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 2016

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 (the "**Directors**") of Zhejiang Chang'an Renheng Technology Co., Ltd.* (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**the GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 decreased by 2.8% to approximately RMB75,260,000 (2015: RMB77,444,000).
- Gross profit increased by 8.8% to approximately RMB42,053,000 (2015: RMB38,659,000).
- Gross profit margin up by 6.0% points to 55.9% (2015: 49.9%).
- Profit before taxation decreased by 18.9% to approximately RMB2,059,000 (2015: RMB2,539,000).
- Profit for the year ended 31 December 2016 decreased by 6.5% to approximately RMB1,836,000 (2015: RMB1,963,000).
- Basic earnings per share was approximately RMB0.06 (2015: RMB0.06).
- The Board did not recommend the payment of any final dividends for the year ended 31 December 2016 (2015: nil).

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 2016 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	***RMB***	*RMB*
Revenue	*3*	**75,259,548**	77,443,648
Cost of sales	*5*	**(33,206,553)**	(38,785,382)
Gross profit		**42,052,995**	38,658,266
Distribution costs	*5*	**(16,527,458)**	(11,942,223)
Administrative expenses	*5*	**(15,852,686)**	(15,898,089)
Listing expenses		**–**	(1,143,945)
Research and development expenses	*5*	**(3,743,530)**	(4,860,423)
Other gains - net	*4*	**1,129,228**	1,817,947
Operating profit		**7,058,549**	6,631,533
Finance income	*6*	**108,061**	153,574
Finance expenses	*6*	**(5,107,287)**	(4,246,472)
Finance expenses – net	*6*	**(4,999,226)**	(4,092,898)
Profit before income tax		**2,059,323**	2,538,635
Income tax expense	*7*	**(223,561)**	(575,760)
Profit for the year attributable to the equity holders of the Company		**1,835,762**	1,962,875
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to the equity holders of the Company		**1,835,762**	1,962,875
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*	**0.06**	0.06

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	***RMB***	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		**75,742,781**	61,759,333
Prepaid leasing expenses		**6,538,698**	6,347,762
Mining rights		**110,318**	141,840
Leasehold improvements		**2,287,722**	2,034,645
Deferred income tax assets		**1,568,085**	1,553,838
Trade and other receivables	*10*	**1,120,524**	642,049
		87,368,128	72,479,467
Current assets			
Inventories	*9*	**25,597,938**	21,744,965
Trade and other receivables	*10*	**68,620,671**	71,602,529
Prepaid income tax		**913,816**	366,654
Restricted cash	*11*	**3,500,000**	3,500,000
Cash and cash equivalents	*11*	**13,193,021**	17,024,100
		111,825,446	114,238,248
Total assets		**199,193,574**	186,717,715
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*12*	**32,000,000**	32,000,000
Other reserves		**36,572,844**	36,502,717
Retained earnings		**26,178,528**	24,412,893
Total equity		**94,751,372**	92,915,610

		As at 31 December	
		2016	2015
	Note	***RMB***	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants		**681,305**	768,465
Provisions for environmental rehabilitation		**964,454**	817,275
Borrowings		**14,800,000**	666,481
		16,445,759	2,252,221
Current liabilities			
Deferred government grants		**84,000**	84,000
Trade and other payables	*13*	**27,821,277**	23,638,887
Current income tax liabilities		**279,773**	71,538
Borrowings		**59,811,393**	67,755,459
		87,996,443	91,549,884
Total liabilities		**104,442,202**	93,802,105
Total equity and liabilities		**199,193,574**	186,717,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 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 per value of RMB1.00 each at a price of HKD9.70 per share on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "**Listing**").

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 18 March 2017.

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 all applicable International Financial Reporting Standards ("**IFRSs**") and under the historical cost convention.

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 amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38,

- Annual improvements to IFRSs 2012 – 2014 cycle, and

- Disclosure initiative – amendments to IAS 1.

The amendments are not material to the Group.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- *IFRS 9, 'Financial instruments'*

  The new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

  IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

- *IFRS 15, 'Revenue from contracts with customers'*

  The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  Management is currently assessing the effects of applying the new standard on the Group's financial statements. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

  IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

- *IFRS 16, 'Leases'*

  IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

  The accounting for lessors will not significantly change.

  The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 REVENUE

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Papermaking chemicals series	**68,409,430**	70,474,929
Bentonite for metallurgy pellet	**2,525,160**	5,191,348
Quality calcium-bentonite	**1,459,723**	310,872
Organic bentonite	**863,047**	–
Others (i)	**2,002,188**	1,466,499
	75,259,548	77,443,648

(i) Others mainly comprise inorganic gel, and are principally applied in the coating preparation industry.

Only one external customer contributed 10% or above of the Group's revenue amounted to RMB7,670,352 for the year ended 31 December 2016 (RMB6,582,294 for the year ended 31 December 2015).

4 OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Profit on disposal of property, plant and equipment – net	**218,133**	–
Government grants		
– Relating to assets	**87,160**	87,160
– Relating to costs *(i)*	**860,300**	2,680,065
Others	**(36,365)**	(949,278)
	1,129,228	1,817,947

(i) The government grants relating to costs 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	
	2016	2015
	RMB	*RMB*
Changes in finished goods	**(1,237,494)**	(1,016,837)
Raw materials and consumable used	**22,870,483**	31,777,145
Employee benefit expenses	**11,842,585**	10,347,726
Utilities	**3,085,017**	1,953,114
Transportation expenses	**14,992,015**	10,650,625
Depreciation	**5,827,613**	5,658,117
Travelling and communication expenses	**3,969,139**	2,210,315
Taxes and levies	**1,539,867**	1,288,670
Amortisation of prepaid leasing expenses	**179,402**	179,629
Amortisation of mining rights	**31,522**	35,836
Listing expenses	**–**	1,143,945
Audit remuneration		
– Audit service	**1,000,000**	1,000,000
– Non-audit service	**–**	250,000
Professional service	**1,512,267**	1,218,161
Amortisation of leasehold improvements	**492,710**	216,416
Maintenance expenses	**631,918**	184,408
Entertainment expenses	**1,315,126**	1,440,116
Provision for impairment of receivables	**108,980**	3,051,152
Miscellaneous	**1,169,077**	1,041,524
Total cost of sales, distribution costs, administrative expenses, listing expenses and research and development expenses	**69,330,227**	72,630,062

6 FINANCE EXPENSES – NET

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	**108,061**	153,574
Finance expenses		
– Interest expense	**(5,368,608)**	(5,285,173)
– Capitalised interest expense	**239,314**	87,970
	(5,129,294)	(5,197,203)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	**66,086**	958,563
– Unrealised financial charges from financial assets measured at amortised cost	**(44,079)**	(7,832)
	(5,107,287)	(4,246,472)
Finance expenses – net	**(4,999,226)**	(4,092,898)

7 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Current income tax	**237,807**	1,031,759
Deferred income tax	**(14,246)**	(455,999)
	223,561	575,760

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 27 October 2014 to 26 October 2017.

The other subsidiaries are subject to income tax rate of 25% for the years ended 31 December 2016 and 2015.

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

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
Profit before tax	**2,059,323**	2,538,635
Calculated at statutory tax rate	**514,831**	634,659
Expenses not deductible for tax purposes	**325,044**	726,564
Additional deduction for research and development expense *(i)*	**(548,329)**	(522,337)
Preferential tax rate of the Company	**(67,984)**	(263,126)
Income tax expense	**223,561**	575,760

(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 years ended 31 December 2016 and 2015.

	Year ended 31 December	
	2016	2015
Profit attributable to the equity holders of the Company *(RMB)*	**1,835,762**	1,962,875
Weighted average number of ordinary shares in issue	**32,000,000**	31,649,315
Basic earnings per share *(RMB per share)*	**0.06**	0.06

(b) Diluted

The fully diluted earnings per share for the years ended 31 December 2016 and 2015 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the years ended 31 December 2016 and 2015.

9 INVENTORIES

	As at 31 December	
	2016	2015
	RMB	*RMB*
Raw materials	**19,087,600**	16,393,063
Finished goods	**6,376,188**	5,138,694
Low value consumables	**134,150**	213,208
	25,597,938	21,744,965

No provision for impairment of inventories has been made as at 31 December 2016 and 2015.

The cost of inventories recognised as cost of sales amounted to RMB32,619,127 and RMB37,903,174 for the years ended 31 December 2016 and 2015, respectively.

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB	*RMB*
Trade receivables	**47,218,149**	48,383,236
Less: provision for impairment	**(3,887,109)**	(4,028,283)
Trade receivables – net *(1)*	**43,331,040**	44,354,953
Bills receivable *(2)*	13,647,221	14,020,530
Other receivables	**10,934,250**	12,359,691
Less: provision for impairment	**(213,409)**	(396,710)
Other receivables – net *(3)*	**10,720,841**	11,962,981
Prepayments *(4)*	**1,987,614**	1,893,597
Interest receivables on time deposits	**54,479**	12,517
Trade and other receivables – net	**69,741,195**	72,244,578
Less: non-current portion *(3)*	**(1,120,524)**	(642,049)
Current portion	**68,620,671**	71,602,529

As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB	*RMB*
– RMB	**68,620,671**	71,602,529

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

	As at 31 December	
	2016	2015
	RMB	*RMB*
– Within 180 days	**30,731,910**	32,142,275
– Over 180 days and within 1 year	**4,997,349**	6,503,661
– Over 1 year and within 2 years	**4,842,864**	9,008,362
– Over 2 years and within 3 years	**6,119,627**	600,070
– Over 3 years	**526,399**	128,868
	47,218,149	48,383,236

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 2016 and 2015, trade receivables of RMB30,731,910 and RMB32,142,275 were fully performing, respectively.

As at 31 December 2016 and 2015, trade receivables of RMB16,486,239 and RMB16,240,961 respectively were partially impaired. The amounts of the provisions were RMB3,887,109 and RMB4,028,283 as at 31 December 2016 and 2015, 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	
	2016	2015
	RMB	*RMB*
– Over 180 days and within 1 year	**4,997,349**	6,503,661
– Over 1 year and within 2 years	**4,842,864**	9,008,362
– Over 2 years and within 3 years	**6,119,627**	600,070
– Over 3 years	**526,399**	128,868
	16,486,239	16,240,961

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

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
At beginning of the year	**4,028,283**	1,669,921
Provision for impairment	**292,281**	2,855,674
Write-off against uncollectible receivables	**(433,455)**	(497,312)
At the end of the year	**3,887,109**	4,028,283

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 RMB8,611,393 and RMB6,360,525 have been discounted to financial institutions to obtain working capital of RMB8,468,855 and RMB6,261,710 as at 31 December 2016 and 2015, respectively.

(3) As at 31 December 2016 and 2015, details of other receivables are as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	**1,120,524**	642,049
Current:		
Staff advances	**6,789,693**	8,332,159
Other deposits	**1,165,116**	1,101,061
Others	**1,858,917**	2,284,422
Current subtotal	**9,813,726**	11,717,642
Total	**10,934,250**	12,359,691

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

	Year ended 31 December	
	2016	2015
	RMB	*RMB*
At beginning of the year	**396,710**	201,232
(Reversal of)/provision for impairment	**(183,301)**	195,478
At the end of the year	**213,409**	396,710

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

(4) As at 31 December 2016 and 2015, prepayments are in connection with:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Service fees	**676,366**	–
Purchase of raw materials	**1,311,248**	1,823,597
Guarantee fees	**–**	70,000
	1,987,614	1,893,597

11 CASH AND BANK BALANCES

	As at 31 December	
	2016	2015
	RMB	*RMB*
Cash at bank and on hand *(1)*	**16,693,021**	20,524,100
Less: Restricted cash *(2)*	**(3,500,000)**	(3,500,000)
Cash and cash equivalents	**13,193,021**	17,024,000

Cash at bank and in hand are denominated in:

	As at 31 December	
	2016	2015
	RMB	*RMB*
– RMB	**15,460,061**	19,369,424
– HKD	**1,232,960**	1,154,676
	16,693,021	20,524,100

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at fixed annual rates of 0.35% for the years ended 31 December 2016 and 2015.

(2) As at 31 December 2016 and 2015, details of restricted cash are as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Time deposits *(a)*	**3,500,000**	3,500,000

(a) Time deposits are all within one year term. In 2016 the Group earns interest on time deposits at fixed annual rates ranging from 1.5% to 1.65% (2015: 1.75% to 3.30%). As at 31 December 2016, time deposits of RMB1,000,000 were restricted for securing bank borrowings as a preferential lending rate.

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 share premium.

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.

The Company issued a total of 8,000,000 H shares with a per value of RMB1.00 each at a price of HK$9.70 per share on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 16 January 2015. The listing proceeds to the Company, netting off listing expenses, were HK$47,334,829 (equivalent to RMB37,394,515), resulting in an increase of share capital of the Company by RMB8,000,000 and the share premium by RMB29,394,515.

Ordinary shares, issued and fully paid:

	Number of shares	**Share capital** *RMB*
At 1 January 2015	24,000,000	24,000,000
– Proceeds from shares issued in 2015	8,000,000	8,000,000
At 31 December 2015 and 2016	32,000,000	32,000,000

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
Trade payables	**16,483,286**	12,670,603
Other payables	**6,541,855**	6,442,971
Staff salaries and welfare payables	**2,896,693**	2,694,706
Advances from customers	**877,118**	177,420
Accrued taxes other than income tax	**1,022,325**	1,653,187
	27,821,277	23,638,887

As at 31 December 2016 and 2015, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2016 and 2015, trade and other payables were all denominated in RMB.

The ageing analysis of the trade payables is as follows:

	As at 31 December	
	2016	2015
	RMB	*RMB*
Trade payables		
– Within 6 months	**12,633,636**	8,924,889
– Over 6 months and within 1 year	**321,151**	95,509
– Over 1 year and within 2 years	**121,343**	3,531,959
– Over 2 years and within 3 years	**3,331,198**	97,207
– Over 3 years	**75,958**	21,039
	16,483,286	12,670,603

14 DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2016 (2015: nil).

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Zhejiang Chang'an Renheng Technology Co., Limited (the "**Company**"), I hereby present the annual results announcement of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016 (the "**Year Under Review**") to shareholders (the "**Shareholders**") for your review.

In 2016, the Board has been focusing on promoting the papermaking fine chemicals business and building new product production lines, and has taken much care in reviewing and enhancing the Group's business process and corporate governance. A set of solid business process is crucial for the success of each business segment.

RESULTS OF OPERATION

The Group recorded an aggregate turnover of approximately RMB75,260,000 for the year ended 31 December 2016, representing a decrease of approximately RMB2,184,000 or 2.8% as compared to the previous year. Profit attributable to owners of the Company was approximately RMB1,836,000, representing a decrease of approximately 6.5% as compared to the previous year. The overall gross profit margin was up to 55.9%, while earnings per share was approximately RMB0.06, which is the same as the previous year. The Board believes that the existing financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

BROADEN SALES MARKETS

During the year of 2016, the Group actively explored the overseas market in addition to consolidating the domestic market, and had managed to establish a business relationship with a large-scale papermaking group in Singapore. Domestically, the Group continued its regional development strategy and had set up a management department for major clients, focusing on developing major clients with reputation and sound economic form. During the Year Under Review, the Group made further adjustments to clients in the market, with a view to gradually eliminating relatively small-scale clients to reduce risks, and thus ensuring safe operation of the Group.

DEVELOP NEW PRODUCTS

In order to enhance its business, during the Year Under Review, the Group newly constructed an organic bentonite production line with annual output of 10,000 tons in Yangyuan, Hebei, which had completed an intermediate trial production and had entered into the mass production stage. Moreover, it had established sales branches in Shanghai to promote and market the organic soil products.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

Looking into the year of 2017, the Group will carry on its efforts to consolidate its principal business as determined by the Board, take an active approach to expand business scope and endeavor to optimize its product structure. In addition, it will integrate new businesses and revitalize the existing businesses via strategic management, realizing an industrial synergy effect. With the joint efforts of all of its employees, the Company will reinforce the internal resources integration and the collaborative management within the whole group, marching forward steadily on the road to transformation and upgrading.

ACKNOWLEDGEMENT

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 to the Company from all the Shareholders. We will adhere to advanced development concept, follow development trend, grasp market opportunities, and make continuous efforts to create greater value for our Shareholders and make new contribution to the community.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The pulp and papermaking industry is a capital-intensive industry, and the debt ratios of the enterprises in such industry remain at a high level. Due to the depressed prices for the majority of products, resulting in a decrease in enterprises' profit margins, together with the understanding and knowledge of the financial institutions including certain banks about the papermaking industry, the capital chains of certain enterprises in such industry are tightened, and as a consequence, the number of enterprises suffering from difficulties in production and operation rises.

During the Year Under Review, the overall operating conditions for the papermaking fine chemicals business remain largely stable with a roughly balanced production-marketing. Nevertheless, the operating conditions for different sizes of enterprises become more and more fragmented. The large or medium size enterprises may enjoy basically normal and sound operating conditions, while the small and medium size ones are facing more difficulties in operation. The product market continues to divide, and the prices have seen rises and falls. For the products with high concentration, the market confidence will restore quickly, while the competitions on prices of those with low concentration are still sharp.

Bentonite has application potential in various papermaking processes because of its functional properties. The development of high quality bentonite products improved product quality and economic efficiency in the papermaking industry. As the research and development of bentonite in the papermaking industry progresses, the demand of the papermaking industry for bentonite fine chemicals is expected to grow in the future.

As the materials science makes unceasing progress, in addition to traditional application areas, the bentonite and its deep-processing products are constantly expanding their application areas. For instance, the bentonite can be applied in nuclear wastes control. It can be used as efficient fixatives to absorb the incident substances including caesium, strontium and europium by means of ion exchange when transferring radioactive wastes, thanks for its low permeability, high absorbability and plasticity.

The rational exploitation and efficient utilization of mineral resources have been deemed as one of the national development strategies because of the adjustment of national industrial transformation, which will accelerate the transformation and upgrading of functional mineral materials, such as the bentonite. The market will play the decisive role in allocating resources in its own right, forcing the enterprises to cut excess capacity and optimize supply structure to increase the effective supply and thus promoting positive competitions. In this way, the outdated production facilities will be closed down, and those enterprises with low added-value, high pollution and over-quota energy consumption will be eliminated inevitably.

BUSINESS REVIEW

In 2016, the Group devoted greater effort to explore the overseas market and had managed to establish a business relationship with a large-scale papermaking enterprise in Singapore, laying a foundation for further penetration into the Southeast Asia market.

The Group attaches great importance to investment in research and development of new products. During the Year under Review, the research and development expenditure of the Group amounted to approximately RMB3,744,000. Moreover, the Group had introduced three professors from Nanjing University and built a leading innovative team, which was listed in the "South Taihu Elite Program" in Huzhou.

In 2016, the Group newly constructed an organic bentonite production line with annual output of 10,000 tons in Yangyuan, Hebei, which now had been put into operation successfully; and set up the sales branches in Shanghai to conduct marketing promotion. The products from this project will be used in paint and coating, agricultural chemicals and oil fields.

The plants construction for the water treatment project with annual capacity of 10,000 tons located in the head quarter of the Group in Changxing, Zhejiang, has been completed currently. In the next step, we will carry out the work of installation and testing for production facilities, which is on the track.

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			
	2016		2015	
Product	***RMB'000***	*%*	*RMB'000*	*%*
Papermaking chemicals series	**68,410**	**90.9**	70,475	91.0
Bentonite for metallurgy pellet	**2,525**	**3.4**	5,191	6.7
Quality calcium-bentonite	**1,460**	**1.9**	311	0.4
Organic bentonite	**863**	**1.1**	–	0.0
Others	**2,002**	**2.7**	1,467	1.9
Total	**75,260**	**100.0**	77,444	100.0

Revenue from sales of papermaking chemicals series decreased by approximately RMB2,065,000 or 2.9% from approximately RMB70,475,000 for the year ended 31 December 2015 to approximately RMB68,410,000 for the year ended 31 December 2016. As the average unit selling price remained stable for the comparative periods, the decrease in revenue was mainly due to the decrease in sales volume, which decreased by approximately 2.5% from approximately 14,871 tonnes for the year ended 31 December 2015 to approximately 14,500 tonnes for the year ended 31 December 2016.

Revenue of bentonite for metallurgy pellet for the year ended 31 December 2016 decreased by approximately RMB2,666,000 or 51.4% from approximately RMB5,191,000 for the year ended 31 December 2015 to approximately RMB2,525,000 for the year ended 31 December 2016.

Revenue of quality calcium-bentonite for the year ended 31 December 2016 increased by approximately RMB1,149,000 or 369.5% as compared to the year ended 31 December 2015. 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.

During the Year Under Review, the Group sold more organic bentonite which amounted to approximately RMB863,000 as compared to the year ended 31 December 2015. In last year, the sales of organic bentonite was included in sales of other products.

Revenue of others for the year ended 31 December 2016 increased by approximately RMB535,000 or 36.5% as compared to the year ended 31 December 2015. Others mainly comprise inorganic gel which is principally applied in the coating preparation industry.

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			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Cost of raw materials	**24,336**	**73.3**	29,432	75.9
Direct labour costs	**2,350**	**7.1**	2,444	6.3
Manufacturing overhead cost	**5,765**	**17.4**	6,027	15.5
Others	**756**	**2.2**	882	2.3
Total	**33,207**	**100.0**	38,785	100.0

The cost of sales decreased approximately RMB5,578,000 or 14.4% from approximately RMB38,785,000 for the year ended 31 December 2015 to approximately RMB33,207,000 for the year ended 31 December 2016.

Cost of raw materials accounted for approximately 75.9% and 73.3% of cost of sales for the year ended 31 December 2015 and 2016 respectively. The cost of raw materials decreased by approximately RMB5,096,000 or 17.3% from approximately RMB29,432,000 for the year ended 31 December 2015 to approximately RMB24,336,000 for the year ended 31 December 2016 was mainly due to the decrease 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 decreased significantly for the year ended 31 December 2016, the cost of sales for CPAM decreased accordingly.

Direct labour costs accounted for approximately 6.3% and 7.1% of cost of sales for the year ended 31 December 2015 and 2016 respectively. Direct labour costs remained stable during the comparative years.

Manufacturing overhead costs accounted for approximately 15.5% and 17.4% of cost of sales for the year ended 31 December 2015 and 2016 respectively. Manufacturing overhead costs decreased by approximately RMB262,000 or 4.3% from approximately RMB6,027,000 for the year ended 31 December 2015 to approximately RMB5,765,000 for the year ended 31 December 2016.

3. Gross profit margin

Gross profit margin increased from 49.9% in 2015 to 55.9% in 2016. The increase in gross profit margin was mainly attributable to the improvement of gross profit margin of papermaking chemicals by selling more products with higher profit margin to the customers.

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			
	2016		2015	
Product	***RMB'000***	*%*	*RMB'000*	*%*
Papermaking chemicals series	**38,945**	**56.9**	36,375	51.6
Bentonite for metallurgy pellet	**866**	**34.3**	1,701	32.8
Quality calcium-bentonite	**1,235**	**84.6**	253	81.4
Organic bentonite	**591**	**68.5**	–	–
Others	**416**	**20.8**	330	22.5
Total	**42,053**	**55.9**	38,659	49.9

The gross profit margin of papermaking chemicals series increased from 51.6% for the year ended 31 December 2015 to 56.9% for the year ended 31 December 2016. The improvement 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 higher gross profit margin for the year ended 31 December 2016.

The gross profit margin of bentonite for metallurgy pellet was 32.8% and 34.3% for the year ended 31 December 2015 and 2016 respectively. The gross profit margin remained stable during the comparative years.

The gross profit margin of quality calcium-bentonite was 81.4% and 84.6% for the year ended 31 December 2015 and 2016 respectively. The gross profit margin increased by 3.2% during the comparative years.

The gross profit margin of organic bentonite was 68.5% for the year ended 31 December 2016. In last year, the gross profit of organic bentonite was included in the gross profit of other products.

The gross profit margin of other products was 22.5% and 20.8% for the year ended 31 December 2015 and 2016 respectively. The gross profit margin decreased by 1.7% during the comparative years.

4. **Distribution costs**

The distribution costs for the year ended 31 December 2015 and 2016 amounted to approximately RMB11,942,000 and RMB16,527,000 respectively. The distribution costs increased by approximately RMB4,585,000 mainly because of the increase in transportation expenses from approximately RMB9,748,000 for the year ended 31 December 2015 to approximately RMB14,811,000 for the year ended 31 December 2016.

5. **Administrative expenses**

The administrative expenses decreased slightly by approximately 0.3% from approximately RMB15,898,000 for the year ended 31 December 2015 to approximately RMB15,853,000 for the year ended 31 December 2016. The decrease was mainly due to the decrease in professional fee.

6. **Research and development expenses**

The research and development expenses decreased by approximately RMB1,116,000 or 23.0% from approximately RMB4,860,000 for the year ended 31 December 2015 to approximately RMB3,744,000 for the year ended 31 December 2016 due to a decrease in research and development projects.

7. **Other gains – net**

Other gains for the year ended 31 December 2015 and 2016 amounted to approximately RMB1,818,000 and RMB1,129,000 respectively. The decrease in other gains mainly due to the decrease in government grants from approximately RMB2,767,000 for the year ended 31 December 2015 to approximately RMB947,000 for the year ended 31 December 2016.

8. **Finance income and expenses**

The net finance expenses increased by approximately RMB906,000 or 22.1% from approximately RMB4,093,000 for the year ended 31 December 2015 to approximately RMB4,999,000 for the year ended 31 December 2016. The increase was mainly due to the increase of interest expenses on borrowings as a result of the increase in bank borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

9. **Income tax expense**

The income tax expense decreased by approximately RMB352,000 or 61.1% from approximately RMB576,000 for the year ended 31 December 2015 to approximately RMB224,000 for the year ended 31 December 2016. The decrease was mainly due to a decrease in profit before tax.

The effective tax rates were 22.7% and 10.9% for the years ended 31 December 2015 and 2016, respectively.

10. Net profit

The net profit decreased by approximately RMB127,000 or 6.5% from approximately RMB1,963,000 for the year ended 31 December 2015 to approximately RMB1,836,000 for the year ended 31 December 2016. The net profit margin for the Group decreased slightly from approximately 2.5% for the year ended 31 December 2015 to approximately 2.4% for the year ended 31 December 2016. The decrease in net profit margin of the Group was mainly due to the increase in distribution cost and partially off-set by the increase in gross profit margin during the Year Under Review.

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	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**19,088**	16,393
Finished goods	**6,376**	5,139
Low-value consumables	**134**	213
Total	**25,598**	21,745

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	
	2016	2015
Average inventory turnover days *(note)*	**260**	184

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 increased from 184 days for the year ended 31 December 2015 to 260 days for the year ended 31 December 2016. The increase in average inventory turnover days in 2016 was primarily due to the increase in raw materials and decrease in cost of sales.

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	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**47,218**	48,383
Less: provision for impairment	**(3,887)**	(4,028)
Trade receivables – net	**43,331**	44,355
Other receivables	**10,934**	12,360
Less: provision for impairment	**(213)**	(397)
Other receivables – net	**10,721**	11,963
Interest receivables on time deposits	**54**	12
Bills receivable	**13,647**	14,021
Prepayments	**1,988**	1,894
Trade and other receivables – net	**69,741**	72,245
Less: non-current portion	**(1,120)**	(642)
Current portion	**68,621**	71,603

Trade receivables

Trade receivables as at 31 December 2015 and 2016 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	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**47,218**	48,383
Less: provision for impairment	**(3,887)**	(4,028)
Trade receivables – net	**43,331**	44,355

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	
	2016	2015
	RMB'000	*RMB'000*
Within 180 days	**30,732**	32,142
Over 180 days and within 1 year	**4,997**	6,504
Over 1 year and within 2 years	**4,843**	9,008
Over 2 years and within 3 years	**6,120**	600
Over 3 years	**526**	129
Total	**47,218**	48,383

The Group's trade receivables decreased by approximately RMB1,165,000 or 2.4% from approximately RMB48,383,000 as at 31 December 2015 to approximately RMB47,218,000 as at 31 December 2016. The trade receivables due over 180 days increased by approximately RMB245,000 or 1.5% from approximately RMB16,241,000 as at 31 December 2015 to approximately RMB16,486,000 as at 31 December 2016. The increase was mainly due to the fact that more customers delayed their settlements during the Year Under Review.

Trade receivable turnover days

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

	Year ended 31 December	
	2016	2015
Trade receivable turnover days *(note)*	**232**	237

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 2015 and 2016 were approximately 237 days and 232 days respectively. The decrease of turnover days was mainly due to the decrease in trade receivables.

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	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**16,483**	12,671
Other payables	**6,542**	6,443
Staff salaries and welfare payables	**2,897**	2,695
Advances from customers	**877**	177
Accrued taxes other than income tax	**1,022**	1,653
Total	**27,821**	23,639

As at 31 December 2015 and 2016, 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 increased by approximately RMB3,812,000 or 30.1% from approximately RMB12,671,000 as at 31 December 2015 to approximately RMB16,483,000 as at 31 December 2016.

In order to meet the production needs, the Group purchased more CPAM especially from the major overseas supplier for the year ended 31 December 2016. As the purchase of raw materials increased during the Year Under Review, the balance of trade payables as at 31 December 2016 increased accordingly.

Trade payables turnover days

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

	Year ended 31 December	
	2016	2015
Trade payable turnover days *(note)*	**160**	124

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 160 days for the year ended 31 December 2016, which was due to the increase in purchase of raw materials during the Year Under Review.

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 2015 amounted to approximately RMB9,566,000 which was mainly attributable to the cash generated from operating activities amounting to approximately RMB11,515,000, as adjusted by the payment of income tax of approximately RMB1,949,000.

The cash generated from operating activities of approximately RMB11,515,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB15,850,000 as adjusted by (i) an decrease in trade and other receivables of approximately RMB1,483,000, (ii) an increase in inventories of approximately RMB4,366,000, and (iii) a decrease in trade and other payables of approximately RMB1,452,000.

The net cash inflow from operating activities for the year ended 31 December 2016 amounted to approximately RMB14,733,000, which was mainly attributable to the cash generated from operating activities amounted to approximately RMB15,292,000, as adjusted by the payment of income tax of approximately RMB559,000.

The cash generated from operating activities of approximately RMB15,292,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB13,481,000, as adjusted by (i) a decrease in trade and other receivables of approximately RMB1,029,000 due to the collection of overdue trade receivables, (ii) an increase in inventories of approximately RMB3,853,000, and (iii) an increase in trade and other payables of approximately RMB4,635,000.

2. Cash flows from investing activities

For the year ended 31 December 2015, the Group had net cash outflow from investing activities of approximately RMB16,113,000, which was primarily attributable to (i) payment of prepaid leasing expenses and leasehold improvements of approximately RMB1,825,000, (ii) purchase of property, plant and equipment of approximately RMB21,176,000 and (iii) deposit of guaranteed deposits and time deposits of approximately RMB6,000,000, partially offset by (i) withdraw of guaranteed deposits and time deposits of approximately RMB12,775,000 and (ii) interest income received from time deposits of approximately RMB113,000.

For the year ended 31 December 2016, the Group had net cash outflow from investing activities of approximately RMB19,690,000, which was primarily attributable to purchase of property, plant and equipment of approximately RMB20,355,000.

3. Cash flows from financing activities

For the year ended 31 December 2015, the Group had net cash inflow from financing activities of approximately RMB15,561,000, which was primarily attributable to (i) proceed from borrowings of approximately RMB67,362,000, and (ii) proceed from issuance of ordinary share of approximately RMB50,172,000; partially offset by (i) repayment of borrowings of approximately RMB89,488,000, (ii) payment of interest expenses of approximately RMB5,197,000, (iii) dividends to Company's Shareholders of approximately RMB7,286,000.

For the year ended 31 December 2016, the Group had net cash inflow from financing activities of approximately RMB1,060,000, which was primarily attributable to the proceeds from borrowings of approximately RMB74,611,000, partially off-set by repayment of borrowings of approximately RMB68,422,000 and payments of interest expenses of RMB5,129,000.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2016 was approximately RMB74,611,000 (31 December 2015: approximately RMB68,422,000). 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 2016, the Group's gearing ratio was approximately 37.5% (31 December 2015: 36.6%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to a increase in bank borrowings.

3. **Pledge of assets**

As at 31 December 2016, the Group had pledged certain buildings, fixtures and facilities, land use right and time deposits with aggregate carrying amount of approximately RMB13,118,000 (31 December 2015: approximately RMB13,647,000).

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 RMB21,567,000 and RMB24,722,000 for the year ended 31 December 2016 and 2015 respectively.

5. **Foreign exchange risk**

During the years ended 31 December 2016 and 2015, the Group did not enter into any forward exchange contracts or currency swap contracts.

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 7.37% and the weight average effective annual interest rate of other borrowings was 4.73%. 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 2016, the Group had cash and cash equivalents of RMB13,193,000 (31 December 2015: approximately RMB17,024,000) which was mainly generated from operations of the Group.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2016, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment of approximately RMB1,626,000 (31 December 2015: approximately RMB3,891,000).

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 GEM Listing Rules. In this regard, no segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2016, 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 2016.

FUTURE OUTLOOK

With the slowing down of macro economy growth and transformation and upgrading the industrial structure, the chemical industry where the Group operates in is affected by rising labor costs and insufficient consumer motivations in the downstream. Meanwhile, the increased competitions among the industry shrink the profitability of the Company each year. As a result, the Group will adjust our development strategies according to new situations and formulate and implement the following strategies:

1) The Group will establish a management department for major clients to further optimize the management of quality major clients; and will gradually eliminate relatively small-scale clients with outdated facilities to reduce risks, and thus ensuring safe operation of the Group.

2) The Group will pay more attention to exploring the overseas market. It is expected to set up sales organizations in Southeast Asia in 2017 to carry out marketing promotion in such region.

3) The Group will rely on its Shanghai sales branches as a platform to promote organic soil products, developing new business and enhancing its profitability.

4) The Group will conduct cooperation with colleges and universities to develop new products in the field of water treatment, based on the "South Taihu Elite Program".

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2016, the Group had a total of 118 employees, of which 47 worked at the Group's headquarter in Changxing, and 71 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB11,843,000 (2015: RMB10,348,000). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

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

DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2016 (2015: nil).

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 Thursday, 13 April 2017 to Saturday, 13 May 2017 (both days inclusive) during which period no transfer of H shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's H share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. on Wednesday, 12 April 2017.

OTHER CORPORATE INFORMATION

Directors' and supervisors' service contracts

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

Directors', supervisors' and controlling shareholders' interests in transaction, arrangement and contract

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

Directors', Supervisors' And Chief Executive's Interests In Shares, Debentures And Underlying Shares Of The Company Or Any Associated Corporation

As at 31 December 2016, 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, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director/ supervisor	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600 (Domestic Shares)	60.06%
Ms. Zhang Jinhua	Beneficial owner	398,400 (Domestic Shares)	1.25%
Mr. Xu Qinsi[(i)]	Interest of spouse	100,000 (Domestic Shares)	0.31%

(i) Mr. Xu Qinsi, the supervisor of the Company, is deemed (by virtue of the SFO) to be interested in 100,000 domestic shares in the Company held by his spouse. Ms. Ling Weixing.

Save as disclosed above, as at 31 December 2016, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

Directors' And Supervisors' Rights To Acquire Shares Or Debentures

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

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

As at 31 December 2016, so far as the Directors, having made all reasonable enquiries, are aware, the following interests of 5% or more of the issued share capital of the Company (other than the interests of the directors, supervisors and chief executive of the Company as disclosed above) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholder	Nature of interest	Number of shares in the Company held	Interest in Underlying Shares	Total number of shares in the Company held	Approximate percentage of Issued Share Capital
Ms. Yu Hua	Beneficial owner	3,576,000 (Domestic Shares)	–	3,576,000 (Domestic Shares)	11.18%

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2016.

Corporate governance report

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

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

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

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

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, Dr. 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.

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. Pursuant to the meeting of the Audit Committee held on 18 March 2017, 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 2016, this results announcement, the 2016 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. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Year Under Review.

Purchases, Sale or Redemption of the Company's Listed Securities

For the year ended 31 December 2016, 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

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

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 RMB37,395,000 (equivalent to approximately HK$47,335,000), after deduction of the underwriting commission and relevant expenses. As at 31 December 2016, the Group had used net proceeds of approximately 36,372,000.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the annual results for the year ended 31 December 2016 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 2016 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 2016 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, 18 March 2017

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