



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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED
(THE “STOCK EXCHANGE”)**

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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.

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*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 RMB112,718,000 (2019: RMB100,293,000).
- Gross profit increased by 12.9% to approximately RMB46,844,000 (2019: RMB41,507,000).
- Gross profit margin up by 0.2% points to 41.6% (2019: 41.4%).
- Profit before taxation was approximately RMB1,340,000 (2019: Loss before taxation was approximately RMB1,069,000).
- Profit attributable to the equity holders of the Company for the year ended 31 December 2020 was approximately RMB1,177,000 (2019: Loss attributable to the equity holders of the Company for the year was approximately RMB901,000).
- Basic earnings per share was approximately RMB0.03 (2019: Basic losses per share was RMB0.02).
- The Board did not recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Zhejiang Chang’an Renheng Technology Co., Ltd.* (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to present the audited annual results of the Group for the year ended 31 December 2020 (the “**Year Under Review**”) and selected explanatory notes, together with the comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	<i>Note</i>	<i>RMB</i>	<i>RMB</i>
Revenue	3	112,718,302	100,292,835
Cost of sales	5	<u>(65,873,911)</u>	<u>(58,785,486)</u>
Gross profit		46,844,391	41,507,349
Distribution costs	5	15,952,159	(16,363,462)
Administrative expenses	5	15,893,383	(14,321,089)
Net impairment losses on financial assets	5	306,452	(129,604)
Research and development expenses	5	(7,368,093)	(7,427,102)
Other gains – net	4	<u>160,567</u>	<u>2,050,598</u>
Operating profit		7,484,871	5,316,690
Finance income	6	22,843	193,442
Finance expenses	6	<u>(6,167,735)</u>	<u>(6,578,703)</u>
Finance expenses – net	6	<u>(6,144,892)</u>	<u>(6,385,261)</u>
Profit/(loss) before income tax		<u>1,339,979</u>	<u>(1,068,571)</u>
Income tax (expense)/benefit	7	<u>(162,865)</u>	<u>167,335</u>
Profit/(loss) for the year attributable to the equity holders of the Company		1,177,114	(901,236)
Other comprehensive income		<u>–</u>	<u>–</u>
Total comprehensive profit/(loss) for the year attributable to the equity holders of the Company		<u><u>1,177,114</u></u>	<u><u>(901,236)</u></u>
Earnings/(losses) per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	8	<u><u>0.03</u></u>	<u><u>(0.02)</u></u>

CONSOLIDATED BALANCE SHEET

as at 31 December 2020

		As at 31 December	
		2020	2019
	Note	RMB	RMB
ASSETS			
Non-current assets			
Property, plant and equipment		83,012,598	83,313,181
Right-of-use assets		6,403,492	6,038,868
Leasehold improvements		11,571,379	11,630,667
Deferred income tax assets		<u>3,444,673</u>	<u>3,503,698</u>
		<u>104,432,142</u>	<u>104,486,414</u>
Current assets			
Inventories	9	42,595,536	42,894,158
Trade and other receivables	10	58,513,977	65,098,637
Financial assets at fair value through other comprehensive income (FVOCI)		12,950,237	–
Prepaid income tax		783,550	569,462
Restricted cash	11	1,200,855	4,217
Cash and cash equivalents	11	<u>9,803,873</u>	<u>11,883,162</u>
		<u>125,848,028</u>	<u>120,449,636</u>
Total assets		<u><u>230,280,170</u></u>	<u><u>224,936,050</u></u>
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	12	38,400,000	38,400,000
Other reserves		49,569,370	49,569,370
Retained earnings		<u>18,302,715</u>	<u>17,125,601</u>
Total equity		<u><u>106,272,085</u></u>	<u><u>105,094,971</u></u>

	<i>Note</i>	As at 31 December	
		20120	2019
		<i>RMB</i>	<i>RMB</i>
LIABILITIES			
Non-current liabilities			
Deferred government grants		408,503	474,092
Provisions for environmental rehabilitation		1,291,858	1,520,370
Borrowings		<u>14,725,000</u>	<u>8,366,000</u>
		<u>16,425,361</u>	<u>10,360,462</u>
Current liabilities			
Deferred government grants		52,471	39,353
Trade and other payables	13	34,555,741	33,895,503
Borrowings		<u>72,974,512</u>	<u>75,545,761</u>
		<u>107,582,724</u>	<u>109,480,617</u>
Total liabilities		<u>124,008,085</u>	<u>119,841,079</u>
Total equity and liabilities		<u><u>230,280,170</u></u>	<u><u>224,936,050</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 GENERAL INFORMATION

Zhejiang Chang'anRenheng 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 ChangXingRenheng 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 (Note 19).

The consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 March 2021.

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 certain financial assets and liabilities.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 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 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 2.3).

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 statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.3 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.

2.4 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.

2.5 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.

2.6 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 profit or loss, 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 profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the profit or loss within 'other gains/losses – net'.

2.7 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 recognised 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 derecognised. All other repairs and maintenance are charged to the profit or loss 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	<u>3 to 5 years</u>	<u>5%</u>

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 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the profit or loss.

2.8 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 2.9).

2.9 Impairment of non-financial assets

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.

2.10 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 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.

2.11 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.

2.12 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 16 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

2.13 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.

2.14 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.

2.15 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.

2.16 Trade and other payables

Trade and other payables are obligations to pay for goods, construction or services that have been acquired in the ordinary course of business from suppliers. Trade 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 and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 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 profit or loss 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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.

2.22 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
- 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.

2.23 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.

2.24 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 profit or loss 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.

2.25 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.

2.26 Leases

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.

2.27 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.

2.28 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.

2.29 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 10 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	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Papermaking chemicals series	53,590,254	55,148,388
Organic bentonite	45,934,032	35,836,979
Inorganic gel	9,027,624	4,889,052
Quality calcium-bentonite	1,482,708	2,255,974
Bentonite for metallurgy pellet	949,488	654,800
Others chemicals (i)	1,734,196	1,507,642
	<u>112,718,302</u>	<u>100,292,835</u>

For the year ended 31 December 2020, only two external customers contributed 10% or above of the Group's revenue amounted to RMB18,405,119 and RMB12,400,823, respectively.

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

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

4 OTHER GAINS – NET

	Year ended 31 December	
	2020	2019
	RMB	RMB
Government grants		
– Relating to assets	52,471	83,953
– Relating to costs (i)	265,185	2,039,495
Gains on disposal of property, plant and equipment	54,519	–
Fine	(160)	(36,000)
Donations	(50,000)	(1,530)
Foreign exchange gains – net	(153,338)	–
Others	(8,110)	(35,320)
	<u>160,567</u>	<u>2,050,598</u>

- (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	
	2020	2019
	RMB	RMB
Changes in finished goods	2,195,808	2,962,496
Raw materials and consumables used	45,538,564	36,638,454
Employee benefit expenses	14,567,001	14,485,982
Utilities	9,848,211	9,571,820
Transportation expenses	11,939,685	12,619,491
Depreciation	7,767,743	7,713,641
Marketing and promotion expenses	317,741	1,219,824
Travelling and communication expenses	2,787,184	2,644,037
Taxes and levies	1,130,710	1,166,033
Depreciation of right-of-use assets	213,376	190,603
Audit remuneration	1,200,000	900,000
Professional service fees	1,613,366	1,134,150
Amortisation of leasehold improvements	934,165	1,626,061
Maintenance expenses	1,125,631	1,486,373
Entertainment expenses	2,052,197	1,475,921
Provision for impairment of trade and other receivables	306,452	129,604
Reversal of provision for inventories	–	(3,764)
Miscellaneous	1,856,164	1,066,017
Total cost of sales, distribution costs, administrative expenses, net impairment losses on financial assets and research and development expenses	<u>105,393,998</u>	<u>97,026,743</u>

6 FINANCE EXPENSES – NET

	Year ended 31 December	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Finance income		
– Interest income derived from bank deposits	<u>22,843</u>	<u>193,442</u>
Finance expenses		
– Interest expense	(6,094,441)	(6,489,689)
– Foreign exchange losses on cash and cash equivalents – net	(73,294)	(68,131)
– Unrealised losses from financial assets measured at amortised cost	<u>–</u>	<u>(20,883)</u>
	<u>(6,167,735)</u>	<u>(6,578,703)</u>
Finance expenses – net	<u>(6,144,892)</u>	<u>(6,385,261)</u>

7 INCOME TAX (EXPENSE)/BENEFIT

This note provides an analysis of the Group's income tax (expense)/credit, 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)/benefit

	Year ended 31 December	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Current tax (expense)/benefit	(103,840)	9,420
Deferred tax benefit	<u>(59,025)</u>	<u>157,915</u>
Income tax (expense)/benefit	<u>(162,865)</u>	<u>167,335</u>

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 1 December 2020 to 30 November 2023.

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 Hebei province, which granted tax preferential rate of 15% for three years from 11 September 2018 to 10 September 2021.

The other subsidiary is subject to income tax rate of 25% for the years ended 31 December 2020 and 2019.

(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/(loss) before income tax can be reconciled as follows:

	Year ended 31 December	
	2020	2019
	RMB	RMB
Profits/(losses) before tax	<u>1,339,979</u>	<u>(1,068,571)</u>
Calculated at statutory tax rate	(334,995)	267,143
Expenses not deductible for tax purposes	(673,064)	(454,926)
Additional deduction for research and development expenses (i)	1,234,511	1,303,093
Unused tax losses for which no deferred tax asset has been recognised	(343,267)	(635,887)
Preferential tax rate impact of the Company	<u>(46,050)</u>	<u>(312,088)</u>
Income tax (expense)/benefit	<u><u>(162,865)</u></u>	<u><u>167,335</u></u>

- (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 profit or loss after obtaining approval from tax authorities.

8 EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the earnings/(losses) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the years ended 31 December 2020 and 2019.

	Year ended 31 December	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Profit/(loss) attributable to the equity holders of the Company	1,177,114	(901,236)
Weighted average number of ordinary shares in issue	38,400,000	38,400,000
Basic earnings/(losses) per share (RMB per share)	0.03	(0.02)

(b) Diluted

The fully diluted earnings/(losses) per share for the years ended 31 December 2020 and 2019 are the same as the basic earnings/(losses) per share as there were no dilutive potential ordinary share for the years ended 31 December 2020 and 2019.

9 INVENTORIES

	As at 31 December	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Raw materials	34,451,573	35,521,809
Finished goods	8,031,221	7,264,534
Low value consumables	112,742	107,815
	42,595,536	42,894,158

The cost of inventories recognised as cost of sales amounted to RMB64,588,218 and RMB57,841,109 for the years ended 31 December 2020 and 2019, respectively.

	Year ended 31 December	
	2020	2019
	RMB	RMB
Provision of inventories	<u>598,686</u>	<u>598,686</u>

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB	RMB
Trade receivables	62,414,390	56,971,336
Less: provision for impairment	<u>(11,948,562)</u>	<u>(11,553,421)</u>
Trade receivables – net (i)	<u>50,465,828</u>	<u>45,417,915</u>
Notes receivable	–	10,476,740
Other receivables	3,294,970	3,774,940
Less: provision for impairment	<u>(759,079)</u>	<u>(847,768)</u>
Other receivables – net (ii)	<u>2,535,891</u>	<u>2,927,172</u>
Prepayments (iii)	<u>5,512,258</u>	<u>6,276,810</u>
Trade and other receivables – net	<u>58,513,977</u>	<u>65,098,637</u>
Current portion	<u>58,513,977</u>	<u>65,098,637</u>

As at 31 December 2020 and 2019, 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	
	2020	2019
	RMB	RMB
RMB	55,026,658	65,098,637
USD	<u>3,487,319</u>	<u>–</u>
	<u>58,513,977</u>	<u>65,098,637</u>

- (i) The aging analysis of trade receivables is as follows:

	As at 31 December	
	2020	2019
	RMB	RMB
– Within 180 days	47,779,839	41,250,893
– Over 180 days and within 1 year	2,609,250	3,439,981
– Over 1 year and within 2 years	2,711,516	3,313,425
– Over 2 years and within 3 years	2,554,036	2,536,027
– Over 3 years	6,759,749	6,431,010
	<u>62,414,390</u>	<u>56,971,336</u>

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. 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	
	2020	2019
	RMB	RMB
At the beginning of the year	11,553,421	11,144,899
Write-off against uncollectible receivables	–	(18,796)
Provision for impairment	395,141	427,318
	<u>11,948,562</u>	<u>11,553,421</u>

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

(ii) As at 31 December 2020 and 2019, details of other receivables are as follows:

	As at 31 December	
	2020	2019
	RMB	RMB
Currents		
Related party borrowing	28,665	297,775
Staff advances	2,576,247	2,841,091
Deposits	502,832	435,466
Others	187,226	200,608
	<u> </u>	<u> </u>
Total	<u>3,294,970</u>	<u>3,774,940</u>

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

	Year ended 31 December	
	2020	2019
	RMB	RMB
At the beginning of the year	847,768	1,145,482
Reversal of impairment	<u>(88,689)</u>	<u>(297,714)</u>
	<u> </u>	<u> </u>
At the end of the year	<u>759,079</u>	<u>847,768</u>

Reversal of impairment for other receivables is charged to expenses in the consolidated statement of comprehensive income.

(iii) As at 31 December 2020 and 2019, prepayments are in connection with:

	As at 31 December	
	2020	2019
	RMB	RMB
Purchase of raw materials	5,398,970	6,167,268
Service fees	<u>113,288</u>	<u>109,542</u>
	<u> </u>	<u> </u>
	<u>5,512,258</u>	<u>6,276,810</u>

11 CASH AND BANK BALANCES

	As at 31 December	
	2020	2019
	RMB	RMB
Cash at bank and on hand (i)	11,004,728	11,887,379
Less: Restricted cash (ii)	(1,200,855)	(4,217)
Cash and cash equivalents	<u>9,803,873</u>	<u>11,883,162</u>

Cash at bank and in hand are denominated in:

	As at 31 December	
	2020	2019
	RMB	RMB
– RMB	10,569,658	11,886,895
– USD	434,166	–
– HKD	904	484
	<u>11,004,728</u>	<u>11,887,379</u>

(i) 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 2020 and 2019.

(ii) As at 31 December 2020 and 2019, details of restricted cash is as follows:

	As at 31 December	
	2020	2019
	RMB	RMB
Guaranteed deposits for issuance of note payables	<u>1,200,855</u>	<u>4,217</u>

12 SHARE CAPITAL

Ordinary fully paid:

	Number of shares	Share Capital RMB
At 31 December 2019	<u>38,400,000</u>	<u>38,400,000</u>
At 31 December 2020	<u>38,400,000</u>	<u>38,400,000</u>

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Note payables	1,200,000	–
Trade payables	19,828,634	22,277,247
Other payables	8,203,500	7,299,680
Staff salaries and welfare payables	2,741,200	2,919,977
Deposits advances	–	501,199
Accrued taxes other than income tax	2,582,407	897,400
	<u>34,555,741</u>	<u>33,895,503</u>

As at 31 December 2020 and 2019, 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 2020 and 2019, trade and other payables were all denominated in RMB.

The aging analysis of the trade payables is as follows:

	As at 31 December	
	2020	2019
	<i>RMB</i>	<i>RMB</i>
Trade payables		
– Within 6 months	15,387,586	18,505,991
– Over 6 months and within 1 year	581,153	102,736
– Over 1 year and within 2 years	197,937	202,381
– Over 2 years and within 3 years	193,951	252,893
– Over 3 years	3,468,007	3,213,246
	<u>19,828,634</u>	<u>22,277,247</u>

14 DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

2020 was an extraordinary year for everyone, as well as for the bentonite industry. In early 2020, the Epidemic had a huge negative impact on the bentonite industry. In the second half of 2020, with the adoption of decisive and effective Epidemic prevention measures, the national economy has gradually entered a rapid recovery channel, and the impact of the Epidemic on the economy of the bentonite industry has also begun to diminish.

The main products of the Group are mainly used in two areas: (1) paints and coatings; and (2) papermaking. 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. The coating industry plays an important role in serving and supporting multiple industries in the national economy. Coatings are widely used in machinery manufacturing, transportation, light industry, chemical and construction industries, and are indispensable functional materials. At present, the research and development of coatings focuses on environmental protection and coatings with special functions.

“The Industrial Structure Adjustment Directory” issued by the China Development and Reform Commission currently mainly encourages water-based woodware, industrial, marine coatings, high solids, solvent-free, radiation curing, functional exterior wall, exterior insulation coatings, environmentally friendly and resource-saving coatings with low-medium VOC content; the production of high-performance anticorrosive coatings used in key areas such as large aircraft and high-speed railways, as well as the production of chlorinated titanium dioxide with a single-line production capacity of 30,000 tons and above per year. The industrial coating industry is also accelerating technological changes, adjusting the industrial structure, shifting to environmentally friendly and multifunctional products such as water-based coatings and radiation curing coatings, and realizing the replacement of new and old production capacity. Bentonite has a very wide range of applications in the coating industry, such as coating thickeners, suspension anti-settling agents, auxiliary binders, etc. Moreover, bentonite has inherent advantages in the process of “oil-to-water” of coatings.

As for the paper industry, in 2020, after a sharp dip in March, the market began to pick up in April. In the third and fourth quarters, as the Epidemic was under control and the market demand began to improve, and major festivals were coming, the frequent release of price increase letters showed that prices continued to rise. According to the report on the production and operation of the paper industry released by China Paper Association on the China Paper Weekly dated 18 November 2020, the production and operation of the industry were improving month by month. It is expected that the production and consumption of paper and paperboard throughout the year will be better than 2019, representing a year-on-year growth of approximately 2.2% and 6.5%, respectively.

BUSINESS REVIEW

In 2020, the Group continued to focus on promoting bentonite for paints and coatings, and its products were recognized by customers, and its sales and profits increased. The production, promotion and application of bentonite products for spray paint wastewater treatment were gradually mature with certain sales scale. The Group also participated in the annual meeting of inorganic non-metal industry and promoted products through this platform. Bentonite for spray paint wastewater treatment has also been listed by the Ministry of Industry and Information Technology as an out-standing project in the field of energy-saving and environmentally-friendly materials. The Group continued to focus on the development of overseas markets and consolidated the Southeast Asian and Middle Eastern markets during the Year Under Review. The Group attached great importance to investment in the research and development of new products. For the year ended 31 December 2020, the Group's research and development expenses amounted to approximately RMB7,368,000.

During the Year Under Review, the Group has undertaken the development of two new products at provincial level, and applied for one invention patent. At the same time, the Group has established a doctoral workstation and introduced one doctor to study the development and application of bentonite products in depth.

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:

Product	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Papermaking chemicals	53,590	47.6	55,148	55.0
Organic bentonite	45,934	40.8	35,837	35.7
Inorganic gel	9,028	8.0	4,889	4.9
Quality calcium-bentonite	1,483	1.3	2,256	2.2
Bentonite for metallurgy pellet	949	0.8	655	0.7
Other chemicals (i)	1,734	1.5	1,508	1.5
Total	<u>112,718</u>	<u>100.0</u>	<u>100,293</u>	<u>100.0</u>

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

Revenue from sales of papermaking chemicals decreased by approximately RMB1,558,000 or 2.8% from approximately RMB55,148,000 for the year ended 31 December 2019 to approximately RMB53,590,000 for the year ended 31 December 2020. As the average selling price remained stable for the comparative periods, the decrease in revenue was mainly due to the decrease in sales volume, which decreased by approximately 2.2% from approximately 11,782 tonnes for the year ended 31 December 2019 to approximately 11,523 tonnes for the year ended 31 December 2020.

Revenue from sales of organic bentonite increased by approximately RMB10,097,000 or 28.2% from approximately RMB35,837,000 for the year ended 31 December 2019 to approximately RMB45,934,000 for the year ended 31 December 2020. The increase was mainly due to the increase in both the sales volume and selling price.

Revenue from sales of inorganic gel increased by approximately RMB4,139,000 or 84.7% from approximately RMB4,889,000 for the year ended 31 December 2019 to approximately RMB9,028,000 for the year ended 31 December 2020. The increase was mainly due to the increase in both the sales volume and selling price.

Revenue of quality calcium-bentonite for the year ended 31 December 2020 decreased by approximately RMB773,000 or 34.3% to approximately RMB1,483,000 as compared to approximately RMB2,256,000 for the year ended 31 December 2019. The decrease in revenue was mainly due to the decrease in sales volume.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB294,000 or 44.9% from approximately RMB655,000 for the year ended 31 December 2019 to approximately RMB949,000 for the year ended 31 December 2020.

Revenue of other chemicals for the year ended 31 December 2020 increased by approximately RMB226,000 or 15.0% to approximately RMB1,734,000 as compared to approximately RMB1,508,000 for the year ended 31 December 2019. 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			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Cost of raw materials and consumable	51,218	77.7	45,332	77.1
Direct labour costs	4,745	7.2	4,314	7.4
Manufacturing overhead cost	8,550	13.0	7,844	13.3
Others	1,361	2.1	1,296	2.2
Total	<u>65,874</u>	<u>100.0</u>	<u>58,786</u>	<u>100.0</u>

The cost of sales increased by approximately RMB7,088,000 or 12.1% from approximately RMB58,786,000 for the year ended 31 December 2019 to approximately RMB65,874,000 for the year ended 31 December 2020.

Cost of raw materials accounted for approximately 77.7% and 77.1% of cost of sales for the year ended 31 December 2020 and 2019, respectively. The cost of raw materials increased by approximately RMB5,886,000 or 13.0% from approximately RMB45,332,000 for the year ended 31 December 2019 to approximately RMB51,218,000 for the year ended 31 December 2020 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 2020, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 7.2% and 7.4% of cost of sales for the year ended 31 December 2020 and 2019, respectively. Direct labour costs increased by approximately RMB431,000 or 10.0% from approximately RMB4,314,000 to RMB4,745,000 during the comparative years.

Manufacturing overhead costs accounted for approximately 13.0% and 13.3% of cost of sales for the year ended 31 December 2020 and 2019, respectively. Manufacturing overhead costs increased by approximately RMB706,000 or 9.0% from approximately 7,844,000 for the year ended 31 December 2019 to approximately RMB8,550,000 for the year ended 31 December 2020.

3. Gross profit and gross profit margin

Gross profit margin increased slightly from 41.4% in 2019 to 41.6% in 2020. The increase in gross profit margin was mainly attributable to the increase in sales volume of organic bentonite which has a higher gross profit margin.

4. Distribution costs

The distribution costs for the year ended 31 December 2020 and 2019 amounted to approximately RMB15,952,000 and RMB16,363,000, respectively. The distribution costs decreased by approximately RMB411,000 or 2.5% mainly because of the decrease in transportation expenses of approximately RMB680,000 during the Year Under Review.

5. Administrative expenses

The administrative expenses increased by approximately RMB1,572,000 or 11.0% from approximately RMB14,321,000 for the year ended 31 December 2019 to approximately RMB15,893,000 for the year ended 31 December 2020. The increase was mainly due to the increase in professional service fees and entertainment expenses.

6. Net impairment losses on financial assets

The net impairment loss on financial assets increased by approximately RMB176,000 or 135.4% from approximately RMB130,000 for the year ended 31 December 2019 to approximately RMB306,000 for the year ended 31 December 2020.

7. Research and development expenses

The research and development expenses decreased slightly by approximately RMB59,000 or 0.8% from approximately RMB7,427,000 for the year ended 31 December 2019 to approximately RMB7,368,000 for the year ended 31 December 2020. The 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.

8. Other gains – net

Other gains for the year ended 31 December 2020 and 2019 amounted to approximately RMB161,000 and RMB2,051,000, respectively. The decrease in other gains was mainly due to the decrease in government grants from approximately RMB2,123,000 for the year ended 31 December 2019 to approximately RMB318,000 for the year ended 31 December 2020.

9. Finance expenses-net

The net finance expenses decreased by approximately RMB240,000 or 3.8% from approximately RMB6,385,000 for the year ended 31 December 2019 to approximately RMB6,145,000 for the year ended 31 December 2020. The decrease was mainly due to the decrease of interest expenses on borrowings as a result of the decrease in average borrowing interest rate. The borrowings were financed for working capital and capital investments in the production facilities.

10. Income tax (expense)/credit

The income tax expense for the year ended 31 December 2020 was approximately RMB163,000, when compared to an income tax credit of approximately RMB167,000 for the year ended 31 December 2019. The income tax credit for 2019 was mainly due to the loss before income tax, the details are set out in Note 7 to the consolidated financial statements.

The effective tax rates were 12.2% and (15.7)% for the years ended 31 December 2020 and 2019, respectively.

11. Profit/(loss) for the year attributable to the equity holders of the Company

As a result of the foregoing, the profit for the year attributable to the equity holders of the Company was approximately RMB1,177,000 for the year ended 31 December 2020, while there was a loss of approximately RMB901,000 for the year ended 31 December 2019.

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	
	2020	2019
	RMB'000	RMB'000
Raw materials	34,452	35,522
Finished goods	8,031	7,264
Low-value consumables	113	108
Total	<u>42,596</u>	<u>42,894</u>

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 RMB599,000 at 31 December 2020 (31 December 2019: RMB599,000).

Inventory turnover

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

	Year ended 31 December	
	2020	2019
Average inventory turnover days (<i>note</i>)	<u>237</u>	<u>240</u>

Note:

Average inventory turnover days are equal to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at the beginning of the financial year plus inventory at the end of the financial year and divided by 2.

The average inventory turnover days decreased from 240 days for the year ended 31 December 2019 to 237 days for the year ended 31 December 2020. The decreased in average inventory turnover days in 2020 was primarily due to the increase in cost of sales and decrease in average inventories.

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	62,414	56,971
Less: provision for impairment	(11,948)	(11,553)
Trade receivables – net	50,466	45,418
Notes receivables	–	10,477
Other receivables	3,295	3,775
Less: provision for impairment	(759)	(848)
Other receivables – net	2,536	2,927
Prepayments	5,512	6,277
Trade and other receivables – net	58,514	65,099
Less: non-current portion	–	–
Current portion	58,514	65,099

Trade receivables

Trade receivables as at 31 December 2020 and 2019 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	62,414	56,971
Less: provision for impairment	(11,948)	(11,553)
Trade receivables – net	50,466	45,418

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	
	2020	2019
	RMB'000	RMB'000
Within 180 days	47,780	41,251
Over 180 days and within 1 year	2,609	3,440
Over 1 year and within 2 years	2,712	3,313
Over 2 years and within 3 years	2,554	2,536
Over 3 years	6,759	6,431
Total	62,414	56,971

The Group's trade receivables increased by approximately RMB5,443,000 or 9.6% from approximately RMB56,971,000 as at 31 December 2019 to approximately RMB62,414,000 as at 31 December 2020. The trade receivables due over 180 days decreased by approximately RMB5,939,000 or 21.5% from approximately RMB27,573,000 as at 31 December 2019 to approximately RMB21,634,000 as at 31 December 2020. The decrease was mainly due to the increase in settlement from our customers during the Year Under Review.

Trade receivables turnover days

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

	Year ended 31 December	
	2020	2019
Trade receivables turnover days (<i>note</i>)	193	195

Note:

The number of trade receivables turnover days is calculated as average trade receivables (trade receivables at the beginning of the year plus trade receivables at the end of the year then divided by 2) divided by total revenue for the year multiplied by 365.

The Group's trade receivables turnover days for the years ended 31 December 2020 and 2019 were approximately 193 days and 195 days respectively. The decrease of turnover days was mainly due to the increase in revenue.

Provision for impairment of trade receivables

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

The expected loss rates of trade receivables is based on the payment profiles of sales over a period of 36 month before 1 January 2020 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	
	2020	2019
	RMB'000	RMB'000
Note payables	1,200	–
Trade payables	19,829	22,278
Other payables	8,204	7,300
Staff salaries and welfare payables	2,741	2,920
Deposits advances	–	501
Accrued taxes other than income tax	2,582	897
Total	34,556	33,896

As at 31 December 2020 and 2019, 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 decreased by approximately RMB2,449,000 or 11.0% from approximately RMB22,278,000 as at 31 December 2019 to approximately RMB19,829,000 as at 31 December 2020.

Trade payables turnover days

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

	Year ended 31 December	
	2020	2019
Trade payable turnover days (<i>note</i>)	<u>117</u>	<u>121</u>

Note:

The number of trade payables turnover days is calculated as average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year then divided by 2) divided by cost of sales for the year multiplied by 365.

The trade payables turnover days decreased from 121 days for the year ended 31 December 2019 to 117 days for the year ended 31 December 2020, which was due to the decrease in average trade payables for the Year Under Review.

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.

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB2,079,000, which mainly comprised the net cash generated from operating activities of approximately RMB11,011,000, net cash used in investing activities of approximately RMB10,711,000, net cash used in financing activities of approximately RMB2,306,000, and the foreign exchange loss of approximately RMB73,000. Details of cash flows of the Group are set out on page 48 of the "Consolidated Cash Flow Statement" of this announcement.

CAPITAL STRUCTURE

1. Indebtedness

The total indebtedness of the Group as at 31 December 2020 was approximately RMB87,700,000 (31 December 2019: approximately RMB83,912,000). 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 2020, the Group's asset-liability ratio was approximately 38.1% (31 December 2019: 37.3%), calculated as the total borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

3. Pledge of assets

As at 31 December 2020, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB27,554,000 (31 December 2019: approximately RMB28,844,000).

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 RMB10,250,000 and RMB9,182,000 for the year ended 31 December 2020 and 2019, 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 7.09% and the weight average effective annual interest rate of other borrowings was 3.38%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 31 December 2020, the Group had cash and cash equivalents of RMB9,804,000 (31 December 2019: approximately RMB11,883,000) which was mainly generated from operations of the Group.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had capital commitment of approximately RMB76,000 (31 December 2019: approximately RMB764,000).

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 IFRS 8, Operating Segments. In this regard, no segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2020, 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 2020.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

Coatings are important comprehensive materials for the national economy. The global output of coatings is approximately 75 million tons per year, and the output value is approximately US\$200 billion. China's output of coatings maintains an average annual compound growth rate of 7%-10%, with an annual output of 21 million tons and an output value of approximately US\$64 billion, which is close to one-third of the global scale.

From the perspective of the future development strategy of the coatings, water-based coatings have become a key investment area in the industry, and industrial coatings of "oil-to-water" have become the industry trend. Environmental friendly coatings with low VOC content are recognized. Meanwhile, high-performance anti-corrosion coatings are currently still a key demand in the industrial coatings industry. With the increasingly stringent environmental protection policies and increasing national awareness of environmental protection, the market demand for environmental friendly and energy-saving coatings will continue to grow. The Group will also pay more attention to the application and promotion of bentonite in the field of water-based coatings.

In 2020, in order to protect the ecological environment, all major cities across the country have issued plastic restriction orders to restrict the production, sales and use of disposable non-degradable plastic products. Large catering chain stores have successively introduced paper straws instead of plastic straws. The utilization rate of paper products such as paper straws and kraft paper bags has greatly increased in the takeaway catering industry which use a lot of plastic. The use of paper instead of plastic has become a new trend in environmental protection.

China authority continues to promote the policy of banning solid waste, which is an important system reform to promote the formation of green development methods and lifestyles, protect the safety of the ecological environment and the health of the people. The amount of imported waste paper has been significantly reduced. Banning the import of waste paper will have a huge impact on the industry's raw material structure and bring about a significant adjustment in the structure of papermaking raw materials. In order to stabilize the quality of packaging paper products, more attention shall be paid to the use of papermaking chemicals, which is conducive to the development of the Group's paper chemicals business.

In 2021, due to the uncertain impact of the Epidemic, the operation of the Group is facing greater challenges. The Group will continue to adhere to the development strategy of taking profit as the center and innovation as the driving force. On the basis of consolidating existing products, the Group will actively develop new products. To this end, the Group will adhere to the following strategies:

- 1) The Group will continue to strengthen the fine paper chemical market;
- 2) Focus on developing the market of bentonite for paints and coatings, improving product quality, and enlarge market share;
- 3) Increase the promotion and application of water treatment products; and
- 4) Develop new products and find new growth points for the Group.

The Group will further enhance the production management system to ensure a good market sales base. At the same time, through independent innovation and industry-institute-research cooperation, new products and new technical knowhow will be developed to enhance the Group's competitiveness.

HUMAN RESOURCES AND TRAINING

For the year ended 31 December 2020, the Group had a total of 109 employees, of which 44 worked at the Group's headquarter in Changxing, and 65 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB14,567,000 (2019: RMB14,486,000). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

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

DIVIDENDS

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2020 (2019: Nil).

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 Friday, 14 May 2021, the register of members of the Company will be closed from Tuesday, 13 April 2021 to Friday, 14 May 2021 (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 Monday, 12 April 2021.

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 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 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	50.05%
Ms. Zhang Jinhua	Beneficial owner	398,400	1.04%
Mr. Xu Qinsi ⁽ⁱ⁾	Interest of spouse	100,000	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 2020, 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 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	–	3,576,000	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 2020.

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 29 March 2021, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the audited consolidated financial statements for the year ended 31 December 2020, this results announcement, the annual report, accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group and was of the opinion that the preparation of the financial statements in this result announcement complies with the applicable accounting standards and the requirement under the GEM Listing Rules and adequate disclosures have been made.

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 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

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

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 2020 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, 29 March 2021

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.