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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 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 12.4% to approximately RMB100,293,000 (2018: RMB89,231,000).

- Gross profit increased by 10.0% to approximately RMB41,389,000 (2018: RMB37,622,000).

- Gross profit margin down by 0.9% points to 41.3% (2018: 42.2%).

- Loss before taxation was approximately RMB782,000 (2018: Profit before taxation was approximately RMB1,081,000).

- Loss for the year ended 31 December 2019 was approximately RMB808,000 (2018: Profit for the year was approximately RMB939,000).

- Basic loss per share was approximately RMB0.02 (2018: Basic earnings per share was RMB0.03).

- The Board did not recommend the payment of any final dividends for the year ended 31 December 2019 (2018: Nil).

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained in the section headed "Events After the Reporting Period and Review of Unaudited Annual Results" of this announcement, due to the postponement of the date of resumption of work after the Chinese New Year holidays and travel restrictions in connection with the recent outbreak of coronavirus (COVID-19) epidemic, the reporting and audit process of the financial statements of the Group for the year ended 31 December 2019 has been disrupted, and the Company is unable to publish an audited annual results announcement by 31 March 2020 in accordance with the GEM Listing Rules. The unaudited consolidated financial results hereby published have not been agreed with the Company's auditors. The Company will make appropriate announcements and disclosures as and when it is aware of any material adjustment to the unaudited consolidated financial results, and will publish an announcement of the audited results for the year ended 31 December 2019 (the "**Audited Financial Results**") as soon as practicable.

In the meantime, the board (the "**Board**") of Directors of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 (the "**Year Under Review**") and selected explanatory notes, together with the comparative figures of the corresponding year in 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019 - Unaudited

	Note	Year ended 31 December 2019 (Unaudited) RMB	2018 (Audited) RMB
Revenue	3	**100,292,835**	89,231,486
Cost of sales	5	**(58,903,892)**	(51,609,582)
Gross profit		**41,388,943**	37,621,904
Distribution costs	5	**(16,363,462)**	(14,864,918)
Administrative expenses	5	**(14,321,089)**	(14,587,601)
Net impairment losses on financial assets	5	**(10,499)**	(2,419,067)
Research and development expenses	5	**(7,427,102)**	(5,789,156)
Other gains – net	4	**2,050,598**	6,966,851
Operating profit		**5,317,389**	6,928,013
Finance income	6	**193,442**	15,052
Finance expenses	6	**(6,293,079)**	(5,862,361)
Finance expenses – net	6	**(6,099,637)**	(5,847,309)
(Loss)/profit before income tax		**(782,248)**	1,080,704
Income tax expense	7	**(26,144)**	(141,620)
(Loss)/profit for the year attributable to the equity holders of the Company		**(808,392)**	939,084
Other comprehensive income		**–**	–
Total comprehensive (loss)/profit for the year attributable to the equity holders of the Company		**(808,392)**	939,084
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	8	**(0.02)**	0.03

CONSOLIDATED BALANCE SHEET
as at 31 December 2019 - Unaudited

		As at 31 December	
		2019	2018
		(Unaudited)	(Audited)
	Note	***RMB***	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		**83,313,181**	81,402,390
Right-of-use assets		**6,023,109**	6,182,192
Mining rights		**15,759**	47,278
Leasehold improvements		**11,630,667**	14,910,353
Deferred income tax assets		**3,310,219**	3,345,783
Other receivables	*10*	**–**	1,228,248
		104,292,935	107,116,244
Current assets			
Inventories	*9*	**42,894,158**	34,301,833
Trade and other receivables	*10*	**65,217,742**	49,008,624
Prepaid income tax		**569,461**	476,361
Restricted cash	*11*	**4,217**	389,618
Cash and cash equivalents	*11*	**11,883,162**	22,272,273
		120,568,741	106,448,709
Total assets		**224,861,676**	213,564,953
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*12*	**38,400,000**	38,400,000
Other reserves		**49,883,825**	49,806,255
Retained earnings		**16,903,990**	17,789,952
Total equity		**105,187,815**	105,996,207

	Note	As at 31 December 2019 (Unaudited) RMB	2018 (Audited) RMB
LIABILITIES			
Non-current liabilities			
Deferred government grants		**474,092**	513,445
Provisions for environmental rehabilitation		**1,353,152**	1,336,956
Borrowings		**8,366,000**	21,866,000
		10,193,244	23,716,401
Current liabilities			
Deferred government grants		**39,353**	83,953
Trade and other payables	*13*	**33,895,503**	30,163,867
Borrowings		**75,545,761**	53,604,525
		109,480,617	83,852,345
Total liabilities		**119,673,861**	107,568,746
Total equity and liabilities		**224,861,676**	213,564,953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1 GENERAL INFORMATION

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

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

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

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

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

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

The unaudited consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These unaudited financial statements have been approved for issue by the Board on 31 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with IFRS and HKCO

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

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value,
- assets held for sale – measured at fair value less cost to sell, and
- defined benefit pension plans – plan assets measured at fair value.

(iii) 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 2019:

- HKFRS 16 Leases
- Annual improvements to IFRSs 2017, and

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. The other amendments 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.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

The Group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.24.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- excluding of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- using of hindsight in determining the lease term where the contract contains options to extend the lease.

(ii) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by RMB1,254,594,589

- Land use rights – decrease by HK$1,050,718,413

- Prepayments – decrease by HK$1,844,109

There was no impact on retained earnings on 1 January 2019.

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.

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

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

2.5 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 Mining rights

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

2.10 Leasehold improvements

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

2.11 Impairment of non-financial assets

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

2.12 Investments and other financial assets

(i) Classification

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

- those to be measured subsequently at fair value (either through **other comprehensive income** "OCI" or through profit or loss), and

- those to be measured at amortised cost.

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

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

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

(iv) Impairment

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

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

2.13 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.

2.14 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 22 for further information about the Group's accounting for trade receivables and note 3.1 for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

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

2.16 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.

2.17 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.

2.18 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.

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

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

2.20 Borrowing costs

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

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

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

2.21 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.

2.22 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.

2.23 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.

2.24 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

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

2.27 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 Leases

As explained in note 2.1.1 above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 January 2019. The new policy is described below and the impact of the change is set out in note 2.1.1.

For the year ended 31 December 2018 and before, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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 11 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	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Papermaking chemicals series	**55,148,388**	54,904,430
Organic bentonite	**35,836,979**	25,756,988
Inorganic gel	**4,889,052**	3,632,681
Quality calcium-bentonite	**2,255,974**	2,750,788
Bentonite for metallurgy pellet	**654,800**	985,433
Others chemicals *(i)*	**1,507,642**	1,201,166
	100,292,835	89,231,486

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

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.

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

4 OTHER GAINS – NET

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Loss on disposal of property, plant and equipment – net	**–**	–
Government grants		
– Relating to assets	**83,953**	1,083,954
– Relating to costs *(i)*	**2,039,495**	6,482,400
Fine	**(36,000)**	(617,694)
Donations	**(1,530)**	(66,000)
Others	**(35,320)**	84,191
	2,050,598	6,966,851

(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.

5 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Changes in finished goods	**2,962,496**	(2,573,221)
Raw materials and consumables used	**36,756,860**	39,205,818
Employee benefit expenses	**14,485,982**	12,556,250
Utilities	**9,571,820**	5,729,785
Transportation expenses	**12,619,491**	12,177,351
Depreciation	**7,713,641**	6,642,986
Marketing and promotion expenses	**1,219,824**	356,044
Travelling and communication expenses	**2,644,037**	3,867,097
Taxes and levies	**1,166,033**	1,073,925
Amortisation of prepaid leasing expenses	**159,083**	175,517
Amortisation of mining rights	**31,520**	31,518
Audit remuneration	**900,000**	1,100,000
Professional service fees	**1,134,150**	631,751
Amortisation of leasehold improvements	**1,626,061**	1,610,511
Maintenance expenses	**1,486,373**	689,069
Entertainment expenses	**1,475,921**	2,629,840
Provision for impairment of receivables	**10,499**	2,419,067
Provision for inventories	**–**	(25,119)
Miscellaneous	**1,062,253**	972,135
Total cost of sales, distribution costs, administrative expenses, net impairment losses on financial assets and research and development expenses	**97,026,044**	89,270,324

6 FINANCE EXPENSES

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	**193,442**	15,052
Finance expenses		
– Interest expense	**(6,204,065)**	(5,945,732)
– Capitalised interest expenses	**–**	–
	(6,204,065)	(5,945,732)
– Foreign exchange (losses)/gains on borrowings and cash and cash equivalents – net	**(68,131)**	54,111
– Unrealised (losses)/gains from financial assets measured at amortised cost	**(20,883)**	29,260
	(6,293,079)	(5,862,361)
Finance expenses – net	**(6,099,637)**	(5,847,309)

7 INCOME TAX EXPENSE

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

(a) Income tax expense

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Current tax	**(9,420)**	309,588
Current tax on profits for the year	**67,979**	95,202
Adjustments for current tax of prior periods	**(58,559)**	214,386
Total current tax expense	**(9,420)**	309,588
Deferred income tax		
Decrease/(increase) in deferred tax assets	**35,564**	(167,968)
Increase/(decrease) in deferred tax liabilities	**–**	–
Total deferred tax expense/(benefit)	**35,564**	(167,968)
Income tax expense	**26,144**	141,620

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

The other subsidiary is subject to income tax rate of 25% for the years ended 31 December 2019 and 2018.

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

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

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
(Loss)/profit before tax	**(782,248)**	1,080,704
Calculated at statutory tax rate	**(195,562)**	270,176
Expenses not deductible for tax purposes	**515,869**	1,025,542
Additional deduction for research and development expenses *(i)*	**(781,856)**	(611,096)
Preferential tax rate impact of the Company	**487,693**	(543,002)
Income tax expense	**26,144**	141,620

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

(c) Tax losses

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
Unused tax losses for which no deferred tax asset has been recognised	**6,144,314**	1,898,769
Potential tax benefit	**921,647**	284,815

8 (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic loss 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 2019 and 2018.

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
(Loss)/profit attributable to the equity holders of the Company	**(808,392)**	939,084
Weighted average number of ordinary shares in issue	**38,400,000**	32,578,630
(Loss)/profit per share (RMB per share)	**(0.02)**	0.03

(b) Diluted

The fully diluted (loss)/profit per share for the years ended 31 December 2019 and 2018 is the same as the basic (loss)/profit per share as there is no dilutive potential ordinary share for the years ended 31 December 2019 and 2018.

9 INVENTORIES

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Raw materials	**35,521,809**	23,944,598
Finished goods	**7,264,534**	10,227,030
Low value consumables	**107,815**	130,205
	42,894,158	34,301,833

The amount of the provision for impairment of inventories was RMB598,686 at 31 December 2019 (2018: RMB602,450).

The cost of inventories recognised as cost of sales amounted to RMB57,841,109 and RMB42,412,710 for the years ended 31 December 2019 and 2018, respectively.

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Trade receivables	**56,971,336**	50,112,498
Less: provision for impairment	**(11,515,144)**	(11,144,899)
Trade receivables – net *(1)*	**45,456,192**	38,967,599
Bills receivable *(2)*	**10,476,740**	3,997,328
Other receivables	**3,774,941**	6,018,281
Less: provision for impairment	**(766,941)**	(1,145,482)
Other receivables – net *(3)*	**3,008,000**	4,872,799
Prepayments *(4)*	**4,752,152**	2,399,146
Trade and other receivables – net	**1,524,658**	50,236,872
Less: non-current portion *(3)*	**–**	(1,228,248)
Current portion	**65,217,742**	49,008,624

As at 31 December 2019 and 2018, 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 2019 and 2018, the trade and other receivables are all denominated in RMB.

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

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
– Within 180 days	**29,397,972**	35,112,201
– Over 180 days and within 1 year	**15,292,902**	2,982,115
– Over 1 year and within 2 years	**3,313,425**	3,478,094
– Over 2 years and within 3 years	**2,536,027**	1,800,910
– Over 3 years	**6,431,010**	6,739,178
	56,971,336	50,112,498

The credit period granted to customers is normally between 90 days to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2019 by RMB2,809,682 for trade receivables and an increase by RMB491,645 for other receivables. Note 3.1(b) provides for details about the calculation of the allowance.

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

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
At the end of last year	**11,144,899**	6,260,379
Amounts restated through opening retained earnings *(Note 3.1(b))*	**–**	2,809,682
At the beginning of the year	**11,144,899**	9,070,061
Provision for impairment *(Note 8)*	**370,245**	2,074,838
Write-off against uncollectible receivables	**–**	–
At the end of the year	**11,515,144**	11,144,899

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 borrowing of RMB1,133,427 and RMB1,226,283 as at 31 December 2019 and 2018, respectively (Note 26(2)).

(3) As at 31 December 2019 and 2018, details of other receivables are as follows:

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Non-current:		
Guaranteed deposits for environmental rehabilitation	**–**	1,228,248
Current:		
Related party borrowing	**297,775**	278,900
Staff advances	**2,033,061**	3,050,551
Deposits	**435,466**	688,906
Others	**1,008,638**	771,676
Current subtotal	**3,774,940**	4,790,033
Total	**3,774,940**	6,018,281

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

	Year ended 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
At the end of last year	**1,145,482**	309,608
Change in accounting policy	**–**	491,645
At the beginning of the year	**1,145,482**	801,253
Provision for impairment	**(378,541)**	344,229
At the end of the year	**766,941**	1,145,482

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

(4) As at 31 December 2019 and 2018, prepayments are in connection with:

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Purchase of raw materials	**4,642,610**	2,084,999
Service fees	**109,542**	314,147
	4,752,152	2,399,146

11 CASH AND BANK BALANCES

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Cash at bank and on hand *(1)*	**11,887,380**	22,661,891
Less: Restricted cash *(2)*	**(4,217)**	(389,618)
Cash and cash equivalents	**11,883,162**	22,272,273

Cash at bank and in hand are denominated in:

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
– RMB	**11,886,896**	5,656,897
– HKD	**484**	17,004,994
	11,887,380	22,661,891

(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 2019 and 2018.

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

	As at 31 December	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Guaranteed deposits	**4,217**	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 (Note 22).

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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 16 January 2015. The listing proceeds to the Company, netting off listing expenses, were 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 equaled 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	
	2019	2018
	(Unaudited)	(Audited)
	RMB	*RMB*
Trade payables	**22,277,247**	16,624,194
Other payables	**7,299,680**	9,401,764
Staff salaries and welfare payables	**2,919,977**	2,274,996
Advances from customers	**501,199**	628,570
Accrued taxes other than income tax	**897,400**	1,234,343
	33,895,503	30,163,867

As at 31 December 2019 and 2018, 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 2019 and 2018, 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 2019 (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Bentonite is a clay mineral with the highest application value among non-metallic minerals. As a kind of natural mineral, bentonite is widely used in industries such as petroleum, metallurgy, casting, machinery, ceramics, construction, light industry, papermaking, textile, food and others. Due to its unique mineral structure, chemical characteristics of crystals and excellent physical and chemical properties. It plays an important role as a binder, adsorbent, filler, thixotropic agent, flocculant, detergent, stabilizer and thickener. At present, the domestic and international application research of bentonite is developing towards a higher level with more functions and being environmental friendly.

The main products of the Group are mainly used in two areas: 1/papermaking, and 2/paints and coatings. Among other things, the functional and environmental friendly concept of bentonite in the application of thickening and water-retaining materials and rheological additives for paints and coatings is in line with the development trend of the coating industry nowadays.

Coatings are indispensable supporting materials used in various areas of the national economy, which have been widely used in the decorative protection of various buildings, various industrial products, such as aircraft, rockets, satellites, automobiles, ships, machinery, electronics, light industrial and home appliances and others; and the corrosion protection of various steel facilities, such as terminals, offshore oil drilling platforms, petrochemical equipment, transmission pipelines, transmission towers, bridges and others. With the development of the national economy and the improvement of people's living standards, the scope of application of coatings has been expanding, and the consumption level of coatings has become one of the important indicators of the level of economic development of a country. As the world's largest producer and consumer of coatings, China has plenty of room for market development in coatings.

The report of the 18th National Congress of the Communist Party of China proposed to strive to build a "Beautiful China", of which the concept has become a signpost for exploring a new path to environmental protection in China. As a traditional "three high industry", the coatings industry is facing a lot of environmental concerns. For the coatings industry, the concept of "Beautiful China" will definitely drive the market demand of green coatings. Water-based coatings use water to replace chemical solvents as the dispersion medium. It can greatly reduce the emission of solvents and significantly reduce environmental pollution, pursuing the development of green coatings.

After decades of rapid development of the papermaking industry in China, China has become the world's largest paper manufacturing country. Since the implementation of the "13th Five-Year Plan", the State has introduced a "supply-side structural reform" and a rigid environmental protection policy "protecting the clean water and blue sky", and the market started to recover. The papermaking industry has begun to enter into a deep adjustment period.

The State has proposed a development strategy of "innovation, coordination, going green, openness and sharing". Under the influence of national industrial policies and the trend of environmental protection, it is expected that the papermaking industry in China will remain focus on integration, reform and development in the next few years.

BUSINESS REVIEW

In 2019, the Group stepped up the promotion of paints and coatings bentonite as well as bentonite for water treatment, and its products gradually gained recognition from domestic customers. The Group also enhanced the recognition of its brand, Renheng by participating in the Shanghai International Coatings Exhibition Platform to showcase the Group's products to both domestic and overseas customers.

The Group's organic bentonite products gained recognition from both domestic and overseas customers, and their share to the revenue increased gradually. The Group continued to focus on the development of overseas markets. We have consolidated our southeast Asia market and developed the Middle East market successfully.

The Group attached great importance to the research and development of new products and technology. During the Year Under Review, the research and development expenses of the Group was RMB7.4 million. The Group also undertook the development of two new products at provincial level in 2019 and filed two patents of invention.

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			
	2019		2018	
	(Unaudited)		(Audited)	
Product	***RMB'000***	***%***	*RMB'000*	*%*
Papermaking chemicals series	**55,148**	**55.0**	54,904	61.5
Organic bentonite	**35,837**	**35.7**	25,757	28.9
Inorganic gel	**4,889**	**4.9**	3,633	4.1
Quality calcium-bentonite	**2,256**	**2.2**	2,751	3.1
Bentonite for metallurgy pellet	**655**	**0.7**	985	1.1
Other chemicals *(i)*	**1,508**	**1.5**	1,201	1.3
Total	**100,293**	**100.0**	89,231	100.0

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

Revenue from sales of papermaking chemicals series increased by approximately RMB244,000 or 0.4% from approximately RMB54,904,000 for the year ended 31 December 2018 to approximately RMB55,148,000 for the year ended 31 December 2019. As the average unit selling price remained stable for the comparative periods, the increase in revenue was mainly due to the increase in sales volume, which increased by approximately 0.7% from approximately 11,700 tonnes for the year ended 31 December 2018 to approximately 11,782 tonnes for the year ended 31 December 2019.

Revenue from sales of organic bentonite increased by approximately RMB10,080,000 or 39.1% from approximately RMB25,757,000 for the year ended 31 December 2018 to approximately RMB35,837,000 for the year ended 31 December 2019. 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 RMB1,256,000 or 34.6% from approximately RMB3,633,000 for the year ended 31 December 2018 to approximately RMB4,889,000 for the year ended 31 December 2019. The increase was mainly due to the increase in sales volume.

Revenue of quality calcium-bentonite for the year ended 31 December 2019 decreased by approximately RMB495,000 or 18.0% to approximately RMB2,256,000 as compared to approximately RMB2,751,000 for the year ended 31 December 2018. 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 RMB330,000 or 33.5% from approximately RMB985,000 for the year ended 31 December 2018 to approximately RMB655,000 for the year ended 31 December 2019.

Revenue of other chemicals for the year ended 31 December 2019 increased by approximately RMB307,000 or 25.6% to approximately RMB1,508,000 as compared to approximately RMB1,201,000 for the year ended 31 December 2018. 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			
	2019		2018	
	(Unaudited)		(Audited)	
	RMB'000	*%*	*RMB'000*	*%*
Cost of raw materials and consumable	**45,332**	**77.0**	39,378	76.3
Direct labour costs	**4,314**	**7.3**	4,025	7.8
Manufacturing overhead cost	**7,844**	**13.3**	6,916	13.4
Others	**1,414**	**2.4**	1,290	2.5
Total	**58,904**	**100.0**	51,609	100.0

The cost of sales increased by approximately RMB7,295,000 or 14.1% from approximately RMB51,609,000 for the year ended 31 December 2018 to approximately RMB58,904,000 for the year ended 31 December 2019.

Cost of raw materials accounted for approximately 77.0% and 76.3% of cost of sales for the year ended 31 December 2019 and 2018, respectively. The cost of raw materials increased by approximately RMB5,954,000 or 15.1% from approximately RMB39,378,000 for the year ended 31 December 2018 to approximately RMB45,332,000 for the year ended 31 December 2019 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 2019, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 7.3% and 7.8% of cost of sales for the year ended 31 December 2019 and 2018, respectively. Direct labour costs increased by approximately RMB289,000 or 7.2% from approximately RMB4,025,000 to RMB4,314,000 during the comparative years.

Manufacturing overhead costs accounted for approximately 13.3% and 13.4% of cost of sales for the year ended 31 December 2019 and 2018, respectively. Manufacturing overhead costs increased by approximately RMB928,000 or 13.4% from approximately RMB6,916,000 for the year ended 31 December 2018 to approximately RMB7,844,000 for the year ended 31 December 2019.

3. Gross profit and gross profit margin

Gross profit margin decreased from 42.2% in 2018 to 41.3% in 2019. 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.

4. Distribution costs

The distribution costs for the year ended 31 December 2019 and 2018 amounted to approximately RMB16,363,000 and RMB14,865,000, respectively. The distribution costs increased by approximately RMB1,498,000 or 10.1% mainly because of the increase in transportation expenses during the Year Under Review.

5. Administrative expenses

The administrative expenses decreased by approximately RMB267,000 or 1.8% from approximately RMB14,588,000 for the year ended 31 December 2018 to approximately RMB14,321,000 for the year ended 31 December 2019.

6. Net impairment loss on financial assets

The net impairment loss on financial assets decreased by approximately RMB2,409,000 or 99.6% from approximately RMB2,419,000 for the year ended 31 December 2018 to approximately RMB10,000 for the year ended 31 December 2019.

7. Research and development expenses

The research and development expenses increased by approximately RMB1,638,000 or 28.3% from approximately RMB5,789,000 for the year ended 31 December 2018 to approximately RMB7,427,000 for the year ended 31 December 2019. 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 2019 and 2018 amounted to approximately RMB2,051,000 and RMB6,967,000, respectively. The decrease in other gains was mainly due to the decrease in government grants from approximately RMB7,566,000 for the year ended 31 December 2018 to approximately RMB2,123,000 for the year ended 31 December 2019.

9. Finance income and expenses

The net finance expenses increased by approximately RMB253,000 or 4.3% from approximately RMB5,847,000 for the year ended 31 December 2018 to approximately RMB6,100,000 for the year ended 31 December 2019. 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 2019 was approximately RMB26,000, decreased by approximately RMB116,000 or 81.7% when compared to approximately RMB142,000 for the year ended 31 December 2018. The decrease in income tax expense was mainly due to the decrease in profit before income tax, the details are set out in Note 7 to the consolidated financial statements in this announcement.

The effective tax rates were (3.3)% and 13.1% for the years ended 31 December 2019 and 2018, respectively.

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

The loss for the year attributable to the equity holders of the Company was approximately RMB808,000 for the year ended 31 December 2019, while there was a profit of approximately RMB939,000 for the year ended 31 December 2018.

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	
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Raw materials	**35,522**	23,945
Finished goods	**7,264**	10,227
Low-value consumables	**108**	130
Total	**42,894**	34,302

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 RMB560,000 at 31 December 2019 (at 31 December 2018: RMB602,450).

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	
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade receivables	**56,971**	50,113
Less: provision for impairment	**(11,515)**	(11,145)
Trade receivables – net	**45,456**	38,968
Bills receivables	**10,477**	3,997
Other receivables	**3,775**	6,018
Less: provision for impairment	**(767)**	(1,145)
Other receivables – net	**3,008**	4,873
Prepayments	**4,752**	2,399
Trade and other receivables – net	**1,525**	50,237
Less: non-current portion	**–**	(1,228)
Current portion	**65,218**	49,009

Trade receivables

Trade receivables as at 31 December 2019 and 2018 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	
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade receivables	**56,971**	50,113
Less: provision for impairment	**(11,515)**	(11,145)
Trade receivables – net	**45,456**	38,968

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	
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Within 180 days	**29,398**	35,113
Over 180 days and within 1 year	**15,293**	2,982
Over 1 year and within 2 years	**3,313**	3,478
Over 2 years and within 3 years	**2,536**	1,801
Over 3 years	**6,431**	6,739
Total	**56,971**	50,113

The Group's trade receivables increased by approximately RMB6,858,000 or 13.7% from approximately RMB50,113,000 as at 31 December 2018 to approximately RMB56,971,000 as at 31 December 2019. The trade receivables due over 180 days increased by approximately RMB12,573,000 or 83.8% from approximately RMB15,000,000 as at 31 December 2018 to approximately RMB27,573,000 as at 31 December 2019. The increase was mainly due to the increase in sales during the Year Under Review.

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 2019 or 1 January 2019 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	
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade payables	**22,277**	16,624
Other payables	**7,300**	9,402
Staff salaries and welfare payables	**2,920**	2,275
Advances from customers	**501**	629
Accrued taxes other than income tax	**897**	1,234
Total	**33,895**	30,164

As at 31 December 2019 and 2018, 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 RMB5,653,000 or 34.0% from approximately RMB16,624,000 as at 31 December 2018 to approximately RMB22,277,000 as at 31 December 2019.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2019 was approximately RMB83,912,000 (31 December 2018: approximately RMB75,471,000). 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 2019, the Group's asset-liability ratio was approximately 37.3% (31 December 2018: 35.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. Pledge of assets

As at 31 December 2019, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB28,844,000 (31 December 2018: approximately RMB27,927,000).

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 RMB9,182,000 and RMB18,354,000 for the year ended 31 December 2019 and 2018, 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 7.91% and the weight average effective annual interest rate of other borrowings was 3.28%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2019, the Group had cash and cash equivalents of RMB11,883,000 (31 December 2018: approximately RMB22,272,000) which was mainly generated from operations of the Group.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2019, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2019, the Group had capital commitment of approximately RMB764,000 (31 December 2018: approximately RMB989,000).

SEGMENT INFORMATION

The chief operating decision-maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of production and sales of bentonite clay products and all of the Group's operations are carried out in China. Therefore, management considers there is only one operating segment, under the requirements of 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 2019, 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 2019.

FUTURE OUTLOOK

We believe everyone can feel the pressure on the economy in 2019 which was just over. With the signing of the China-US phase one trade deal, we believe that the economy will become better in 2020. However, uncertainties arising from trade conflicts will sustain. At the same time, the recent outbreak of coronavirus in China has negative impacts on China's economy and our business. Thus, the Group will make adjustments on the strategy to enhance the competitiveness of our products and adapt to the ever-changing market.

The papermaking industry has entered into an era of consolidation. First of all, the phasing out and consolidation of the small and medium-sized enterprises increase the market share held by quality medium to large enterprises. Market barrier is gradually formed due to factors such as economies of scale and asset effect, and the market will enter into a development stage of stable competition. This situation to the fine paper chemical market, is both a challenge and an opportunity. The Group will continue to uphold the market strategy to maintain the base of "major clients".

With the rapid developments of railway transportation, construction equipment, automobile and other relevant industries, as well as the continuous improvements in various relevant domestic environmental protection regulations, water-based industrial paintings applicable to industrial painting has a broad market prospect. Technology innovation becomes the main stream of the industry's development, and craftsmanship and products featuring clean production, energy saving and environmental protection, cyclic economy and high functionality will become the new sources of growth of the industry's development. The Group will seize the opportunity presented by the trend of industrial paintings "switching from lacquer-based to water-based" and develop relevant bentonite adjuvants in order to satisfy the demand in the field of water-based paintings and expand the market.

In front of the complex and critical situations both local and overseas in 2020, as well as the uncertainty of economic development, challenges for business operation become bigger. The Group will continue to uphold the development strategy of adopting a profit-centered, innovation-driven, market-oriented and sales-led principle, and will continue to promote the work of product reform and technology enhancement to satisfy market demand and create new sources of growth. Therefore, the Group will uphold the following strategies:

1) The Group will continue to consolidate the base of "major clients" in the field of fine paper chemical;

2) The Group will continue to promote products such as bentonite and paintings and coatings and bentonite for water-based industrial paintings, and, through promotional platforms such as exhibitions, showcase the Group's products to both domestic and overseas customers; and

3) The Group will gradually develop international markets and consolidate the southeast Asia and Middle East markets.

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2019, the Group had a total of 105 employees, of which 43 worked at the Group's headquarter in Changxing, and 62 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB14,486,000 (2018: RMB12,556,000). 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

For the purpose of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Thursday, 14 May 2020, the register of members of the Company will be closed from Monday, 13 April 2020 to Thursday, 14 May 2020 (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 Thursday, 9 April 2020.

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 2019, 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 2019, 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 2019, 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 2019.

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. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan, who are Independent Non-executive Directors. Mr. Zhang, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

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

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. Pursuant to the meeting of the Audit Committee held on 31 March 2020, the Audit Committee has, together with the management of the Company, reviewed the unaudited consolidated financial statements for the year ended 31 December 2019, this unaudited results announcement, 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.

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

For the year ended 31 December 2019, 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 on 29 November 2018

The issue of in total 6,400,000 H Shares was completed in full on 29 November 2018 from which the net proceeds were approximately HK$22.15 million (equivalent to approximately RMB19.37 million).

As at 31 December 2019, all the net proceeds from the Placing has been utilised as follows:

Planned use of net proceeds	**Planned use of net proceeds** *(RMB million)*	**Actual utilised amount as at 31 December 2019** *(RMB million)*
Business development of the Group	4.84	4.84
Research and development of new bentonite products, including mainly bentonite fine chemicals for producing pharmaceutical products	3.87	3.87
Investment in environmental protection facilities for production	3.88	3.88
Construction of mining production safety facilities and keep track of customers' demand and enhancing product applications	1.94	1.94
Replenishing the general working capital of the Group	4.84	4.84
Total	19.37	19.37

EVENTS AFTER THE REPORTING PERIOD AND REVIEW OF UNAUDITED ANNUAL RESULTS

The reporting and audit processes of the Group's financial statements for the year ended 31 December 2019 has been disrupted due to the postponement of the date of resumption of work after the Chinese New Year holidays and travel restrictions in connection with the recent outbreak of coronavirus (COVID-19) epidemic, and the Company is unable to publish an audited annual results announcement by 31 March 2020 in accordance with the GEM Listing Rules.

The Company will publish an announcement of the audited annual results in accordance with the GEM Listing Rules as soon as practicable.

The unaudited annual results contained in this announcement have been reviewed by the Audit Committee but have not been agreed by the Company's auditors.

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the Audited Financial Results as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained in this announcement; and (ii) circumstances arising from the audit of the Group or financial statements which constitute price sensitive information (if any). In addition, the Company will issue further announcement(s) as and when necessary if there are other material developments in the completion of the auditing process.

The COVID-19 outbreak since the end of 2019 has brought about additional uncertainties to the Group's operating environment and may have impact on the Group's operating and financial position. The Group has been closely monitoring the impact from the COVID-19 epidemic on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this announcement. However, the actual impacts may differ from these estimates as the situation continues to evolve when further information becomes available.

The financial information contained in this announcement in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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 2019 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, 31 March 2020

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

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.