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 2018

CHARACTERISTICS OF 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**", together with its subsidiaries, the "**Group**") 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 increased by 10.7% to approximately RMB89,231,000 (2017: RMB80,583,000).
- Gross profit increased by 1.1% to approximately RMB37,622,000 (2017: RMB37,213,000).
- Gross profit margin down by 4.0% points to 42.2% (2017: 46.2%).
- Profit before taxation was approximately RMB1,081,000 (2017: Loss before taxation was approximately RMB7,297,000).
- Profit for the year ended 31 December 2018 was approximately RMB939,000 (2017: Loss for the year was approximately RMB6,364,000).
- Basic earnings per share was approximately RMB0.03 (2017: Basic loss per share was RMB0.20).
- The Board did not recommend the payment of any final dividends for the year ended 31 December 2018 (2017: Nil).

The board (the "**Board**") of Directors of Zhejiang Chang'an Renheng Technology Co., Ltd. is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2018 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Note	***RMB***	*RMB*
Revenue	*3*	**89,231,486**	80,582,825
Cost of sales	*5*	**(51,609,582)**	(43,370,136)
Gross profit		**37,621,904**	37,212,689
Distribution costs	*5*	**(14,864,918)**	(17,999,306)
Administrative expenses	*5*	**(14,587,601)**	(13,779,579)
Net impairment losses on financial assets	*5*	**(2,419,067)**	(3,107,824)
Research and development expenses	*5*	**(5,789,156)**	(5,216,662)
Other gains – net	*4*	**6,966,851**	645,335
Operating profit/(loss)		**6,928,013**	(2,245,347)
Finance income	*6*	**15,052**	16,298
Finance expenses	*6*	**(5,862,361)**	(5,067,475)
Finance expenses – net	*6*	**(5,847,309)**	(5,051,177)
Profit/(loss) before income tax		**1,080,704**	(7,296,524)
Income tax (expense)/credit	*7*	**(141,620)**	932,550
Profit/(loss) for the year attributable to the equity holders of the Company		**939,084**	(6,363,974)
Other comprehensive income		**–**	–
Total comprehensive profit/(loss) for the year attributable to the equity holders of the Company		**939,084**	(6,363,974)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	*8*	**0.03**	(0.20)

CONSOLIDATED BALANCE SHEET
as at 31 December 2018

		As at 31 December	
		2018	2017
	Note	***RMB***	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		**81,402,390**	85,019,650
Prepaid leasing expenses		**6,182,192**	6,357,709
Mining rights		**47,278**	78,796
Leasehold improvements		**14,910,353**	2,097,769
Deferred income tax assets		**3,345,783**	2,614,562
Other receivables	*10*	**1,228,248**	1,156,226
		107,116,244	97,324,712
Current assets			
Inventories	*9*	**34,301,833**	32,936,345
Trade and other receivables	*10*	**49,008,624**	52,262,990
Prepaid income tax		**476,361**	1,005,515
Restricted cash	*11*	**389,618**	–
Cash and cash equivalents	*11*	**22,272,273**	1,845,424
		106,448,709	88,050,274
Total assets		**213,564,953**	185,374,986
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*12*	**38,400,000**	32,000,000
Other reserves		**49,806,255**	36,634,147
Retained earnings		**17,789,952**	19,753,251
Total equity		**105,996,207**	88,387,398

	Note	As at 31 December 2018 RMB	2017 RMB
LIABILITIES			
Non-current liabilities			
Deferred government grants		**513,445**	1,597,399
Provisions for environmental rehabilitation		**1,336,956**	1,142,607
Borrowings		**21,866,000**	–
		23,716,401	2,740,006
Current liabilities			
Deferred government grants		**83,953**	83,953
Trade and other payables	*13*	**30,163,867**	29,113,629
Borrowings		**53,604,525**	65,050,000
		83,852,345	94,247,582
Total liabilities		**107,568,746**	96,987,588
Total equity and liabilities		**213,564,953**	185,374,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 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 GEM of The Stock Exchange of Hong Kong Limited on 16 January 2015 (the "**Listing**").

As at 29 November 2018, the Company issued 6,400,000 new shares at a price of HKD3.50 per share by way of placement to not less than six parties, who and whose ultimate beneficial owner are independent third parties (Note 12).

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 23 March 2019.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Annual improvements to IFRSs 2014 – 2016 cycle, and

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. The other listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the group. The Group's assessment of the impact of these new standards and interpretations is set out below.

- *IFRS 16, 'Leases'*

  Nature of change

  IFRS 16 was issued in January 2016. It 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.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has no non-cancellable operating lease commitments. There will be no impact on the Group's accounting as lessor.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

2.2.1 IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.13 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	2018
	RMB
Closing retained earnings 31 December 2017 – IAS 39	**19,753,251**
Increase in provision for trade and other receivables	**(3,301,327)**
Increase of deferred tax assets	**563,253**
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	**(2,738,074)**
Opening retained earnings 1 January 2018 – IFRS 9	**17,015,177**

Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model which are trade receivables for sales of inventories and staff advances including in other receivables (Note 17). The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables and other receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB3,301,327 (Note 10).

2.2.2 IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. 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.

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognize through a 5-step approach:

(1) Identify the contract(s) with customer;

(2) Identify separate performance obligations in a contract;

(3) Determine the transaction price;

(4) Allocate transaction price to performance obligations; and

(5) Recognise revenue when performance obligation is satisfied.

The core principle is that the Group should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings process" to an "asset-liability" approach" based on transfer of control.

The Group has assessed the effects of applying the new standard on the Group's financial statements and does not expect a significant impact on the recognition of revenue, which means the Group will not restate comparative amounts for this year. In relation to the effect on balance sheet, the Group reclassified the advances from customers of RMB1,113,120 as at 31 December 2017 to the contract liabilities on 1 January 2018.

2.3 Principles of consolidation

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

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

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

2.4 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

2.5 Separate financial statements

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

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

2.6 Segment reporting

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

2.7 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.8 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the consolidated statement of comprehensive income.

2.9 Prepaid leasing expenses

Prepaid leasing expenses (land use rights) are stated at cost and amortized over the remaining period of the leases on a straight-line basis, net of any impairment losses, if any (Note 2.12).

2.10 Mining rights

Mining rights are stated at cost and amortized over the remaining period of the license periods on a straight-line basis, net of any impairment losses, if any (Note 2.12).

2.11 Leasehold improvements

Leasehold improvements are stated at cost and amortized over the lower of expected beneficial periods or lease periods on a straight-line basis, net of any impairment losses, if any (Note 2.12).

2.12 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Investments and other financial assets

2.13.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

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

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

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

2.13.2 Recognition and derecognition

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

2.13.3 Measurement

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

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

2.13.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.13.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the financial assets were acquired. Management determined the classification of its investments at initial recognition. The Group only has financial assets classified as "loans and receivables" during the years ended 31 December 2017.

(i) Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables were subsequently carried at amortised cost using the effective interest method.

(ii) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

2.14 Inventories

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

2.15 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Cash and cash equivalents

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

2.17 Restricted cash

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

2.18 Share capital

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

2.19 Trade and other payables

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

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

2.20 Borrowings

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

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

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

2.21 Borrowing costs

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

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

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

2.22 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

2.23 Employee benefits

(a) Pension obligations

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

(b) Housing benefits

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

(c) Bonus entitlements

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

2.24 Provisions

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

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

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

2.25 Revenue recognition

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

Sales of goods

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

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

2.26 Government grants

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

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are deferred and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the related asset.

2.27 Research and development

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

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.29 Dividend distribution

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

2.30 Safety fund

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

2.31 Interest income

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

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 6 below. Any other interest income is included in other income.

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

3 REVENUE

	Year ended 31 December	
	2018	2017
	RMB	*RMB*
Papermaking chemicals series	**54,904,430**	56,034,228
Organic bentonite	**25,756,988**	17,840,319
Inorganic gel	**3,632,681**	618,048
Quality calcium-bentonite	**2,750,788**	3,248,274
Bentonite for metallurgy pellet	**985,433**	1,584,774
Others chemicals *(i)*	**1,201,166**	1,257,182
	89,231,486	80,582,825

For the year ended 31 December 2018, only one external customer, Hangzhou Hengyue New Materials Co., Ltd. contributed 10% or above of the Group's revenue amounted to RMB16,597,266.

For the year ended 31 December 2017, only one external customer, Hangzhou Hengyue New Materials Co., Ltd. contributed 10% or above of the Group's revenue amounted to RMB8,840,576.

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

4 OTHER GAINS – NET

	Year ended 31 December 2018 RMB	2017 RMB
Loss on disposal of property, plant and equipment – net	**–**	(3,963)
Government grants		
– Relating to assets	**1,083,954**	83,953
– Relating to costs *(i)*	**6,482,400**	905,229
Fine	**(617,694)**	(182,130)
Donations	**(66,000)**	(169,300)
Others	**84,191**	11,546
	6,966,851	645,335

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

For the year ended 31 December 2018, the Group received RMB6,340,000 from the Government Department of Changxing County, Zhejiang Province to reward the tax payment contribution of previous years of the Company in Changxing County.

5 EXPENSES BY NATURE

	Year ended 31 December 2018 RMB	2017 RMB
Changes in finished goods	**(2,573,221)**	(1,277,621)
Raw materials and consumables used	**39,205,818**	30,873,369
Employee benefit expenses	**12,556,250**	11,046,716
Utilities	**5,729,785**	4,102,190
Transportation expenses	**12,177,351**	13,298,809
Depreciation	**6,642,986**	7,462,951
Marketing and promotion expenses	**356,044**	–
Travelling and communication expenses	**3,867,097**	4,637,892
Taxes and levies	**1,073,925**	1,038,848
Amortisation of prepaid leasing expenses	**175,517**	180,989
Amortisation of mining rights	**31,518**	31,522
Audit remuneration	**1,100,000**	1,100,000
Professional service fees	**631,751**	992,748
Amortisation of leasehold improvements	**1,610,511**	624,854
Maintenance expenses	**689,069**	646,662
Entertainment expenses	**2,629,840**	4,422,876
Provision for impairment of receivables *(Note 10)*	**2,419,067**	2,480,255
Provision for inventories	**(25,119)**	627,569
Miscellaneous	**972,135**	1,182,878
Total cost of sales, distribution costs, administrative expenses, net impairment losses on financial assets and research and development expenses	**89,270,324**	83,473,507

6 FINANCE EXPENSES – NET

	Year ended 31 December	
	2018	2017
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	**15,052**	16,298
Finance expenses		
– Interest expense	**(5,945,732)**	(5,265,212)
– Capitalised interest expenses	**–**	295,541
	(5,945,732)	(4,969,671)
– Foreign exchange (losses)/gains on borrowings and cash and cash equivalents – net	**54,111**	(133,506)
– Unrealised gains/(losses) from financial assets measured at amortised cost	**29,260**	35,702
	(5,862,361)	(5,067,475)
Finance expenses – net	**(5,847,309)**	(5,051,177)

7 INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2018	2017
	RMB	*RMB*
Current income tax	**309,588**	113,927
Deferred income tax	**(167,968)**	(1,046,477)
	141,620	(932,550)

The Company renewed the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Zhejiang province, which granted tax preferential rate of 15% for three years from 13 November 2017 to 12 November 2020.

The other subsidiaries are subject to income tax rate of 25% for the years ended 31 December 2018 and 2017.

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

	Year ended 31 December	
	2018	2017
	RMB	*RMB*
Profit/(loss) before tax	**1,080,704**	(7,296,524)
Calculated at statutory tax rate	**270,176**	(1,824,131)
Expenses not deductible for tax purposes	**1,025,542**	1,079,923
Additional deduction for research and development expenses *(i)*	**(611,096)**	(652,083)
Preferential tax rate impact of the Company	**(543,002)**	463,741
Income tax expense/(credit)	**141,620**	(932,550)

(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/(LOSS) PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
	2018	2017
Profit/(loss) attributable to the equity holders of the Company *(RMB)*	**939,084**	(6,363,974)
Weighted average number of ordinary shares in issue	**32,578,630**	32,000,000
Basic earnings/(loss) per share *(RMB per share)*	**0.03**	(0.20)

(b) Diluted

The fully diluted earnings/(loss) per share for the years ended 31 December 2018 and 2017 is the same as the basic earnings/(loss) per share as there is no dilutive potential ordinary share for the years ended 31 December 2018 and 2017.

9 INVENTORIES

	As at 31 December	
	2018	2017
	RMB	*RMB*
Raw materials	**23,944,598**	25,110,583
Finished goods	**10,227,030**	7,653,809
Low value consumables	**130,205**	171,953
	34,301,833	32,936,345

The amount of the provision for impairment of inventories was RMB602,450 at 31 December 2018 (2017: RMB627,569).

The cost of inventories recognised as cost of sales amounted to RMB50,534,999 and RMB42,412,710 for the years ended 31 December 2018 and 2017, respectively.

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	***2017***
	RMB	*RMB*
Trade receivables	**50,112,498**	47,052,403
Less: provision for impairment	**(11,144,899)**	(6,260,379)
Trade receivables – net *(1)*	**38,967,599**	40,792,024
Bills receivable *(2)*	**3,997,328**	5,087,857
Other receivables	**6,018,281**	6,301,650
Less: provision for impairment	**(1,145,482)**	(309,608)
Other receivables – net *(3)*	**4,872,799**	5,992,042
Prepayments *(4)*	**2,399,146**	1,547,293
Trade and other receivables– net	**50,236,872**	53,419,216
Less: non-current portion *(3)*	**(1,228,248)**	(1,156,226)
Current portion	**49,008,624**	52,262,990

As at 31 December 2018 and 2017, 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.

As at 31 December 2018 and 2017, the trade and other receivables are all denominated in RMB.

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

	As at 31 December	
	2018	*2017*
	RMB	*RMB*
– Within 180 days	**35,112,201**	34,009,079
– Over 180 days and within 1 year	**2,982,115**	3,636,600
– Over 1 year and within 2 years	**3,478,094**	2,295,873
– Over 2 years and within 3 years	**1,800,910**	3,218,180
– Over 3 years	**6,739,178**	3,892,671
	50,112,498	47,052,403

The credit period granted to customers is normally from 90 days to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB2,809,682 for trade receivables and an increase by RMB491,645 for other receivables.

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

	As at 31 December	
	2018	*2017*
	RMB	*RMB*
At the end of last year	**6,260,379**	3,887,109
Amounts restated through opening retained earnings *(Note 2.2.1)*	**2,809,682**	–
At the beginning of the year	**9,070,061**	3,887,109
Provision for impairment *(Note 5)*	**2,074,838**	2,384,056
Write-off against uncollectible receivables	**–**	(10,786)
At the end of the year	**11,144,899**	6,260,379

Impairment provision for trade receivables is charged to 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 RMB1,153,717 and RMB1,250,000 have been discounted to financial institutions to obtain borrowings of RMB1,133,427 and RMB1,226,283 as at 31 December 2018 and 2017, respectively.

(3) As at 31 December 2018 and 2017, details of other receivables are as follows:

	As at 31 December	
	2018	*2017*
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	**1,228,248**	1,156,226
Current:		
Related party borrowings	**278,900**	–
Staff advances	**3,050,551**	3,433,145
Deposits	**688,906**	1,128,793
Others	**771,676**	583,486
Current subtotal	**4,790,033**	5,145,424
Total	**6,018,281**	6,301,650

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

	Year ended 31 December	
	2018	2017
	RMB	*RMB*
At the end of last year	**309,608**	213,409
Change in accounting policy *(Note 2.2.1)*	**491,645**	–
At the beginning of the year	**801,253**	213,409
Provision for impairment *(Note 5)*	**344,229**	96,199
At the end of the year	**1,145,482**	309,608

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

(4) As at 31 December 2018 and 2017, prepayments are in connection with:

	As at 31 December	
	2018	2017
	RMB	*RMB*
Purchase of raw materials	**2,084,999**	1,301,861
Service fees	**314,147**	245,432
	2,399,146	1,547,293

11 CASH AND BANK BALANCES

	As at 31 December	
	2018	2017
	RMB	*RMB*
Cash at bank and on hand *(1)*	**22,661,891**	1,845,424
Less: Restricted cash *(2)*	**(389,618)**	–
Cash and cash equivalents	**22,272,273**	1,845,424

Cash at bank and in hand are denominated in:

	As at 31 December	
	2018	2017
	RMB	*RMB*
– RMB	**5,656,898**	1,845,392
– HKD	**17,004,994**	32
	22,661,891	1,845,424

(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 2018 and 2017.

(2) As at 31 December 2018 and 2017, details of restricted cash are as follows:

	As at 31 December	
	2018	2017
	RMB	*RMB*
Guaranteed deposits	**389,618**	–

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 HKD9.70 per share on GEM of The Stock Exchange of Hong Kong Limited on 16 January 2015. The listing proceeds to the Company, netting off listing expenses, were HKD47,334,829 (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.

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

Set out below is the shareholding structure of the Company immediately before and after the completion of the placing:

	Immediately before the completion of the placing		**Immediately after the completion of the placing**	
	Number of shares	*Approximate % of issued Shares*	*Number of shares*	*Approximate % of issued Shares*
Domestic Shares	24,000,000	75.00%	24,000,000	62.50%
H Shares	8,000,000	25.00%	14,400,000	37.50%
	32,000,000	100.00%	38,400,000	100.00%

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB	*RMB*
Trade payables	**16,624,194**	15,869,462
Other payables	**9,401,764**	8,231,848
Staff salaries and welfare payables	**2,274,996**	2,691,909
Contract liabilities	**628,570**	–
Advances from customers	**–**	1,113,120
Accrued taxes other than income tax	**1,234,343**	1,207,290
	30,163,867	29,113,629

As at 31 December 2018 and 2017, 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 2018 and 2017, trade and other payables were all denominated in RMB.

14 DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2018 (2017: nil).

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Zhejiang Chang'an Renheng Technology Co., Limited, I hereby present the annual report of the Company for the year ended 31 December 2018 to shareholders (the "**Shareholders**") and potential investors.

In 2018, under the leadership of the Board and the guiding ideology of "profit-focused, innovation-driven, market-oriented, sales-led", the Group achieved production and sales balance through deepening our corporate reform, accelerating the pace of the Company's industrial restructuring enhancement, actively adjusting the raw materials mix and products mix as well as developing new products to meet market demands.

RESULTS OF OPERATION

The Group recorded an aggregate revenue of approximately RMB89,231,000 for the year ended 31 December 2018, representing an increase of approximately RMB8,648,000 or 10.7% as compared to the previous year. Profit for the year attributable to the equity holders of the Company was approximately RMB939,000, while there was a loss of approximately RMB6,364,000 for the year ended 31 December 2017. The overall gross profit margin was down to 42.2% and earnings per share was approximately RMB0.03, as compared to the loss per share of approximately RMB0.20 for the previous year. The Board believes that the existing financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

BROADEN SALES MARKETS

During the Year Under Review, the Group concentrated to develop the promotion and marketing of the organic bentonite products, participated in China international coating exhibition held in Guangzhou, and promoted the Group's organic bentonite products to local and overseas customers proactively. The organic bentonite market has taken a shape with positive response from customers. Our department for major clients had a stable operation to maintain the business relationship with quality clients. We gradually eliminated relatively small-scale clients with bad reputation and poor financial status to ensure the safety of the Group's capital. Also, the Group actively explored oversea market, and the sales of bentonite products for paper manufacturing in the Southeast Asian market have exceeded 4,000 tons.

DEVELOPING NEW PRODUCTS

In 2018, in accordance with our business development plan, the Group explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including pesticide adjuvants and papermaking filler modifier. Some of the customers started to apply and recognize the papermaking filler modifier, which can increase the retention rate for the sales papermaking filler and lower the production cost.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

The Group will continue to carry on its efforts to consolidate its principal business as determined by the Board and boost the promotion efforts of fine paper chemicals in both local and oversea markets. The Group will focus on the marketing of new organic bentonite products, and explore new sources of profit, making innovative breakthroughs and enhancing its comprehensive competitiveness. By cooperating with scientific research institutes, we will proactively develop new products and new technical knowhow, lower our production cost and enhance the Group's comprehensive competitiveness.

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

China has a huge reserve of bentonite resources, which has laid a good foundation for the development and research of new products, market expansion and increasing competitiveness in terms of resources. With an increasing market demand, bentonite is one of the resources with the greatest development value and potential among clay minerals. The various grades of activated bentonite, which are in great market demand, are 15 to 40 times the value of the original ore. With a greater demand for deep processing products such as bentonite as molecular sieves, for oil drilling mud and as carbonless printing paper materials, the value of bentonite will also become higher. With the development of emerging nanotechnology, bentonite has been more widely used for industrial purposes. The main processed products include fine paper chemicals, activated bentonite, activated bentonite particles, organic bentonite and nano-bentonite.

The fine paper chemical industry, in which the Company's main products are located, has become a stable industry in China. China has implemented energy conservation and emission reduction policies in order to encourage enterprises to vigorously develop hi-tech industries, stick to the new industrialization path, facilitate the upgrade of traditional industries and increase the proportion of hi-tech industries in the industrial field. Currently, the national policy regarding fine paper chemical is to shut down small-capacity enterprises and encourage the development of large enterprises. The fine paper chemical enterprises in China will pay extra attention to industrial capital optimisation, carry out collaboration, reorganization, mergers and acquisitions among enterprises, adjust industrial structure and layout, enhance the industrial scale and strengthen of enterprises as well as raise international competitiveness.

In 2018, driven by the supply-chain reform, the papermaking industry showed significant performance in capacity reduction, whereby the supply and demand showed further improvement. Due to the serious pollution and outstanding overcapacity problems, the papermaking industry has become the target to perform capacity reduction in the supply-chain reform. Based on the "13th Five-Year-Plan", eight million tons of backward production capacity will be eliminated in the papermaking industry in a row.

At the same time, the papermaking industry witnessed a substantial change in the raw materials mix this year. Officially issued by the General Office of the State Council, the "Implementation Plan for Prohibiting the Entry of Foreign Garbage and Advancing the Reform of the Solid Waste Import Administration System" adjusted the "Catalogue for the Administration of Imported Solid Waste", and firmly prohibited the import of unsorted waste paper and the solid waste such as textile waste and vanadium slag, which was officially implemented at the end of 2017. The new regulations for imported waste paper have greatly tightened the control requirements for the quality of imported waste paper, where much foreign labelled waste paper has no longer met such requirements. Both the allowed quota for waste paper and the list of approved enterprises have shrunk dramatically. The adjustment to the raw materials mix for papermaking has correspondingly imposed greater requirements on papermaking chemicals.

The development and production of fine paper chemicals is progressively transforming from the existing prominent wood fiber to poly-fiber in terms of papermaking. At the same time, local enterprises will face intense competition in the papermaking chemical market from foreign papermaking chemical enterprises with sophisticated experience in making paper from pulp fiber. As such, the fine paper chemical enterprises in China have to put extra efforts on growing stronger, stimulating development and innovation, strengthening the application of technology studies and after-sales services.

BUSINESS REVIEW

In 2018, the Group stepped up the promotion of new products. We participated in China international coating exhibition held in Guangzhou, and promoted the Company's organic bentonite products to local and overseas customers proactively. The organic bentonite product market has taken a shape with positive response from local and overseas customers.

The Group continued to focus on the development of overseas markets. The sales of bentonite products for manufacturing paper in the Southeast Asian market have exceeded 4,000 tons during the Year Under Review.

The Group attached great importance to the research and development of new products. We explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including pesticide adjuvants and papermaking filler modifier. Some of the customers started to apply and recognize the papermaking filler modifier, which can increase the retention rate for the sales papermaking filler and lower the production cost.

FINANCIAL REVIEW

1. Revenue

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			
	2018		2017	
Product	***RMB'000***	*%*	*RMB'000*	*%*
Papermaking chemicals	**54,904**	**61.5**	56,034	69.6
Organic bentonite	**25,757**	**28.9**	17,841	22.1
Inorganic gel	**3,633**	**4.1**	618	0.7
Quality calcium-bentonite	**2,751**	**3.1**	3,248	4.0
Bentonite for metallurgy pellet	**985**	**1.1**	1,585	2.0
Other chemicals *(i)*	**1,201**	**1.3**	1,257	1.6
Total	**89,231**	**100.0**	80,583	100.0

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

Revenue from sales of papermaking chemicals decreased by approximately RMB1,130,000 or 2.0% from approximately RMB56,034,000 for the year ended 31 December 2017 to approximately RMB54,904,000 for the year ended 31 December 2018. 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 1.7% from approximately 11,900 tonnes for the year ended 31 December 2017 to approximately 11,700 tonnes for the year ended 31 December 2018.

Revenue from sales of organic bentonite increased by approximately RMB7,916,000 or 44.4% from approximately RMB17,841,000 for the year ended 31 December 2017 to approximately RMB25,757,000 for the year ended 31 December 2018. The increase was mainly due to the fact that the Group sold more products with lower gross profit margin to the customer in order to increase the sales volume.

Revenue from sales of inorganic gel increased by approximately RMB3,015,000 or 487.9% from approximately RMB618,000 for the year ended 31 December 2017 to approximately RMB3,633,000 for the year ended 31 December 2018. The increase was mainly due to the increase in sales volume.

Revenue of quality calcium-bentonite for the year ended 31 December 2018 decreased by approximately RMB497,000 or 15.3% to approximately RMB2,751,000 as compared to approximately RMB3,248,000 for the year ended 31 December 2017. 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.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB600,000 or 37.9% from approximately RMB1,585,000 for the year ended 31 December 2017 to approximately RMB985,000 for the year ended 31 December 2018.

Revenue of other chemicals for the year ended 31 December 2018 decreased by approximately RMB56,000 or 4.5% to approximately RMB1,201,000 as compared to approximately RMB1,257,000 for the year ended 31 December 2017. Other chemicals mainly comprise flocculating agent which are 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			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Cost of raw materials and consumable	**39,378**	**76.3**	32,561	75.1
Direct labour costs	**4,025**	**7.8**	3,483	8.0
Manufacturing overhead cost	**6,916**	**13.4**	6,073	14.0
Others	**1,290**	**2.5**	1,253	2.9
Total	**51,609**	**100.0**	43,370	100.0

The cost of sales increased by approximately RMB8,239,000 or 19.0% from approximately RMB43,370,000 for the year ended 31 December 2017 to approximately RMB**51,609,000** for the year ended 31 December 2018.

Cost of raw materials accounted for approximately 76.3% and **75.1**% of cost of sales for the year ended 31 December 2018 and 2017, respectively. The cost of raw materials increased by approximately RMB6,817,000 or 20.9% from approximately RMB32,561,000 for the year ended 31 December 2017 to approximately RMB39,378,000 for the year ended 31 December 2018 was mainly due to the increase of quantity consumed of CPAM. CPAM was the major raw material for a kind of product in papermaking chemicals with a relatively high unit price. As sales volume of this kind of product increased for the year ended 31 December 2018, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 7.8% and 8.0% of cost of sales for the year ended 31 December 2018 and 2017, respectively. Direct labour costs increased by approximately RMB542,000 or 15.6% from approximately RMB3,483,000 to RMB4,025,000 during the comparative years.

Manufacturing overhead costs accounted for approximately 13.4% and 14.0% of cost of sales for the year ended 31 December 2018 and 2017, respectively. Manufacturing overhead costs increased by approximately RMB843,000 or 13.9% from approximately RMB6,073,000 for the year ended 31 December 2017 to approximately RMB6,916,000 for the year ended 31 December 2018.

3. Gross profit and gross profit margin

Gross profit margin decreased from 46.2% in 2017 to 42.2% in 2018. The decrease in gross profit margin was mainly attributable to the drop in gross profit margin of organic bentonite and quality calcium-bentonite by selling more products with lower gross profit margin to the customers in order to increase the sales volume.

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			
	2018		2017	
Product	***RMB'000***	*%*	*RMB'000*	*%*
Papermaking chemicals	**30,801**	**56.1**	32,222	57.5
Organic bentonite	**3,554**	**13.8**	2,570	14.4
Inorganic gel	**1,508**	**41.5**	252	40.8
Quality calcium-bentonite	**1,070**	**38.9**	1,261	38.8
Bentonite for metallurgy pellet	**376**	**38.2**	614	38.8
Other chemicals	**313**	**26.1**	294	23.4
Total	**37,622**	**42.2**	37,213	46.2

The gross profit margin of papermaking chemicals decreased slightly from 57.5% for the year ended 31 December 2017 to 56.1% for the year ended 31 December 2018. The decrease in gross profit margin was mainly due to the change of product mix in response to the market demand. The Group sold more products with lower gross profit margin for the year ended 31 December 2018.

The gross profit margin of organic bentonite was 13.8% and 14.4% for the year ended 31 December 2018 and 2017, respectively. The gross profit margin decreased by 0.6% points during the comparative years. The decrease was mainly due to the fact that the Group sold more products with lower gross profit margin to the customers in order to increase the sales volume.

The gross profit margin of inorganic gel was 41.5% and 40.8% for the year ended 31 December 2018 and 2017, respectively. The gross profit margin remained stable during the comparative years.

The gross profit margin of quality calcium – bentonite was 38.9% and 38.8% for the year ended 31 December 2018 and 2017, respectively. The gross profit margin decreased by 0.1% points during the comparative years. The decrease was mainly due to the fact that the Group sold more products with lower gross profit margin to the customers in order to increase the sales volume.

The gross profit margin of bentonite for metallurgy pellet was 38.2% and 38.8% for the year ended 31 December 2018 and 2017, respectively. The gross profit margin remained stable during the comparative years.

The gross profit margin of other chemicals was 26.1% and 23.4% for the year ended 31 December 2018 and 2017, respectively. The gross profit margin increased by 2.7% points during the comparative years.

4. Distribution costs

The distribution costs for the year ended 31 December 2018 and 2017 amounted to approximately RMB14,865,000 and RMB17,999,000, respectively. The distribution costs decreased by approximately RMB3,134,000 or 17.4% mainly because of the decrease in transportation expenses during the Year Under Review.

5. Administrative expenses

The administrative expenses increased by approximately RMB809,000 or 5.9% from approximately RMB13,780,000 for the year ended 31 December 2017 to approximately RMB14,588,000 for the year ended 31 December 2018. The increase was mainly due to the increase in amortisation of leasehold improvement expense.

6. Net impairment losses on financial assets

The net impairment losses on financial assets decreased by approximately RMB689,000 or 22.2% from approximately RMB3,108,000 for the year ended 31 December 2017 to approximately RMB2,419,000 for the year ended 31 December 2018.

7. Research and development expenses

The research and development expenses increased by approximately RMB572,000 or 11.0% from approximately RMB5,217,000 for the year ended 31 December 2017 to approximately RMB5,789,000 for the year ended 31 December 2018. The increase was mainly due to the increase in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for petrochemical engineering.

8. Other gains – net

Other gains for the year ended 31 December 2018 and 2017 amounted to approximately RMB6,967,000 and RMB645,000, respectively. The increase in other gains was mainly due to the increase in government grants from approximately RMB989,000 for the year ended 31 December 2017 to approximately RMB7,566,000 for the year ended 31 December 2018.

9. Finance income and expenses

The net finance expenses increased by approximately RMB796,000 or 15.8% from approximately RMB5,051,000 for the year ended 31 December 2017 to approximately RMB5,847,000 for the year ended 31 December 2018. The increase was mainly due to the increase of interest expenses on borrowings as a result of the increase in average bank borrowings. The borrowings were financed for working capital and capital investments in the production facilities.

10. Income tax expense

The income tax expense for the year ended 31 December 2018 was approximately RMB142,000 while it was a tax credit of approximately RMB933,000 for the year ended 31 December 2017. The increase in income tax expense was mainly due to the increase in profit before income tax, the details are set out in Note 7 to the consolidated results.

The effective tax rates were 13.1% and (12.8)% for the years ended 31 December 2018 and 2017, respectively.

11. Profit for the year attributable to the equity holders of the Company

The profit for the year attributable to the equity holders of the Company was approximately RMB939,000 for the year ended 31 December 2018 while there was a loss of approximately RMB6,364,000 for the year ended 31 December 2017.

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	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**23,945**	25,110
Finished goods	**10,227**	7,654
Low-value consumables	**130**	172
Total	**34,302**	32,936

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

Provision for impairment of inventories

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

The amount of the provision for impairment of inventories was approximately RMB602,450 at 31 December 2018 (at 31 December 2017: RMB627,000).

Inventory turnover

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

	Year ended 31 December	
	2018	2017
Average inventory turnover days *(note)*	**238**	246

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 246 days for the year ended 31 December 2017 to 238 days for the year ended 31 December 2018. The decrease in average inventory turnover days in 2018 was primarily due to the increase 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	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**50,113**	47,052
Less: provision for impairment	**(11,145)**	(6,260)
Trade receivables – net	**38,968**	40,792
Bills receivables	**3,997**	5,088
Other receivables	**6,018**	6,302
Less: provision for impairment	**(1,145)**	(310)
Other receivables – net	**4,873**	5,992
Prepayments	**2,399**	2,003
Trade and other receivables – net	**50,237**	53,875
Less: non-current portion	**(1,228)**	(1,156)
Current portion	**49,009**	52,719

Trade receivables

Trade receivables as at 31 December 2018 and 2017 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	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**50,113**	47,052
Less: provision for impairment	**(11,145)**	(6,260)
Trade receivables – net	**38,968**	40,792

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

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 180 days	**35,113**	34,009
Over 180 days and within 1 year	**2,982**	3,637
Over 1 year and within 2 years	**3,478**	2,296
Over 2 years and within 3 years	**1,801**	3,218
Over 3 years	**6,739**	3,892
Total	**50,113**	47,052

The Group's trade receivables increased by approximately RMB3,061,000 or 6.5% from approximately RMB47,052,000 as at 31 December 2017 to approximately RMB50,113,000 as at 31 December 2018. The trade receivables due over 180 days increased by approximately RMB1,957,000 or 15.0% from approximately RMB13,043,000 as at 31 December 2017 to approximately RMB15,000,000 as at 31 December 2018. The increase was mainly due to the increase in sales during the Year Under Review.

Trade receivables turnover days

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

	Year ended 31 December	
	2018	2017
Trade receivables turnover days *(note)*	**199**	214

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 2018 and 2017 were approximately 199 days and 214 days respectively. The decrease of turnover days was mainly due to the increase in revenue.

Provision for impairment of trade receivables

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

The expected loss rates of trade receivables is based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

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

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	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**16,624**	15,869
Other payables	**9,402**	8,232
Staff salaries and welfare payables	**2,275**	2,692
Advances from customers	**629**	1,113
Accrued taxes other than income tax	**1,234**	1,208
Total	**30,164**	29,114

As at 31 December 2018 and 2017, 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 RMB755,000 or 4.8% from approximately RMB15,869,000 as at 31 December 2017 to approximately RMB16,624,000 as at 31 December 2018.

Trade payables turnover days

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

	Year ended 31 December	
	2018	2017
Trade payable turnover days *(note)*	**115**	136

Note:

The number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year then divided by 2) divided by cost of sales for the year multiplied by 365. The trade payables turnover days decreased from 136 days for the year ended 31 December 2017 to 115 days for the year ended 31 December 2018, which was due to the increase in payment to our suppliers 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 generated from operating activities

The net cash inflow from operating activities for the year ended 31 December 2017 amounted to approximately RMB12,214,000 which was mainly attributable to the cash generated from operating activities amounting to approximately RMB12,699,000, as adjusted by the payment of income tax of approximately RMB485,000.

The cash generated from operating activities of approximately RMB12,699,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB9,202,000 as adjusted by (i) a decrease in trade and other receivables of approximately RMB13,787,000, (ii) an increase in inventories of approximately RMB7,966,000, and (iii) a decrease in trade and other payables of approximately RMB2,325,000.

The net cash inflow from operating activities for the year ended 31 December 2018 amounted to approximately RMB17,561,000, which was mainly attributable to the cash generated from operating activities amounted to approximately RMB17,732,000, as adjusted by the payment of income tax of approximately RMB171,000.

The cash generated from operating activities of approximately RMB17,732,000 was primarily attributable to the operating cash before changes in working capital of approximately RMB17,812,000, as adjusted by (i) an increase in trade and other receivables of approximately RMB2,009,000 due to the increase in sales of our products, (ii) a decrease in inventories of approximately RMB260,000, and (iii) an increase in trade and other payables of approximately RMB1,669,000.

2. Cash flows used in investing activities

For the year ended 31 December 2017, the Group had net cash outflow from investing activities of approximately RMB8,897,000, which was primarily attributable to (i) payment of prepaid leasing expenses and leasehold improvements of approximately RMB435,000, and (ii) purchase of property, plant and equipment of approximately RMB12,033,000, partially offset by (i) withdraw of guaranteed deposits and time deposits of approximately RMB3,500,000 and (ii) interest income received from time deposits of approximately RMB71,000.

For the year ended 31 December 2018, the Group had net cash outflow used in investing activities of approximately RMB21,071,000, which was primarily attributable to purchase of property, plant and equipment and leasehold improvement of approximately RMB21,086,000.

3. Cash flows generated from/(used in) financing activities

For the year ended 31 December 2017, the Group had net cash outflow from financing activities of approximately RMB14,531,000, which was primarily attributable to (i) repayment of borrowings of approximately RMB73,811,000, and (ii) payment of interest expenses of approximately RMB4,970,000, partially offset by the proceed from borrowings of approximately RMB64,250,000.

For the year ended 31 December 2018, the Group had net cash inflow generated from financing activities of approximately RMB23,883,000, which was primarily attributable to the proceeds from borrowings of approximately RMB86,720,000 and proceeds from issuance of placing shares of approximately RMB19,408,000, partially off-set by repayment of borrowings of approximately RMB76,299,000 and payments of interest expenses of RMB5,946,000.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2018 was approximately RMB75,471,000 (31 December 2017: approximately RMB65,050,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. **Asset-liability ratio**

As at 31 December 2018, the Group's asset-liability ratio was approximately 35.3% (31 December 2017: 35.1%), 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 2018, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB40,476,000 (31 December 2017: approximately RMB25,165,000).

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 RMB18,354,000 and RMB16,744,000 for the year ended 31 December 2018 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Year Under Review, the weight average effective annual interest rate of bank borrowings was 7.9% and the weight average effective annual interest rate of other borrowings was 4.2%. 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 2018, the Group had cash and cash equivalents of RMB22,272,000 (31 December 2017: approximately RMB1,845,000) which was mainly generated from operations of the Group and funds raised by the Company in 2018.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2018, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2018, the Group had capital commitment of approximately RMB989,000 (31 December 2017: approximately RMB5,865,000).

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 2018, 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 2018.

FUTURE OUTLOOK

In 2018, the uncertainty faced by China's economy was unresolved, and will continue in 2019 as predicted. As such, Sino-US trade friction gave rise to the biggest uncertainty, hence adding uncertainties to China's economy correspondingly. Enterprises shall adjust their own development strategies to adapt to the ever-changing market.

Under the guidance of "13th Five-Year-Plan" of the state, the papermaking industry in China has developed rapidly, and opened up the upstream market for fine paper chemical industry, taking the advantages of the gradual elimination and replacement of backward production capacity in papermaking industry, alongside the promotion and application of fine paper chemicals with continuous technological advancement.

Given that the import quota for waste paper is subject to the restriction on imported resources, the papermaking industry is increasing the domestic recycling rate of waste paper, as well as gaining the enthusiasm for the development of pulp fiber papermaking and the "forestry-pulp-paper integration" development path in their future development plan. The fine paper chemical industry shall make preparation for such development trend in advance.

In 2019, the market is full of challenges and uncertainties. The Group will continue to promote the transformation, upgrading and technological reform of our main products, optimise the product range mix and improve the market competitiveness of our products. We will step up the promotion of new products, strive to create new sources of profit and take the Company's business to the next level.

The Group's overall business strategy: improve responsiveness to the market by adopting a profit-centered, innovation-driven, market-oriented and sales-led mentality. Therefore, the Group has formulated and will implement the following strategies:

1) The Group's work focuses on promoting organic bentonite products and opening up the market scale for new products, particularly the application of organic bentonite in the fields such as paints and coatings as well as water treatment;

2) The Group will further expand the development of fine paper chemical market in Southeast Asia; and

3) The Group will promote the application of its products in the new sectors, such as pesticide adjuvants and aquaculture.

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2018, the Group had a total of 109 employees, of which 45 worked at the Group's headquarter in Changxing, and 64 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB12,556,000 (2017: RMB11,047,000). 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.

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, 11 April 2019 to Saturday, 11 May 2019 (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, 10 April 2019.

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 2018, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director/supervisor	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600 (Domestic Shares)	50.05%
Ms. Zhang Jinhua	Beneficial owner	398,400 (Domestic Shares)	1.04%
Mr. Xu Qinsi[(i)]	Interest of spouse	100,000 (Domestic Shares)	0.26%

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

Save as disclosed above, as at 31 December 2018, 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 2018, so far as the Directors, having made all reasonable enquiries, are aware, the following interests of 5% or more of the issued share capital of the Company (other than the interests of the directors, supervisors and chief executive of the Company as disclosed above) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholder	Nature of interest	Number of shares in the Company held	Interest in Underlying Shares	Total number of shares in the Company held	Approximate percentage of Issued Share Capital
Ms. Yu Hua	Beneficial owner	3,576,000 (Domestic Shares)	–	3,576,000 (Domestic Shares)	9.31%

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 2018.

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. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report. Pursuant to the meeting of the Audit Committee held on 23 March 2019, 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 2018, the results announcement, this 2018 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.

Public Float

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

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

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 2018, the Group had used up all the net proceeds of approximately 37,395,000.

Events After the Reporting Period

There is no material events after the reporting period as at the date of this 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 2018 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, 23 March 2019

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.