000,000 H shares of the Company listed on the GEM Board of the Hong Kong Stock Exchange on 16 January 2015), subject to the approval of the shareholders of the Company in the forthcoming annual general meeting to be held on Thursday, 21 May 2015.

The board (the "**Board**") of directors (the "**Directors**") of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2013 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

		Year ended 31 December	
		2014	2013
	Note	***RMB***	*RMB*
Revenue	*3*	**92,029,197**	86,076,596
Cost of sales	*5*	**(48,826,206)**	(42,948,490)
Gross profit		**43,202,991**	43,128,106
Distribution costs	*5*	**(11,082,736)**	(11,977,579)
Administrative expenses	*5*	**(10,541,672)**	(9,609,684)
Research and development expenses	*5*	**(3,760,840)**	(4,857,368)
Other gains – net	*4*	**3,403,018**	2,555,553
Operating profit		**21,220,761**	19,239,028
Finance income	*6*	**339,857**	350,056
Finance expenses	*6*	**(7,105,238)**	(5,837,126)
Finance expenses – net	*6*	**(6,765,381)**	(5,487,070)
Profit before income tax		**14,455,380**	13,751,958
Income tax expense	*7*	**(2,312,547)**	(2,006,322)
Profit for the year attributable to the equity holders of the Company		**12,142,833**	11,745,636
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to the equity holders of the Company		**12,142,833**	11,745,636
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	*8*	**0.51**	0.49
Dividends			
Proposed final dividends: RMB0.2277 per share	*14*	**7,286,400**	–

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

		As at 31 December	
		2014	2013
	Note	***RMB***	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		**42,695,190**	40,752,484
Prepaid leasing expenses		**6,527,391**	4,496,437
Mining rights		**20,076**	60,232
Leasehold improvements		**583,853**	487,410
Deferred income tax assets		**1,097,839**	1,094,846
Trade and other receivables	*10*	**649,881**	493,808
		51,574,230	47,385,217
Current assets			
Inventories	*9*	**17,378,815**	14,206,460
Trade and other receivables	*10*	**90,377,445**	87,972,226
Restricted cash	*11*	**10,275,216**	8,025,000
Cash and cash equivalents	*11*	**7,051,265**	4,173,066
		125,082,741	114,376,752
Total assets		**176,656,971**	161,761,969
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*12*	**24,000,000**	24,000,000
Other reserves		**6,920,604**	5,732,682
Retained earnings			
– Proposed final dividends	*14*	**7,286,400**	–
– Others		**22,637,616**	18,969,105
Total equity		**60,844,620**	48,701,787

	Note	As at 31 December 2014 RMB	2013 RMB
LIABILITIES			
Non-current liabilities			
Deferred government grants		**852,417**	939,506
Provisions for environmental rehabilitation		**634,533**	513,400
Borrowings		**1,066,077**	1,427,493
		2,553,027	2,880,399
Current liabilities			
Deferred government grants		**87,208**	213,925
Trade and other payables	*13*	**22,700,551**	25,373,445
Current income tax liabilities		**988,540**	885,078
Borrowings		**89,483,025**	83,707,335
		113,259,324	110,179,783
Total liabilities		**115,812,351**	113,060,182
Total equity and liabilities		**176,656,971**	161,761,969
Net current assets		**11,823,417**	4,196,969
Total assets less current liabilities		**63,397,647**	51,582,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2014

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

The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "**Listing**").

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 21 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") and under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap.32) for this financial year and the comparative period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

- IAS 32 (Amendment) "Financial instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the consolidated financial statements.

- IAS 36 (Amendment) "Impairment of assets", on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units which had been included in IAS 36 by the issue of IFRS 13.

- IFRIC 21 "Levies", sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 "Provisions". The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(b) New and amended standards issued but are not effective and not yet adopted by the Group

- IAS 19 Amendment regarding defined benefit plans: employee contributions, effective for the annual period beginning on or after 1 July 2014.

Annual improvements 2012:

- IFRS 8 (Amendments) "Operating segments" included the disclosure of the judgments made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported, effective for the annual period beginning on or after 1 July 2014.

- IAS 24 (Amendments) "Related Party Disclosures".The reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided, effective for the annual period beginning on or after 1 July 2014. The adoption of this new standard has no material impact on the consolidated financial statements.

Annual improvements 2013:

- IFRS 3 (Amendments) "Business combinations" does not apply to the accounting for the formation of any joint arrangement under IFRS 11 in the financial statements of the joint arrangement, effective for annual periods beginning on or after 1 July 2014.

- IFRS 13 (Amendment) "Fair value measurement" clarifies that the portfolio exception in IFRS 13, contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9, effective for the annual period beginning on or after 1 July 2014.

- IFRS 14 "Regulatory Deferral Accounts", effective for the accounting period beginning on or after 1 January 2016.

- IFRS 11 (Amendment) on accounting for acquisitions of interests in joint operation, effective for the accounting period beginning on or after 1 January 2016.

- Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

- IAS 16 and IAS 38 (Amendments) on clarification of acceptable methods of depreciation and amortization, effective for the accounting period beginning on or after 1 January 2016.

- IFRS 10 and IAS 28 (Amendments) on the sale or contribution of assets between an investor and its associate or joint venture, effective for the accounting period beginning on or after 1 January 2016.

- IAS 27 (Amendments) on the equity method, effective for the accounting period beginning on or after 1 January 2016.

Annual improvements 2014:

- IFRS 7 (Amendments) "Financial instruments: Disclosures" including Service contracts and Interim financial statements, effective for the accounting period beginning on or after 1 January 2016.

- IAS 19 (Amendments) "Employee benefits", effective for the accounting period beginning on or after 1 January 2016.

- IAS 34 (Amendments) "Interim financial reporting", effective for the accounting period beginning on or after 1 January 2016.

- IAS 15 "Revenue from Contracts with Customers", effective for the accounting period beginning on or after 1 January 2017.

- IFRS 9 "Financial Instruments", effective for the accounting period beginning on or after 1 January 2018.

The directors anticipate that the adoption of these new standards, amendments to standards and interpretations to standards will not result in a significant impact on the consolidated financial statements of the Group.

(c) ***New Hong Kong Companies Ordinance (Cap. 622)***

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected."

3 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.

4 OTHER GAINS – NET

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Losses on disposal of property, plant and equipment, prepaid leasing expenses and leasehold improvements – net	**–**	(114,849)
Foreign exchange (losses)/gains – net	**(117,826)**	138,619
Government grants		
– Relating to assets	**213,806**	410,025
– Relating to costs *(i)*	**3,401,500**	2,208,414
Others	**(94,462)**	(86,656)
	3,403,018	2,555,553

(i) The Company received RMB2 million in September 2014 from the Finance Bureau of Changxing (長興) for the submission of the listing application of the Company's shares. The remaining government grants were certain cost-related unconditional subsidies which were granted to award the Group's effort on product development and innovation.

5 EXPENSES BY NATURE

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Changes in finished goods *(Note 9)*	**(376,169)**	322,772
Raw materials and consumable used	**41,969,582**	36,917,978
Employee benefit expenses	**10,219,182**	8,388,171
Utilities	**1,989,415**	1,640,784
Transportation expenses	**9,051,094**	10,017,338
Depreciation	**5,090,228**	4,520,547
Travelling and communication expenses	**966,848**	2,970,908
Taxes and levies	**1,457,753**	1,531,400
Amortisation of prepaid leasing expenses	**162,122**	134,893
Amortisation of mining rights	**40,156**	40,156
Professional service fee		
– Auditor's remuneration	**1,000,000**	70,000
– Others	**188,463**	865,636
Amortisation of leasehold improvements	**130,557**	142,375
Maintenance expenses	**137,160**	165,028
Entertainment expenses	**612,925**	845,875
Reversal of impairment of receivables *(Note 10)*	**(131,973)**	(90,891)
Miscellaneous	**1,704,111**	910,151
Total cost of sales, distribution costs, administrative expenses and research and development expenses	**74,211,454**	69,393,121

6 FINANCE EXPENSES – NET

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	**339,857**	350,056
Finance expenses		
– Interest expense	**(7,105,777)**	(6,180,631)
– Capitalised interest expense	**60,165**	102,094
	(7,045,612)	(6,078,537)
– Foreign exchange gains/(losses) on borrowings and cash and cash equivalents – net	**(56,119)**	256,765
– Unrealised financial charges from financial assets measured at amortised cost	**(3,507)**	(15,354)
	(7,105,238)	(5,837,126)
Finance expenses – net	**(6,765,381)**	(5,487,070)

7 INCOME TAX EXPENSE

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Current income tax	**2,315,540**	2,026,484
Deferred income tax	**(2,993)**	(20,162)
	2,312,547	2,006,322

The Company 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 Zhejiang province, which granted tax preferential rate of 15% for three years from 14 October 2011 to 13 October 2014. The Company renewed the certificate in October 2014, which granted tax preferential rate of 15% for another three years from 27 October 2014 to 26 October 2017.

The other subsidiaries are subject to income tax rate of 25% for the years ended 31 December 2014 and 2013.

The difference between the actual income tax charge in the consolidated statements 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:

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
Profit before tax	**14,455,380**	13,751,958
Calculated at statutory tax rate	**3,613,845**	3,437,990
Expenses not deductible for tax purposes	**130,844**	164,220
Additional deduction for research and development expense *(i)*	**(461,602)**	(504,643)
Preferential tax rate of the Company	**(1,085,548)**	(1,091,245)
Adjustment in respect of prior years	**115,008**	–
Income tax expense	**2,312,547**	2,006,322

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

8 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 year ended 31 December 2014 and 2013.

	Year ended 31 December	
	2014	2013
Profit attributable to the equity holders of the Company *(RMB)*	**12,142,833**	11,745,636
Weighted average number of ordinary shares in issue	**24,000,000**	24,000,000
Basic earnings per share *(RMB per share)*	**0.51**	0.49

(b) Diluted

The fully diluted earnings per share for the year ended 31 December 2014 and 2013 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the year ended 31 December 2014 and 2013.

9 INVENTORIES

	As at 31 December	
	2014	2013
	RMB	*RMB*
Raw materials	**13,063,298**	10,243,890
Finished goods	**4,121,857**	3,745,688
Low value consumables	**193,660**	216,882
	17,378,815	14,206,460

No provision for impairment of inventories has been made as at 31 December 2014 and 2013.

The cost of inventories recognised as cost of sales amounted to RMB48,052,312 and RMB37,240,750 for the years ended 31 December 2014 and 2013, respectively.

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2014	2013
	RMB	*RMB*
Trade receivables	**52,007,825**	48,524,487
Less: provision for impairment	**(1,669,921)**	(1,584,566)
Trade receivables – net *(1)*	**50,337,904**	46,939,921
Bills receivable *(2)*	**13,563,082**	23,215,791
Other receivables	**11,964,842**	9,696,063
Less: provision for impairment	**(201,232)**	(418,560)
Other receivables – net *(3)*	**11,763,610**	9,277,503
Prepayments *(4)*	**15,306,639**	9,032,819
Interest receivables on time deposits	**56,091**	–
Trade and other receivables – net	**91,027,326**	88,466,034
Less: non-current portion *(3)*	**(649,881)**	(493,808)
Current portion	**90,377,445**	87,972,226

As at 31 December 2014 and 2013, 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.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**90,368,030**	87,616,167
– USD	**9,415**	356,059
	90,377,445	87,972,226

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

	As at 31 December	
	2014	2013
	RMB	*RMB*
– Within 180 days	**42,221,012**	35,844,938
– Over 180 days and within 1 year	**8,616,865**	9,318,148
– Over 1 year and within 2 years	**975,604**	2,250,090
– Over 2 years and within 3 years	**147,768**	885,338
– Over 3 years	**46,576**	225,973
	52,007,825	48,524,487

The credit period granted to customers is normally up 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. This provision has been determined by reference to past default experience.

As at 31 December 2014 and 2013, trade receivables of RMB42,221,012 and RMB35,844,938 were fully performing, respectively.

As at 31 December 2014 and 2013, trade receivables of RMB9,786,813 and RMB12,679,549 respectively were partially impaired. The amounts of the provisions were RMB1,669,921 and RMB1,584,566 as at 31 December 2014 and 2013, respectively. The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– Over 180 days and within 1 year	**8,616,865**	9,318,148
– Over 1 year and within 2 years	**975,604**	2,250,090
– Over 2 years and within 3 years	**147,768**	885,338
– Over 3 years	**46,576**	225,973
	9,786,813	12,679,549

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

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**1,584,566**	1,679,128
Provision for/(reversal of) impairment *(Note 5)*	**85,355**	(94,562)
At the end of the year	**1,669,921**	1,584,566

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

(2) The ageing of bills receivable is within 180 days, which is within the credit term. Bills receivable of RMB5,931,524 and RMB11,818,350 have been discounted to financial institutions to obtain working capital of RMB5,723,321 and RMB11,437,937 as at 31 December 2014 and 2013, respectively.

Bills receivable of RMB1,550,000 were secured for bank borrowings of RMB8,190,000 as at 31 December 2014 (31 December 2013: nil).

(3) As at 31 December 2014 and 2013, details of other receivables are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	**649,881**	493,808
Current:		
Staff advances	**4,633,471**	3,809,548
Other deposits	**3,530,809**	4,164,942
Sale of property	**1,303,370**	853,652
Others	**1,847,311**	374,113
Current subtotal	**11,314,961**	9,202,255
Total	**11,964,842**	9,696,063

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

	Year ended 31 December	
	2014	2013
	RMB	*RMB*
At beginning of the year	**418,560**	414,889
(Reversal of)/provision for impairment *(Note 5)*	**(217,328)**	3,671
At the end of the year	**201,232**	418,560

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

(4) As at 31 December 2014 and 2013, prepayments are in connection with:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Listing expenses relating to initial public offering	**13,567,567**	6,701,524
Purchase of raw materials	**1,358,272**	2,076,028
Guarantee fees	**380,800**	255,267
	15,306,639	9,032,819

11 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December	
	2014	2013
	RMB	*RMB*
Cash at bank and on hand *(1)*	**17,326,481**	12,198,066
Less: Restricted cash *(2)*	**(10,275,216)**	(8,025,000)
Cash and cash equivalents	**7,051,265**	4,173,066

Cash at bank and in hand are denominated in:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**17,326,443**	12,118,544
– USD	**38**	79,522
	17,326,481	12,198,066

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at variable annual rates ranged from 0.35% to 0.50% for the year ended 31 December 2014 and 2013.

(2) As at 31 December 2014 and 2013, details of restricted cash are as follows:

	As at 31 December	
	2014	2013
	RMB	*RMB*
Guaranteed deposits secured for borrowings	**8,125,216**	–
Time deposits secured for borrowings	**2,150,000**	5,660,000
Guaranteed deposits for issuance of bills payable	**–**	2,365,000
	10,275,216	8,025,000

12 SHARE CAPITAL

On 31 December 2008, the Company was converted into a joint stock company with limited liability by converting total equity as at 30 November 2008 into 12,000,000 ordinary shares of RMB1 each at par value. The difference of RMB1,128,932 between the total equity as at 30 November 2008 of RMB13,128,932 and nominal value of total issued ordinary shares of RMB12,000,000 was recorded in capital reserve.

On 12 May 2011, as approved by the shareholders, the share capital of the Company was increased by 12,000,000 ordinary shares of RMB1 by way of capitalisation of retained earnings of RMB12,000,000 to share capital, which has the same characteristics with the shares previously issued.

	Ordinary shares	**Ordinary shares**
	Number	*RMB*
At 31 December 2014 and 2013	24,000,000	24,000,000

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2014	2013
Bills payable	**–**	9,030,000
Trade payables	**13,584,558**	9,007,541
Other payables	**4,475,763**	4,216,517
Staff salaries and welfare payables	**2,940,425**	2,066,472
Advances from customers	**51,650**	7,318
Interest payables	**–**	262,500
Accrued taxes other than income tax	**1,648,155**	783,097
	22,700,551	25,373,445

As at 31 December 2014 and 2013, 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.

As at 31 December 2014 and 2013, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB	*RMB*
– RMB	**22,700,551**	23,885,801
– USD	**–**	1,487,644
	22,700,551	25,373,445

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2014	**2013**
	RMB	*RMB*
Trade payables		
– Within 6 months	**12,015,801**	7,515,102
– Over 6 months and within 1 year	**1,332,952**	1,396,087
– Over 1 year and within 2 years	**214,766**	72,188
– Over 2 years and within 3 years	**573**	7,530
– Over 3 years	**20,466**	16,634
	13,584,558	9,007,541

14 DIVIDENDS

	As at 31 December	
	2014	2013
	RMB	*RMB*
Proposed final dividend of RMB0.2277 (2013: nil) per share	**7,286,400**	–

Pursuant to a resolution of the Board of Directors on 21 March 2015, a final dividend of RMB0.2277 per share for the year ended 31 December 2014 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The total amount is estimated to be RMB7,286,400. These financial statements do not reflect this dividend payable.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "**Board**" or "**Directors**") of Zhejiang Chang'an Renheng Technology Co., Limited (the "**Company**"), I hereby present the annual results announcement of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2014 (the "**Year Under Review**") to the shareholders (the "**Shareholders**") for your review.

The year of 2014 was a year of growth and steady transition while maintaining stability for the Group. Domestic and international economic situations remained complex and volatile, and there were still prominent problems arising from the instability and uncertainties about global economic recovery. As European sovereignty debt crisis worsened and global economic growth remarkably slowed down, China's economy also slowed down. Notwithstanding such situation, the Group captured market opportunities to pursue growth while maintaining stability by way of introducing professional teams, improving brand management and enhancement, implementing the strategy of expanding a diversified marketing channel, which has enabled the Group to record continuously steady growth in business development and financial results.

IMPROVED RESULTS OF OPERATION WHILE MAINTAINING STABILITY

During the Year Under Review, with its sound business development strategies and effective implementation, the Group recorded a turnover of approximately RMB92,029,000 for the year ended 31 December 2014, representing an increase of 6.9% as compared to the previous year. Profit attributable to shareholders was approximately RMB12,143,000, representing an increase of 3.4% as compared to the previous year. The overall gross profit margin down by 3.2% from 50.1% for the year ended 31 December 2013 to 46.9%. Earnings per share was RMB51 cents, representing an increase of 4.1% as compared to the previous year. The Board believes that the strong financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

ACTIVE EXPANSION OF SALES CHANNELS

For the year ended 31 December 2014, the Group actively extended the business strategy of developing major clients on the basis of strengthening its original clients, and achieved business cooperation with some representative major clients. It was worth mentioning that price of our products was always maintaining above the average level of the industry price, resulting a higher gross profit rate than that of market. In addition, our high-quality products and services with continuous and extensive recognition further consolidated our position as leading supplier in the industry.

IMPROVING CORPORATE GOVERNANCE LEVEL

We firmly believe that maintaining a high level of internal control is crucial to the long-term development of the Group. As such, the Company has reinforced internal control of its sales team during the Year Under Review. It sets out standardized targets and schedules in routine visit, customer relations, and turnover of its customers. Meanwhile, the Group continues to optimize control on workflow and risks of various posts as it makes good use of information technology. Following the successful listing of the H shares of the Company after the Year Under Review on 16 January 2015 on the GEM Board of the Hong Kong Stock Exchange, the Group will continue to improve the level of its corporate governance, so as to reinforce risk prevention and profit-making capabilities of the Group.

During the Year Under Review, the Group has received a range of honorable titles. Among them, including the third prize of Science and Technology Progress Award of Zhejiang province, Leap-Forward Development Award (跨躍發展獎) of 2014 granted by the People's Government of Changxing County and regained status of national high and new technology enterprise. All these titles proved that the Group received extensive recognition and support. Such titles also serve as the best return for the continuous hard work contributed by every single staff members of the Group.

FUTURE OUTLOOK AND STRATEGIES

Although competition in the market will still be very keen in the future, domestic and international economic situations remained complex and volatile, the Group will continue to maintain and work on increasing the market share of its products, maintain the leading position of papermaking chemicals.

By leveraging on the Group's current sales network, its products, technology, patent and production knowhow, as well as the customers recognition, the Group will launch various plans in 2015. The plans, which are expected to be implemented by stages, including the developments of high-purity water-purifying bentonite (高純水洗膨潤土) products to diversify into new industry sectors other than papermaking industry, particularly pharmaceutical and consumer chemical sectors.

Here, on behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staff and the Directors, as well as the support of the Company from all the Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2014, Chinese national economy recorded a stable operation under the "new normal" situation and presented a favorable condition of stable growth, optimized structure, raised quality and improved people's livelihood. Although the growth pace of China's economy got slightly slow, GDP recorded a year-on-year growth rate of 7.4%, reaching the prospective target of about 7.5% determined at the beginning of the year by the State Council. The growth rate of 7.4% ranked top in international large economies of 2014. Mildly increasing economy accelerated the industry's structural adjustment and the development of high value-added bentonite products. With the further development of research and application of bentonite in various areas, bentonite fine chemicals market expanded.

With the sound development of economy, Chinese per capita disposable income in coming years is expected to grow continuously. Bentonite fine chemicals have been widely applied in our daily lives, such as papermaking retention and drainage aids, paint filter, cosmetic primary materials, pharmaceutical raw materials, and toothpaste abrasives, etc. In that case, the demand for bentonite fine chemicals is expected to grow along with the increase in disposable income and purchasing power of consumers in China.

Although China has been the largest producer and consumer of paper and paperboard in the world, the paper consumption per capita is only 72 kg. In developed countries such as Germany, the U.S. and Japan, paper consumption per capita per year was already more than 210 kg. Therefore, Chinese papermaking industry still has large space for development. Due to the recession of the culture paper industry, represented by paper for newspaper, magazines, etc., the development of the papermaking industry in China is likely to slow down in the short term. Nonetheless, the Chinese papermaking industry still has significant room for development, especially for household paper. The healthy growth of house paper is expected to pull up the demand for papermaking chemicals. As the papermaking industry is a downstream industry of bentonite fine chemicals, the development of papermaking industry is expected to drive the demand for papermaking chemicals.

Bentonite has application potential in various papermaking processes because of its functional properties. The development of high quality bentonite products improves product quality and economic efficiency in the papermaking industry. Bentonite fine chemicals are mainly used as papermaking retention and drainage aids in the papermaking industry, and the retention and drainage aids could effectively support papermaking companies to cut their cost and have been extensively applied by Chinese papermaking companies. With the development of Chinese papermaking device and technology, demand for papermaking chemicals is increasingly strict. As the R&D of bentonite in papermaking industry record constant progress, it is expected that the demand for bentonite fine chemicals in papermaking industry will grow in the future.

BUSINESS REVIEW

In 2004, the Group continued to complete the sales management areas system, dividing into three management areas, namely Eastern China, Northern China and Southern China, according to geographical location, local market condition and feature. The Group adopted feasible selling and marketing strategy and recorded a favorable sales growth. During the Year Under Review, the Group actively extended the business strategy of developing major clients on the basis of strengthening its original clients, and achieved business cooperation with some representative major clients. It was worth mentioning that price of our products was always maintaining above the average level of the industry price, resulting a relatively high gross profit margin. In addition, our high-quality products and services with continuous and extensive recognition further consolidated our position as leading supplier in the industry.

The Group paid attention to the injection on R&D while developing its business. In 2014, the R&D expenditure of the Group amounted to about RMB3,761,000. The Group also applied for two national invention patents and undertook three provincial R&D tasks of new products, and the purification product won a third prize of Science and Technology Progress Award of Zhejiang province.

Cationic emulsion newly launched by the Group began to be sold normally, and the sales amount in 2014 also reached our expectation. As an effective ingredient of such product, alternaria polyacrylamide could provide retention for the tiny fibers and fillers in the papermaking materials. The bentonite used for the high-quality retention and drainage aids of the Group further recorded favorable results on its expansion and was extensively used on the large paper machines of clients, winning their recognition. Meanwhile, the Group had established the cooperation with foreign and domestic senior colleges, and discussed matters related to building academician workstation with domestic academician in relevant areas through the support of association for science and technology of Zhejiang province and Changxing County, to raise the technologic strength of the enterprise.

HONOR

During the Year Under Review, the Group had received the following honors:

1. the third prize of Science and Technology Progress Award of Zhejiang province;

2. Leap-Forward Development Award (跨躍發展獎) of 2014 granted by the County Party Committee and the People's Government of Changxing County;

3. winning prize of industrial enterprise competition of "three competitions and one presentation (三比一講)" of 2014 granted by the County Party Committee and the People's Government of Changxing County; and

4. regained the status of "National High and New Technology Enterprise".

FINANCIAL REVIEW

1. Turnover

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

	For the year ended 31 December			
	2014		2013	
Product	***RMB'000***	*%*	*RMB'000*	*%*
Sales of papermaking chemicals	**77,043**	**83.7**	72,456	84.2
Sales of bentonite for metallurgy pellet	**5,815**	**6.3**	6,607	7.7
Sales of quality calcium-bentonite	**1,972**	**2.1**	5,229	6.1
Others	**7,199**	**7.9**	1,785	2.0
Total	**92,029**	**100.0**	86,077	100.0

Revenue from sales of papermaking chemicals increased by approximately 6.3% from approximately RMB72,456,000 for the year ended 31 December 2013 to approximately RMB77,043,000 for the year ended 31 December 2014. As the average unit selling price remained stable for the comparative periods, the increase in revenue was mainly due to the growth in sales volume, which increased by approximately 6.1% from approximately 15,251 tonnes for the year ended 31 December 2013 to approximately 16,181 tonnes for the year ended 31 December 2014. The Group's newly developed customers in the second half year of 2013 and 2014 led to a growth in sales volume for the year ended 31 December 2014.

Revenue of bentonite for metallurgy pellet for the year ended 31 December 2014 decreased by approximately 12.0% or RMB792,000 as compared to the year ended 31 December 2013. The decrease was mainly because one of the customers with relatively high selling price and sales volume reduced its purchase volume in 2014 due to the change of its product mix. The sales volume contributed by this customer for the year ended 31 December 2014 was approximately 4,215 tonnes (2013: 6,805 tonnes) and the corresponding revenue was approximately RMB1,611,000 (2013: RMB2,600,000).

Revenue of quality calcium-bentonite for the year ended 31 December 2014 decreased by approximately RMB3,257,000 as compared to the year ended 31 December 2013. While the average unit selling price remained steady for these two periods, the decrease in revenue was mainly due to the decrease in sales volume. With successful introduction and application of quality calcium-bentonite as a result of the Group's research and development effort in early 2013, one of the Group's customers placed relatively large orders for its special needs of research and development activity in 2013. The sales volume contributed by this customer in 2013 and 2014 was approximately 4,755.2 tonnes and 992.0 tonnes, respectively.

Revenue of others for the year ended 31 December 2014 increased by approximately 303.6% or RMB5,415,000 as compared to the year ended 31 December 2013. Others mainly comprise organic bentonite and inorganic gel. The increase in revenue of organic bentonite was mainly due to the Group's commencement of production of a new category of organic bentonite product namely organic bentonite which attributes approximately RMB3,126,000 for the year ended 31 December 2014. While the increase in revenue of inorganic gel was because the Group developed some new customers in the second half year of 2014 which led to a growth in sales volume for the year ended 31 December 2014.

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			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Cost of raw materials	**40,894**	**83.8**	35,631	83.0
Direct labour costs	**2,103**	**4.3**	1,872	4.4
Manufacturing overhead cost	**5,055**	**10.4**	4,373	10.2
Others	**774**	**1.5**	1,073	2.4
Total	**48,826**	**100.0**	42,949	100.0

The cost of sales increased approximately 13.7% from approximately RMB42,949,000 for the year ended 31 December 2013 to approximately RMB48,826,000 for the year ended 31 December 2014.

Cost of raw materials accounted for approximately 83.0% and 83.8% of cost of sales for the year ended 31 December 2013 and 2014 respectively. The cost of raw materials increased by approximately 14.8% from approximately RMB35,631,000 for the year ended 31 December 2013 to approximately RMB40,894,000 for the year ended 31 December 2014 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 significantly for the year ended 31 December 2014, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 4.4% and 4.3% of cost of sales for the year ended 31 December 2013 and 2014 respectively. Direct labour costs remained stable during the comparative years.

Manufacturing overhead costs accounted for approximately 10.2% and 10.4% of cost of sales for the year ended 31 December 2013 and 2014 respectively. Manufacturing overhead costs remained stable during the comparative years.

3. Gross profit margin

Gross profit margin decreased from 50.1% in 2013 to 46.9% in 2014. The decrease in gross profit margin was mainly attributable to the increase of cost of raw materials despite the selling price of quality calcium-bentonite slightly increased.

The table below sets out the Group's gross profit and gross profit margin by product for the Year Under Review:

	For the year ended 31 December			
	2014		2013	
Product	***RMB'000***	*%*	*RMB'000*	*%*
Papermaking chemicals	**36,853**	**47.8**	36,301	50.1
Bentonite for metallurgy pellet	**1,895**	**32.6**	2,164	32.8
Quality calcium-bentonite	**1,513**	**76.7**	4,207	80.5
Others	**2,942**	**40.9**	456	25.6
Total	**43,203**	**46.9**	43,128	50.1

The gross profit margin of papermaking chemicals decreased from 50.1% for the year ended 31 December 2013 to 47.8% for the year ended 31 December 2014. The decrease of gross profit margin was mainly due to the change of product mix in response to the market demand. The Company sold more products with lower gross profit margin in 2014.

The gross profit margin of bentonite for metallurgy pellet was 32.8% and 32.6% for the year ended 31 December 2013 and 2014 respectively. The gross profit margin remained stable during the comparative years.

The decrease in gross profit margin of quality calcium-bentonite was mainly because one of the Group's customers placed relatively large orders for its special needs of research and development activity in 2013, which had a relatively higher gross profit margin due to relative simple production process. Without the special order from this customer, the gross profit margin declined to 76.7% for the year ended 31 December 2014.

The gross profit margin of other products was 25.6% and 40.9% for the year ended 31 December 2013 and 2014 respectively. The increase of gross profit margin for 2014 was due to the reasons listed below: 1. The Group's commencement of production of a new category of product namely organic bentonite with a relative higher gross profit margin as compared to 2013; 2. The increased proportion of sales from inorganic gel in 2014 which has a relative high gross profit margin but low sales volumes in the past years.

4. Distribution costs

The distribution costs for the year ended 31 December 2013 and 2014 amounted to approximately RMB11,978,000 and RMB11,083,000 respectively. The distribution costs decreased by approximately RMB895,000 mainly because of the decrease in transportation expenses from approximately RMB10,017,000 for the year ended 31 December 2013 to approximately RMB8,421,000 for the year ended 31 December 2014 attributable to the Group's optimisation of the customer mix and deselected certain customers with relative long haul and successfully built up business relationship with a few new customers located in Shanghai, Jiangsu and Zhejiang provinces. As a result, the reduction of transportation hauls led to the decrease of the transportation expenses.

5. Administrative expenses

The administrative expenses increased by approximately 9.7% from approximately RMB9,610,000 for the year ended 31 December 2013 to approximately RMB10,542,000 for the year ended 31 December 2014. The increase was mainly due to the increase of employee benefit expenses by approximately RMB693,000 or 19.8% as the Group recruited more staffs in administrative function to support the placing of H shares.

6. Research and development expenses

The research and development expenses decreased by approximately RMB1,096,000 or 22.6% from approximately RMB4,857,000 for the year ended 31 December 2013 to approximately RMB3,761,000 for the year ended 31 December 2014 due to a few research and development projects, including cationic emulsion (陽離子乳液), high-purity water-purifying bentonite, etc had reached final stage.

7. Other gains – net

Other gains for the year ended 31 December 2013 and 2014 amounted to approximately RMB2,556,000 and RMB3,403,000, respectively. The increase in other gains mainly due to the increase in government grants from approximately RMB2,618,000 for the year ended 31 December 2013 to approximately RMB3,615,000 for the year ended 31 December 2014.

8. Finance income and expenses

The net finance expenses increased by approximately RMB1,278,000 or 23.3% from approximately RMB5,487,000 for the year ended 31 December 2013 to approximately RMB6,765,000 for the year ended 31 December 2014, which was mainly due to the increase of interest expenses on borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

9. Income tax expense

The effective tax rates were 14.6% and 16.0% for the years ended 31 December 2013 and 2014, respectively.

10. Net profit

The net profit increased by approximately RMB397,000 or 3.4% from approximately RMB11,746,000 for the year ended 31 December 2013 to approximately RMB12,143,000 for the year ended 31 December 2014. The net profit margin for the Group decreased from approximately 13.7% for the year ended 31 December 2013 to approximately 13.2% for the year ended 31 December 2014. The decrease in net profit margin of the Group was mainly due to the increase in cost of sales by approximately 13.7%, which is higher than the revenue growth rate of 6.9%.

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	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**13,063**	10,244
Finished goods	**4,122**	3,746
Low-value consumables	**194**	217
Total	**17,379**	14,207

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 Directors considered that there was no indication that the inventories were impaired because the average gross profit margin of the products was approximately 45-50% during the Year Under Review and the finished goods manufactured can be stored for several years.

Inventory turnover

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

	Year ended 31 December	
	2014	2013
Average inventory turnover days *(note)*	**118**	145

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 145 days for the year ended 31 December 2013 to 118 days for the year ended 31 December 2014. The decrease in average inventory turnover days in 2014 was primarily because the Group had continued to control the inventory level in order to reduce working capital requirement. The Group retained reasonable and sufficient level of inventories to meet the customer orders, which improved inventory turnover.

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	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**52,008**	48,525
Less: provision for impairment	**(1,670)**	(1,585)
Trade receivables – net	**50,338**	46,940
Other receivables	**11,314**	9,202
Less: provision for impairment	**(201)**	(419)
Other receivables – net	**11,113**	8,783
Interest receivables on time deposits	**56**	–
Bills receivable	**13,563**	23,216
Prepayments	**15,307**	9,033
Trade and other receivables – net	**90,377**	87,972

Trade receivables

Trade receivables as at 31 December 2013 and 2014 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	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**52,008**	48,525
Less: provision for impairment	**(1,670)**	(1,585)
Trade receivables – net	**50,338**	46,940

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 up to 180 days to its customers.

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Within 180 days	**42,221**	35,846
Over 180 days and within 1 year	**8,617**	9,318
Over 1 year and within 2 years	**976**	2,250
Over 2 years and within 3 years	**148**	885
Over 3 years	**46**	226
Total	**52,008**	48,525

The Group's trade receivables increased by approximately RMB3,483,000 or 7.2% from approximately RMB48,525,000 as at 31 December 2013 to approximately RMB52,008,000 as at 31 December 2014. The trade receivables due over 180 days decreased by approximately RMB2,892,000 or 22.8% from approximately RMB12,679,000 as at 31 December 2013 to approximately RMB9,787,000 as at 31 December 2014. The significant decrease was mainly because the Group successfully collected certain overdue trade receivables.

Trade receivable turnover days

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

	Year ended 31 December	
	2014	2013
Trade receivable turnover days *(note)*	**199**	192

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 2013 and 2014 were approximately 192 days and 199 days respectively. The increase of turnover days was due to two reasons: (1) late payments by customers; and (2) providing favorable payment arrangement to new customers and existing customers with a view to solicit new business development since 2012.

Provision for impairment of trade receivables

The Group determines the provision for impairment of trade receivables based on credit history of the customers and the current market condition. The Group reassesses the provision at each balance sheet date.

Thus, significant judgment is exercised in assessing the collectability of trade receivables from each customer. In making the judgment, the Group takes into consideration the following factors when assessing the recoverability of the trade receivables from individual customer: (i) indications that the debtor is experiencing significant financial difficulty; (ii) history or indication of default in payment; and (iii) relationship with the debtor and subsequent settlement of receivables. If the financial conditions of the customers of the Group were to deteriorate, which resulted in an impairment of their ability to make payments, additional provision of impairment may be required.

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	
	2014	2013
	RMB'000	*RMB'000*
Trade payables	**13,585**	9,008
Bills payable	**–**	9,030
Other payables	**4,476**	4,216
Staff salaries and welfare payables	**2,940**	2,066
Advances from customers	**52**	7
Interest payables	**–**	263
Accrued taxes other than income tax	**1,648**	783
Total	**22,701**	25,373

As at 31 December 2013 and 2014, 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 and bills payable decreased by approximately RMB4,453,000 or 24.7% from approximately RMB18,038,000 as at 31 December 2013 to approximately RMB13,585,000 as at 31 December 2014. The Group had relatively low payable balances as at 31 December 2013 which was due to the lower inventory level maintained at 2013 year end.

In order to meet the production needs, the Group purchased more CPAM especially from the major overseas supplier for the year ended 31 December 2014. As the credit term of the supplier remained the same, the balance of trade payables as at 31 December 2014 increased by approximately RMB4,577,000 accordingly. However, there was no bills payable as at 31 December 2014 which led to the net decrease in the trade payables and bills payable.

Trade payables turnover days

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

	Year ended 31 December	
	2014	2013
Trade payable turnover days *(note)*	**84**	75

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 increased to 84 days for the year ended 31 December 2014, which was due to the Group has secured more favorable credit terms with certain suppliers.

CASH FLOW

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.

1. Cash flows from operating activities

The net cash inflow from operating activities for the year ended 31 December 2013 amounted to approximately RMB10,663,000 which was mainly attributable to the cash generated from operating activities amounting to approximately RMB13,258,000, as adjusted by the payment of income tax of approximately RMB2,595,000.

The cash generated from operating activities of approximately RMB13,258,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB24,110,000 as adjusted by (i) an increase in trade and other receivables of approximately RMB12,248,000 in line with the increase of revenue, (ii) a decrease in inventories of approximately RMB5,807,000, mainly attributable to control of stock level, and (iii) a decrease in trade and other payables of approximately RMB4,410,000.

The net cash inflow from operating activities for the year ended 31 December 2014 amounted to approximately RMB24,750,000, which was mainly attributable to the cash generated from operating activities amounted to approximately RMB26,962,000, as adjusted by the payment of income tax of approximately RMB2,212,000.

The cash generated from operating activities of approximately RMB26,962,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB26,638,000, as adjusted by (i) a decrease in trade and other receivables of approximately RMB4,923,000 due to the collection of overdue trade receivables, (ii) an increase in inventories of approximately RMB3,172,000, and (iii) a decrease in trade and other payables of approximately RMB1,427,000.

2. Cash flows from investing activities

For the year ended 31 December 2013, the Group had net cash outflow from investing activities of approximately RMB1,561,000, which was primarily attributable to (i) loans to related parties of approximately RMB10,420,000, (ii) increase in guaranteed deposits and time deposits of approximately RMB16,307,000, (iii) purchase of prepaid leasing expenses and leasehold improvements of approximately RMB2,106,000, and (iv) purchase of property, plant and equipment of approximately RMB16,091,000; partially offset by (i) loans repayments received from related parties of approximately RMB20,158,000, (ii) decrease in guaranteed deposits and time deposits of approximately RMB22,692,000, (iii) interest income received from loans to related parties of approximately RMB129,000, and (iv) interest income received from time deposits of approximately RMB364,000.

For the year ended 31 December 2014, the Group had net cash outflow from investing activities of approximately RMB13,055,000, which was primarily attributable to (i) Increase in guaranteed deposits and time deposits of approximately RMB11,175,000, (ii) purchase of property, plant and equipment of approximately RMB9,721,000, and (iii) increase in prepaid leasing expenses and leasehold improvements of approximately RMB2,688,000; partially offset by (i) decrease in interest income received from time deposits of approximately RMB154,000, (ii) proceeds from disposal of property, plant and equipment of approximately RMB1,450,000, and (iii) decrease in guaranteed deposits and time deposits of approximately RMB8,925,000.

3. Cash flows from financing activities

For the year ended 31 December 2013, the Group had net cash outflow from financing activities of approximately RMB7,873,000, which was primarily attributable to (i) proceed from borrowings of approximately RMB147,606,000, and (ii) proceed from related parties' borrowings of approximately RMB2,221,000; partially offset by (i) repayment of borrowings of approximately RMB140,998,000, (ii) payment of interest expenses of approximately RMB6,003,000, (iii) repayment of related parties borrowings of approximately RMB7,035,000,and (iv) prepayment of expenses relating to placing of H shares of approximately RMB3,665,000.

For the year ended 31 December 2014, the Group had net cash outflow from financing activities of approximately RMB8,816,000, which was primarily attributable to (i) repayment of borrowings of approximately RMB111,181,000, (ii) payment of interest expenses of approximately RMB7,308,000, and (iii) prepayment of expenses relating to placing of H shares of approximately RMB6,866,000, partially offset by proceed from borrowings of approximately RMB116,539,000.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2014 was approximately RMB90,549,000 (31 December 2013: approximately RMB85,135,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Gearing ratio

As at 31 December 2014, the Group's gearing ratio was approximately 51.3% (31 December 2013: 52.6%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. Pledge of assets

As at 31 December 2014, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB29,821,000 (31 December 2013: approximately RMB18,553,000).

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 RMB8,665,000 and RMB15,151,000 for the year ended 31 December 2014 and 2013 respectively.

5. 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.

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 7.58% and the weight average effective annual interest rate of other borrowings was 9.00%. 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 announcement.

As at 31 December 2014, the Group had cash and cash equivalents of RMB7,051,000 which was mainly generated from operations of the Group.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2014, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2014, the Group did not have any capital commitment (31 December 2013: approximately RMB336,000).

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. Therefore, management considers there is only one operating segment, under the requirements of Rule 18.41(6) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). In this regard, no segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2014, 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 2014.

FUTURE OUTLOOK

Looking into the coming year, we believe that the government will maintain the adjustment on optimizing industrial structure unchanged and continue to promulgate supporting policy for bentonite fine chemicals with high value-added. As a result, the Group will endeavor to maintain its competition advantage and growth prospect through strategic area extension, gradual expansion of product package and high-quality products and services.

In order to rapidly expand the scale of the Group and its business capacity, the Group formulates and implements the following strategies:

(i) To complete the project of raising funds. This project is aiming at the high technology development and deep-processing of bentonite resource with the bentonite as raw material, to produce and promote high-purity water-purifying bentonite with extensive application and high added value through specific producing technology and device and processing skill. In addition, to introduce Alfa Laval, Nestal and other foreign advancing production equipments, so as to upgrade the products and increase the room for profit;

(ii) Using the Company' own capital to invest the water disposal project in Changxing County, the head quarter of the Group, with a new injection of about RMB50,000,000. This project is divided into two phases: to build one product line with 2,000 tonnes of annual output of emulsion and one product line with 5,000 tonnes of annual output of aqueous solution polyacrylamide fortifier in the first phase; to build one product line with 3,000 tonnes of annual output of solid polyacrylamide; and

(iii) In order to further raise the R&D capability of the Group, we plan to establish academician workstation and introduce academicians to develop new bentonite products with higher added value.

HUMAN RESOURCES AND TRAINING

As of 31 December 2014, the Group had a total of 116 employees, of which 48 worked at the Group's headquarter in Changxing, and 68 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB10,219,000 (2013: RMB8,388,000). 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 Year Under Review, 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.

DIVIDENDS

To extend the Company's gratitude for the support of our Shareholders, the Board has recommended the distribution of a final dividend of RMB22.77 cents (equivalent to HK28.79 cents) per share for the financial year ended 31 December 2014 (2013: nil)(the calculation of dividend per share includes the 8,000,000 H shares of the Company listed on the GEM Board of the Hong Kong Stock Exchange on 16 January 2015) to the Shareholders whose names appear on the register of members of the Company on Wednesday, 3 June 2015, amounting to approximately RMB7,286,000 (equivalent to HK$9,213,000) subject to the approval of the Company's annual general meeting to be held on Thursday, 21 May 2015. The dividends payout ratio is 60% of the Group's profit for the year or 67% of the Group's profit for the year after deducting the non-distributable statutory reserves of RMB1,223,000 for the year ended 31 December 2014. The above-mentioned final dividend is expected to be paid on or before Tuesday, 30 June 2015.

CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Tuesday, 21 April 2015 to Thursday, 21 May 2015 (both days inclusive) during which period no transfer of 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 share registrar in Hong Kong, Union Registrars Limited, at A18/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration at or before 4:30 p.m. on Monday, 20 April 2015.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 29 May 2015 to Wednesday, 3 June 2015 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Union Registrars Limited, at A18/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, for registration at or before 4:30 p.m. on Thursday, 28 May 2015.

OTHER CORPORATE INFORMATION

Directors', supervisors' and controlling shareholders' interests in contracts

None of the Directors, the supervisors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any 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 interest in shares, debentures and underlying shares of the Company or any associated corporation

As at 31 December 2014, the shares of the Company were not yet listed on the GEM Board of the Hong Kong Stock Exchange, Section 352 of the Securities and Futures Ordinance (the "**SFO**") was then not applicable to the Company and the Directors.

As at 21 March 2015, 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, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600 (Domestic Shares)	60.06%

Save as disclosed above, as at 21 March 2015, 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 the Model Code.

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

As at 21 March 2015, 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
Mr. Ngan Iek	Beneficial owner	1,772,000	–	1,772,000	5.54%

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.

As the shares of the Company were not yet listed on GEM Board of the Stock Exchange until 16 January 2015 (the "**Listing Date**"), the code provisions were not applicable to the Company during the Year Under Review. Throughout the period since the Listing Date and up to the date of this announcement, 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 period from Listing Date to the date of this announcement, the Company did not take out directors and officers liability insurance to cover liabilities arising from legal action against its directors.

Audit Committee

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

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

No meeting was held by the Audit Committee during the year ended 31 December 2014 because the Company only became listed on 16 January 2015. Pursuant to the meeting of the Audit Committee held in March 2015 attended by all the members of the Audit Committee, 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 2014, this results announcement, 2014 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.

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. As the shares of the Company were not yet listed on the GEM Board of the Stock Exchange until 16 January 2015, the Model Code was not applicable to the Company during the Year Under Review. 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 since the Listing Date and up to the date of this announcement.

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

The H Shares of the Company were listed on the GEM Board of the Hong Kong Stock Exchange on 16 January 2015, subsequent to the end of the reporting period. Thus, for the year ended 31 December 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Events after the reporting period

On 16 January 2015, the H shares of the Company became listed on the GEM Board of the Stock Exchange, pursuant to which 8,000,000 H shares were issued by the Company at the placing price of HK$9.7 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.

Use of proceeds from placing of H shares

The H shares of the Company were listed on the GEM Board of The Hong Kong Stock Exchange on 16 January 2015. Net proceeds from the placing of H shares were approximately RMB41,200,000 (equivalent to approximately HK$52,100,000), after deduction of the underwriting commission and relevant expenses. As at 21 March 2015, no net proceeds from placing of H shares was utilized. Details of the expected usage of proceeds from the placing of H shares are set forth in the Company's prospectus dated 31 December 2014.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed the annual results for the year ended 31 December 2014 before the results were submitted to the Board for approval. The figure in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts of set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong

Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of results

This announcement of results has been published on our website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk. The annual report of our Company for the year ended 31 December 2014 containing all the information required by the GEM Listing Rules will be dispatched to the shareholders of our Company and published on our website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, PRC, 21 March 2015

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 in this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication.