



长安仁恒

Zhejiang Chang'an Renheng Technology Co., Ltd.*

浙江长安仁恒科技股份有限公司

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

(Stock Code: 8139)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED
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This announcement, for which the directors (the "Directors") of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("the GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and 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

For the six months ended 30 June 2020, the financial highlights were as follows:

- Revenue increased by 10.1% to approximately RMB49,089,000 (2019: RMB44,588,000).
- Gross profit increased by 11.3% to approximately RMB20,940,000 (2019: RMB18,816,000).
- Gross profit margin was 42.7% (2019: 42.2%).
- Profit for the six months ended 30 June 2020 increased by 513.8% to approximately RMB1,731,000 (2019: RMB282,000).
- Basic earnings per share increased by 542.9% to approximately RMB0.045 (2019: RMB0.007).
- The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2020 (2019: nil).

UNAUDITED INTERIM RESULTS OF 2020

The board (the “Board”) of directors (the “Directors”) of Zhejiang Chang’an Renheng Technology Co., Ltd. (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2019 as follows:

Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2020

		Three months ended 30 June		Six months ended 30 June	
		2020 RMB (unaudited)	2019 RMB (unaudited)	2020 RMB (unaudited)	2019 RMB (unaudited)
	Note				
Revenue	5	32,356,087	25,594,979	49,088,726	44,588,376
Cost of sales		(18,803,094)	(14,775,086)	(28,149,083)	(25,772,263)
Gross profit		13,552,993	10,819,893	20,939,643	18,816,113
Distribution costs		(3,575,539)	(4,053,571)	(6,483,495)	(6,622,460)
Administrative expenses		(3,732,320)	(2,900,686)	(6,847,688)	(5,992,871)
Research and development expenses		(1,704,503)	(2,003,548)	(3,059,756)	(3,088,253)
Other gains – net	6	50,764	128,377	163,554	592,309
Operating profit		4,591,395	1,990,465	4,712,258	3,704,838
Finance income		9,430	2,369	9,812	7,440
Finance expenses		(1,398,467)	(1,500,127)	(2,846,505)	(3,116,495)
Finance expenses – net	7	(1,389,037)	(1,497,758)	(2,836,693)	(3,109,055)
Profit before income tax	9	3,202,358	492,707	1,875,565	595,783
Income tax expense	8	(438,469)	(261,623)	(145,027)	(313,929)
Profit for the period attributable to the equity holders of the Company		2,763,889	231,084	1,730,538	281,854
Other comprehensive income		–	–	–	–
Total comprehensive income for the period attributable to the equity holders of the Company		2,763,889	231,084	1,730,538	281,854
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	10	0.072	0.006	0.045	0.007
Dividends	11	–	–	–	–

Condensed consolidated balance sheet (unaudited)

As at 30 June 2020

		30 June 2020 RMB (unaudited)	31 December 2019 RMB (audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	12	83,040,604	83,313,181
Right-of-use assets		5,946,782	6,038,868
Leasehold improvements		11,655,423	11,630,667
Deferred income tax assets	13	3,496,029	3,503,698
		104,138,838	104,486,414
Current assets			
Inventories		45,370,306	42,894,158
Trade and other receivables	13	69,955,282	65,098,637
Prepaid income tax		532,649	569,462
Restricted cash		855	4,217
Cash and cash equivalents		5,109,700	11,883,162
		120,968,792	120,449,636
Total assets		225,107,630	224,936,050
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	14	38,400,000	38,400,000
Other reserves		49,569,370	49,569,370
Retained earnings		18,856,139	17,125,601
Total equity		106,825,509	105,094,971
LIABILITIES			
Non-current liabilities			
Deferred government grants		447,857	474,092
Provisions for environmental rehabilitation		1,520,370	1,520,370
Borrowings		8,366,000	8,366,000
		10,334,227	10,360,462

		30 June 2020 RMB (unaudited)	31 December 2019 RMB (audited)
	<i>Note</i>		
Current liabilities			
Deferred government grants		39,353	39,353
Trade and other payables	15	36,129,630	33,895,503
Borrowings		71,778,911	75,545,761
		<u>107,947,894</u>	<u>109,480,617</u>
Total liabilities		<u>118,282,121</u>	<u>119,841,079</u>
Total equity and liabilities		<u>225,107,630</u>	<u>224,936,050</u>

Condensed consolidated statement of changes in equity (unaudited)*For the six months ended 30 June 2020*

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital	Other reserves	Retained earnings	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
As at 1 January 2019	38,400,000	49,806,255	17,789,952	105,996,207
Comprehensive income				
Profit for the period	—	—	281,854	281,854
Total comprehensive income for the period	—	—	281,854	281,854
Appropriation to safety fund	—	88,228	(88,228)	—
Utilisation of safety fund	—	(57,913)	57,913	—
As at 30 June 2019	<u>38,400,000</u>	<u>49,836,570</u>	<u>18,041,491</u>	<u>106,278,061</u>
As at 1 January 2020	38,400,000	49,569,370	17,125,601	105,094,971
Comprehensive income				
Profit for the period	—	—	1,730,538	1,730,538
Total comprehensive income for the period	—	—	1,780,538	1,780,538
As at 30 June 2020	<u>38,400,000</u>	<u>49,569,370</u>	<u>18,856,139</u>	<u>106,825,509</u>

Condensed consolidated cash flow statement (unaudited)*For the six months ended 30 June 2020*

	Six months ended 30 June	
	2020	2019
	RMB (unaudited)	RMB (unaudited)
Net cash generated from/(used in) operating activities	<u>4,474,178</u>	<u>(11,767,440)</u>
Net cash used in investing activities	<u>(4,634,287)</u>	<u>(4,914,617)</u>
Net cash used in financing activities	<u>(6,819,950)</u>	<u>(2,119,350)</u>
Net decrease in cash and cash equivalents	(6,980,059)	(18,801,407)
Cash and cash equivalents at beginning of the period	11,883,162	22,272,274
Exchange difference on cash and cash equivalents	<u>206,597</u>	<u>(47,036)</u>
Cash and cash equivalents at end of the period	<u><u>5,109,700</u></u>	<u><u>3,423,831</u></u>

Notes to the Condensed Consolidated Financial Information (Unaudited)

For the six months ended 30 June 2020

1 GENERAL INFORMATION

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

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

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

The Company's H shares were listed on the GEM of the Stock Exchange on 16 January 2015 (the "Listing").

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

2 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim financial reporting', and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2020 do not have a material impact on the results and financial position of the Group.

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

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

4 SEGMENT INFORMATION

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

5 REVENUE

	Six months ended 30 June	
	2020	2019
	RMB	RMB
	(unaudited)	(unaudited)
Papermaking chemicals	24,369,678	26,690,891
Organic bentonite	19,016,225	13,508,818
Inorganic gel	3,083,601	1,847,429
Bentonite for metallurgy pellet	151,737	380,699
Quality calcium-bentonite	578,717	1,510,531
Other chemicals (<i>Note</i>)	1,888,768	650,008
	<u>49,088,726</u>	<u>44,588,376</u>

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

6 OTHER GAINS – NET

	Six months ended 30 June	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)
Government grants		
– Relating to assets	83,953	41,977
– Relating to costs	126,148	560,332
Charity donations	(50,000)	–
Others	3,453	(10,000)
	<u>163,554</u>	<u>592,309</u>

7 FINANCE EXPENSES – NET

	Six months ended 30 June	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)
Finance income		
– Interest income derived from bank deposits	9,812	7,440
Finance expenses		
– Interest expense	(3,053,100)	(3,069,459)
– Capitalised interest expense	–	–
	(3,053,100)	(3,069,459)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	206,595	(47,036)
– Unrealised financial charges from financial assets measured at amortised cost	–	–
	<u>(2,846,505)</u>	<u>(3,116,495)</u>
Finance expenses – net	<u>(2,836,693)</u>	<u>(3,109,055)</u>

8 PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)
Profit for the period has been arrived after charging:		
Depreciation	3,557,860	3,237,066
Amortisation of leasehold land and land use rights	82,759	82,578
Amortisation of mining rights	15,760	15,760
Amortisation of leasehold improvements	<u>343,650</u>	<u>1,482,628</u>

9 INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
	(unaudited)	(unaudited)
Current income tax	137,358	1,440
Deferred income tax	<u>7,669</u>	<u>312,489</u>
	<u>145,027</u>	<u>313,929</u>

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

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

The other subsidiaries are subject to income tax rate of 25% for the six months ended 30 June 2020 and 2019.

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

	Six months ended 30 June	
	2020	2019
	RMB	RMB
	(unaudited)	(unaudited)
Profit before tax	<u>1,875,565</u>	<u>595,783</u>
Calculated at statutory tax rate	468,891	148,946
Expenses not deductible for tax purposes	140,423	610,593
Additional deduction for research and development expense (<i>Note</i>)	(573,705)	(386,032)
Preferential tax rate impact of the Company	1,947	(59,578)
Unused tax losses for which no deferred tax asset has been recognised	<u>107,471</u>	<u>–</u>
Income tax expense	<u><u>145,027</u></u>	<u><u>313,929</u></u>

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

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2020 and 2019.

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Profit attributable to the equity holders of the Company (<i>RMB</i>)	1,730,538	281,854
Weighted average number of ordinary shares in issue	38,400,000	38,400,000
Basic earnings per share (<i>RMB per share</i>)	0.045	0.007

(b) Diluted

The fully diluted earnings per share for the six months ended 30 June 2020 and 2019 is the same as the basic earnings per share as there is no dilutive potential ordinary share for the six months ended 30 June 2020 and 2019.

11 DIVIDENDS

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately RMB3,347,000 (2019: RMB1,254,000).

13 TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB (unaudited)	31 December 2019 RMB (audited)
Trade receivables (<i>Note</i>)	60,092,940	56,971,336
Less: provision for impairment	<u>(11,553,421)</u>	<u>(11,553,421)</u>
Trade receivables – net	<u>48,539,519</u>	<u>45,417,915</u>
Bills receivable	10,309,918	10,476,740
Other receivables	5,601,635	3,774,940
Less: provision for impairment	<u>(847,768)</u>	<u>(847,768)</u>
Other receivables – net	<u>4,753,867</u>	<u>2,927,172</u>
Prepayments	<u>6,351,978</u>	<u>6,276,810</u>
Trade and other receivables – net	<u>69,955,282</u>	<u>65,098,637</u>
Less: non-current portion	<u>–</u>	<u>–</u>
Current portion	<u><u>69,955,282</u></u>	<u><u>65,098,637</u></u>

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

	30 June 2020 RMB (unaudited)	31 December 2019 RMB (audited)
– Within 180 days	38,907,659	41,250,893
– Over 180 days and within 1 year	8,357,277	3,439,981
– Over 1 year and within 2 years	2,124,531	3,313,425
– Over 2 years and within 3 years	2,489,836	2,536,027
– Over 3 years	<u>8,213,637</u>	<u>6,431,010</u>
	<u><u>60,092,940</u></u>	<u><u>56,971,336</u></u>

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

14 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Ordinary shares	
	<i>Number</i>	<i>RMB</i>
As at 30 June 2020 (unaudited)	<u>38,400,000</u>	<u>38,400,000</u>

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

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

15 TRADE AND OTHER PAYABLES

	30 June 2020 RMB (unaudited)	31 December 2019 RMB (audited)
Trade payables	24,053,090	22,277,247
Other payables	7,851,226	7,299,680
Staff salaries and welfare payables	2,164,709	2,919,977
Advances from customers	1,098,383	501,199
Accrued taxes other than income tax	962,222	897,400
	<u>36,129,630</u>	<u>33,895,503</u>

The ageing analysis of the trade payables is as follows:

	30 June 2020 RMB (unaudited)	31 December 2019 RMB (audited)
Trade payables		
– Within 6 months	19,558,930	18,505,991
– Over 6 months and within 1 year	565,672	102,736
– Over 1 year and within 2 years	356,960	202,381
– Over 2 years and within 3 years	218,516	252,893
– Over 3 years	3,353,012	3,213,246
	<u>24,053,090</u>	<u>22,277,247</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Since the outbreak of the novel coronavirus (COVID-19) epidemic (the “Epidemic”) in early 2020, the Chinese government authorities have taken a timely approach to adopt Epidemic prevention measures, such as temporarily closing public places, checking the travel routes of employees, and restricting employees from returning to work at local enterprises. As a result, the Group’s factories in China had halted production for nearly a month to prevent the spread of the Epidemic. At present, the Group is carrying out normal operations. Due to the fact that the Epidemic in China as at the date of this announcement turned to become more stable, it did not result in material adverse impacts on the Group’s production. However, due to the worsening situation of the Epidemic in overseas markets, our sales and profit have suffered adverse impacts to a certain extent, and the management has been assessing the impact brought by the Epidemic on the financial results of the Group for the next few months. Based on the development of the Epidemic outside China, we will adjust our sales model and profit forecast in time. At the moment, we expect the development of the Epidemic will not result in significant adverse impacts to the Group’s continuing operation.

During the Reporting Period, in accordance with our business development plan, the Group explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including waterborne coating stabilizer and paint mist wastewater treatment agent. Both of these new products have been applied to some of the customers and the effect has been positive, which provides new sources of profit for the Company.

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.

Financial Review

Revenue

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

Product	For the six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Papermaking chemicals	24,370	49.7	26,691	59.9
Organic bentonite	19,016	38.7	13,509	30.3
Inorganic gel	3,084	6.3	1,847	4.1
Bentonite for metallurgy pellet	152	0.3	381	0.8
Quality calcium-bentonite	579	1.2	1,510	3.4
Other chemicals	1,888	3.8	650	1.5
Total	<u>49,089</u>	<u>100.0</u>	<u>44,588</u>	<u>100.0</u>

Revenue from sales of papermaking chemicals decreased by approximately RMB2,321,000 or 8.7% from approximately RMB26,691,000 for the six months ended 30 June 2019 to approximately RMB24,370,000 for the six months ended 30 June 2020. As the average unit selling price remained similar for the comparative periods, the decrease in revenue was mainly due to the drop in sales volume, which decreased by approximately 8.2% from approximately 6,663 tonnes for the six months ended 30 June 2019 to approximately 6,117 tonnes for the six months ended 30 June 2020.

Revenue from sales of organic bentonite increased by approximately RMB5,507,000 or 40.8% from approximately RMB13,509,000 for the six months ended 30 June 2019 to approximately RMB19,016,000 for the six months ended 30 June 2020. The increase was mainly due to the increase in the sales volume.

Revenue from sales of inorganic gel increased by approximately RMB1,237,000 or 67.0% from approximately RMB1,847,000 for the six months ended 30 June 2019 to approximately RMB3,084,000 for the six months ended 30 June 2020. The increase was mainly due to the increase in sales volume.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB229,000 or 60.1% from approximately RMB381,000 for the six months ended 30 June 2019 to approximately RMB152,000 for the six months ended 30 June 2020. The decrease was mainly due to the decrease in sales volume.

Revenue of quality calcium-bentonite decreased by approximately RMB931,000 or 61.7% from approximately RMB1,510,000 for the six months ended 30 June 2019 to approximately RMB579,000 for the six months ended 30 June 2020. 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 other chemicals increased by approximately RMB1,238,000 or 190.5% from approximately RMB650,000 for the six months ended 30 June 2019 to approximately RMB1,888,000 for the six months ended 30 June 2020. Other chemicals mainly comprise flocculating agents which are principally applied in the coating preparation industry.

Cost of sales

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

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost of raw materials	21,280	75.6	19,535	75.8
Direct labour costs	1,745	6.2	1,675	6.5
Manufacturing overhead costs	4,395	15.6	3,969	15.4
Others	729	2.6	593	2.3
Total	<u>28,149</u>	<u>100.0</u>	<u>25,772</u>	<u>100.0</u>

The cost of sales increased by approximately RMB2,377,000 or 9.2% from approximately RMB25,772,000 for the six months ended 30 June 2019 to approximately RMB28,149,000 for the six months ended 30 June 2020.

Cost of raw materials accounted for approximately 75.6% and 75.8% of cost of sales for the six months ended 30 June 2020 and 2019 respectively. The cost of raw materials increased by approximately 8.9% from approximately RMB19,535,000 for the six months ended 30 June 2019 to approximately RMB21,280,000 for the six months ended 30 June 2020. The increase was mainly due to the increase of quantity consumed of CPAM. CPAM was the major raw material for a kind of product in papermaking chemicals with a relatively high unit price. As sales volume of this kind of product increased for the six months ended 30 June 2020, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 6.2% and 6.5% of cost of sales for the six months ended 30 June 2020 and 2019, respectively. Direct labour costs remained stable during the comparative periods.

Manufacturing overhead costs accounted for approximately 15.6% and 15.4% of cost of sales for the six months ended 30 June 2020 and 2019 respectively. Manufacturing overhead costs increased by approximately 10.7% from approximately RMB3,969,000 for the six months ended 30 June 2019 to approximately RMB4,395,000 for the six months ended 30 June 2020.

Gross profit and gross profit margin

Gross profit margin increased slightly from 42.2% for the six months ended 30 June 2019 to 42.7% for the six months ended 30 June 2020. The increase in gross profit margin was mainly attributable to the change in sales mix for the Reporting Period.

The table below sets out the Group's gross profit and gross profit margin by product for the periods indicated:

Product	For the six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Papermaking chemicals	14,939	61.3	15,186	56.9
Organic bentonite	3,726	19.6	2,013	14.9
Inorganic gel	1,468	47.6	739	40.0
Bentonite for metallurgy pellet	56	36.8	142	37.3
Quality calcium-bentonite	213	36.8	572	37.9
Other chemicals	538	28.5	164	25.2
Total	<u>20,940</u>	<u>42.7</u>	<u>18,816</u>	<u>42.2</u>

The gross profit margin of papermaking chemicals increased from 56.9% for the six months ended 30 June 2019 to 61.3% for the six months ended 30 June 2020. The increase in gross profit margin was mainly due to the change of product mix in response to the market demand. The Company sold more products with higher gross profit margin for the six months ended 30 June 2020.

The gross profit margin of organic bentonite was 19.6% and 14.9% for the six months ended 30 June 2020 and 2019, respectively. The gross profit margin increased during the comparative periods.

The gross profit margin of inorganic gel was 47.6% and 40.0% for the six months ended 30 June 2020 and 2019, respectively. The gross profit margin increased during the comparative periods.

The gross profit margin of bentonite for metallurgy pellet was 36.8% and 37.3% for the six months ended 30 June 2020 and 2019, respectively. The gross profit margin remained stable during the comparative periods.

The gross profit margin of quality calcium-bentonite was 36.8% and 37.9% for the six months ended 30 June 2020 and 2019, respectively. The gross profit margin increased during the comparative periods.

The gross profit margin of other chemicals was 28.5% and 25.2% for the six months ended 30 June 2020 and 2019, respectively. The gross profit margin increased during the comparative periods.

Distribution costs

The distribution costs for the six months ended 30 June 2020 and 2019 amounted to approximately RMB6,483,000 and RMB6,622,000, respectively. The distribution costs decreased by approximately RMB139,000 or 2.1% mainly because of the decrease in travelling expenses from approximately RMB1,933,000 for the six months ended 30 June 2019 to approximately RMB1,024,000 for the six months ended 30 June 2020.

Administrative expenses

The administrative expenses increased by approximately RMB855,000 or 14.3% from approximately RMB5,993,000 for the six months ended 30 June 2019 to approximately RMB6,848,000 for the six months ended 30 June 2020. The increase was mainly due to the increase in depreciation.

Research and development expenses

The research and development expenses decreased slightly by approximately RMB28,000 or 0.9% from approximately RMB3,088,000 for the six months ended 30 June 2019 to approximately RMB3,060,000 for the six months ended 30 June 2020. The slight decrease was mainly due to the decrease in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for Petrochemical Engineering.

Other gains – net

Other gains for the six months ended 30 June 2020 and 2019 amounted to approximately RMB164,000 and RMB592,000, respectively. The decrease in other gains mainly due to the decrease in government grants from approximately RMB602,000 for the six months ended 30 June 2019 to approximately RMB210,000 for the six months ended 30 June 2020.

Finance expenses – net

The net finance expenses decreased from approximately RMB3,109,000 for the six months ended 30 June 2019 to approximately RMB2,837,000 for the Reporting Period mainly as a result of decrease in bank borrowings.

Income tax expenses

The effective tax rates were 7.7% and 52.7% for the six months ended 30 June 2020 and 2019, respectively. The decrease in effective tax rates was mainly due to the decrease in expenses not deductible for tax purposes. The details are set out in note 9 to the financial statements.

Profit for the period

The profit for the period increased by approximately RMB1,449,000 or 513.8% from approximately RMB282,000 for the six months ended 30 June 2019 to approximately RMB1,731,000 for the six months ended 30 June 2020. The net profit margin for the Group increased from approximately 0.6% for the six months ended 30 June 2019 to approximately 3.5% for the six months ended 30 June 2020. The increase in profit for the period of the Group was mainly due to the increase in gross profit during the Reporting Period.

Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Reporting Period, the weight average effective annual interest rate of bank borrowings and other borrowings was 7.9% and 3.3% respectively. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 30 June 2020, the Group had cash and cash equivalents of RMB5,110,000 which was mainly generated from operations of the Group.

Cash Flows

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

Net cash generated from/(used in) operating activities

The Group's cash inflow generated from operating activities primarily derives from the sales proceeds of the Group's products. For the six months ended 30 June 2020, the Group's net cash inflow generated from operating activities amounted to approximately RMB4,474,000, representing an increase of approximately RMB16,241,000 from a net cash outflow used in operating activities of approximately RMB11,767,000 for the six months ended 30 June 2019.

Net cash used in investing activities

For the six months ended 30 June 2020, the Group's net cash outflow used in investing activities amounted to approximately RMB4,634,000, representing a decrease of approximately RMB281,000 as compared with the cash outflow used in investing activities of approximately RMB4,915,000 for the six months ended 30 June 2019. The decrease was mainly due to the decrease in purchase of property, plant and equipment for the six months ended 30 June 2020.

Net cash used in financing activities

For the six months ended 30 June 2020, the Group's net cash outflow used in financing activities amounted to approximately RMB6,820,000, representing an increase of approximately RMB4,701,000 as compared with the net cash outflow used in financing activities of approximately RMB2,119,000 for the six months ended 30 June 2019. The increase was mainly due to the repayment of bank borrowings.

Capital Structure

Indebtedness

The total indebtedness of the Group as at 30 June 2020 was approximately RMB80,145,000 (as at 31 December 2019: approximately RMB83,912,000). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2020, the Group's gearing ratio was approximately 35.6% (as at 31 December 2019: 37.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The decrease was mainly due to decrease in bank borrowings.

Pledge of assets

As at 30 June 2020, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB28,844,000 (as at 31 December 2019: approximately RMB28,844,000).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, and construction in progress. The Group's capital expenditures amounted to approximately RMB3,347,000 and RMB1,254,000 for the six months ended 30 June 2020 and 2019, respectively.

Foreign exchange risk

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

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

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisition and Disposal

For the six months ended 30 June 2020, the Group had not made any material acquisition or disposal.

Going Concern

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

Future Outlook

We believe everyone can feel the pressure on the economy in these years. 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 and overseas has negative impacts on the global 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 lacquerbased 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.

Human Resources and Training

As at 30 June 2020, the Group had a total of 108 employees, of which 42 worked at the Group’s headquarters in Changxing, and 66 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB4,938,000 (2019: RMB4,707,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

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

OTHER INFORMATION

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

As at 30 June 2020, the interests and short positions of the Directors, supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

Name of Director/Supervisor	Nature of interest	Number of shares in the Company held	Approximate percentage of Issued Share Capital
Mr. Zhang Youlian	Beneficial owner	19,220,600 (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 30 June 2020, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2020, 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%

Saved as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2020.

Directors' and supervisors' rights to acquire shares or debentures

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

Connected transaction

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

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

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

Public float

According to the information disclosed publicly and as far as the Directors are aware, during the Reporting Period and up to the date of this 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

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

Capital commitment

As at 30 June 2020, the Group had capital commitment amounted to approximately RMB989,000 (as at 31 December 2019: RMB764,000).

Dividends

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

Corporate governance practice

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

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

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

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

Model code for securities transactions

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

Audit committee

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

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

The Audit Committee has reviewed the unaudited condensed consolidated financial information, this results announcement and the interim report of the Company for the six months ended 30 June 2020 with the management of the Group and agreed with the accounting treatments adopted by the Company.

Events after the Reporting Period

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

Disclosure of information

The interim report for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and published on the Company's website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, the PRC, 14 August 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. Zhang Lei, Mr. Li Jiangning and Mr. Tang Jingyan.

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its publication. This announcement will also be posted on the Company's website at www.renheng.com.

* For identification only