



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

2022

FIRST QUARTERLY REPORT

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

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This report, for which the directors (the “Directors”) of Zhejiang Chang'an Renheng Technology Co., Ltd. (the “Company”, together with its subsidiaries, the “Group”, “we”, “our” or “us”) 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 report 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 report misleading.*

* For identification purpose only

RESULTS HIGHLIGHTS

For the three months ended 31 March 2022, the results highlights were as follows:

- Revenue increased by 7.4% to approximately RMB28,793,000 (2021: approximately RMB26,798,000).
- Gross profit decreased by 14.1% to approximately RMB9,653,000 (2021: approximately RMB11,233,000).
- Gross profit margin was 33.5% (2021: 41.9%).
- Loss attributable to the equity holders of the Company for the three months ended 31 March 2022 was approximately RMB1,730,000 (2021: profit attributable to the equity holders of the Company was approximately RMB1,071,000).
- Basic losses per share was approximately RMB0.05 (2021: basic earnings per share was approximately RMB0.03).
- The Board did not recommend the payment of any dividends for the three months ended 31 March 2022 (2021: nil).

UNAUDITED CONSOLIDATED FIRST QUARTERLY RESULTS OF 2022

The board (the “Board”) of Directors of Zhejiang Chang'an Renheng Technology Co., Ltd. is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2022 (the “Reporting Period”) and selected explanatory notes, together with the comparative figures of the corresponding period in 2021 as follows:

Unaudited condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 31 March 2022

	Note	Three months ended 31 March	
		2022 RMB (Unaudited)	2021 RMB (Unaudited)
Revenue	3	28,793,480	26,797,715
Cost of sales		(19,140,139)	(15,565,016)
Gross profit		9,653,341	11,232,699
Distribution costs		(3,827,392)	(3,617,145)
Administrative expenses		(4,882,544)	(4,771,406)
Research and development expenses		(1,976,500)	(1,239,454)
Other gains – net		68,694	748,766
Operating (loss)/profit		(964,401)	2,353,460
Finance income		5,020	12,682
Finance expenses		(1,395,063)	(1,242,542)
Finance expenses – net		(1,390,043)	(1,229,860)
(Loss)/Profit before income tax		(2,354,444)	1,123,600
Income tax credit/(expense)	4	624,371	(52,550)
(Loss)/Profit for the period attributable to the equity holders of the Company		(1,730,073)	1,071,050
Other comprehensive income		–	–
Total comprehensive (loss)/income for the period attributable to the equity holders of the Company		(1,730,073)	1,071,050
(Losses)/Earnings per share for (loss)/profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	5	(0.05)	0.03
Dividends	6	–	–

Unaudited condensed consolidated statement of changes in equity

For the three months ended 31 March 2022

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital	Other reserves	Retained earnings	Total
	RMB	RMB	RMB	RMB
As at 1 January 2021	38,400,000	49,569,370	18,302,715	106,272,085
Comprehensive income				
Profit for the period	-	-	1,071,050	1,071,050
Total comprehensive income for the period	-	-	1,071,050	1,071,050
As at 31 March 2021	38,400,000	49,569,370	19,373,765	107,343,135
As at 1 January 2022	38,400,000	50,058,545	25,248,259	113,706,804
Comprehensive loss				
Loss for the period	-	-	(1,730,073)	(1,730,073)
Total comprehensive loss for the period	-	-	(1,730,073)	(1,730,073)
As at 31 March 2022	38,400,000	50,058,545	23,518,186	111,976,731

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2022

1 GENERAL INFORMATION

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

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

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

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

The English names of companies mentioned in this report represented the best effort by the Directors of the Company in translating their Chinese names as they may not have official English names.

The Company issued a total of 8,000,000 H shares with a par value of RMB1.00 each at a price of HKD9.70 per share on the GEM of The Stock Exchange on 16 January 2015 (the "Listing").

On 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 owners are independent third parties.

The unaudited condensed consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and the disclosure requirements of the GEM Listing Rules.

The basis of preparation and accounting policies adopted in preparing these unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2021, except for the adoption of the new and revised IFRSs that have become effective for accounting period beginning on 1 January 2022.

The adoption of the new and revised IFRSs has no significant effect on these unaudited condensed consolidated financial statements.

The Group has not early adopted the new and revised IFRSs that have been issued but are not yet effective for the current period.

The unaudited condensed consolidated financial statements have been prepared under historical basis.

3 REVENUE

	<u>Three months ended 31 March</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
Papermaking chemicals series	8,344,128	9,879,814
Organic bentonite	17,607,693	13,449,423
Inorganic gel	2,262,311	2,315,977
Bentonite for metallurgy pellet	75,555	147,446
Quality calcium-bentonite	104,301	337,876
Others (i)	399,492	667,179
	28,793,480	26,797,715

- (i) Others mainly comprise flocculating agents which are principally applied in the coating preparation industry.

4 INCOME TAX CREDIT/(EXPENSE)

	<u>Three months ended 31 March</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
Current income tax	(7,982)	(52,550)
Deferred income tax	632,353	-
Income tax credit/(expense)	624,371	(52,550)

The Company renewed the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Zhejiang province, which granted tax preferential rate of 15% for three years from 1 December 2020 to 30 November 2023.

The subsidiary Yangyuan Renheng Refined Clay Co., Ltd. obtained the certificates of High and New Tech Enterprise 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 the three years from 1 December 2021 to 30 November 2024.

The other subsidiaries are subject to income tax rate of 25% for the three months ended 31 March 2022 and 2021.

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

	<u>Three months ended 31 March</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
(Loss)/Profit before tax	(2,354,444)	1,123,600
Calculated at statutory tax rate	588,611	(280,900)
Expenses not deductible for tax purposes	(31,493)	(104,595)
Additional deduction for research and development expense (i)	494,125	100,247
Tax preferential of the Company	(426,872)	232,698
Income tax credit/(expense)	624,371	(52,550)

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

5 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the three months ended 31 March 2022 and 2021.

	<u>Three months ended 31 March</u>	
	2022 (unaudited)	2021 (unaudited)
(Loss)/Profit attributable to the equity holders of the Company (RMB)	(1,730,073)	1,071,050
Weighted average number of ordinary shares in issue	38,400,000	38,400,000
Basic (losses)/earnings per share (RMB per share)	(0.05)	0.03

(b) Diluted

The fully diluted (losses)/earnings per share for the three months ended 31 March 2022 and 2021 is the same as the basic (losses)/earnings per share as there is no dilutive potential ordinary share for the three months ended 31 March 2022 and 2021.

6 DIVIDENDS

The Board did not recommend the payment of any dividends for the three months ended 31 March 2022 (2021: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2022, the Group continued to focus on promoting bentonite for paints and coatings and consolidated the sales market of organic bentonite for oil coatings, and its products were recognized in the market, and its sales and profits increased to a greater extent. The Group also committed to the application of high-end water-based bentonite in the market, which is applied in the field of environmental protection coatings such as water-based industrial paints.

The product of “highly suspended nano inorganic gel” proposed by the Group have been listed in the First Batch of Application Demonstration Directory for Key New Materials (2021 Edition) of the Ministry of Industry and Information Technology, and provided quality standards for this type of products. The Group continued to focus on the development of overseas markets and preliminarily confirmed the business agreement with APP Group, one of the largest papermaking group in Southeast Asia.

Financial Review

Revenue of the Group for the three months ended 31 March 2022 amounted to approximately RMB28,793,000, representing an increase of approximately RMB1,995,000 or 7.4% compared to approximately RMB26,798,000 for the three months ended 31 March 2021. The increase in sales was mainly due to the increase in sales of organic bentonite and partially off-set by the decrease in bentonite for metallurgy pellet during the Reporting Period. The increase in revenue was mainly due to the gradual recovery of market demand due to the control of the pandemic in the market during the Reporting Period as compared with the three months ended 31 March 2021.

Gross profit of the Group for the three months ended 31 March 2022 amounted to approximately RMB9,653,000, representing a decrease of approximately RMB1,580,000 or 14.1% compared to approximately RMB11,233,000 for the three months ended 31 March 2021.

The distribution cost, mainly including transportation expenses, salaries and benefits, and travelling expenses, amounted to approximately RMB3,827,000 for the three months ended 31 March 2022, representing an increase of approximately RMB210,000 or 5.8% as compared to RMB3,617,000 for the three months ended 31 March 2021. This increase was mainly due to the increase in transportation expenses as a result of the increase sales volume.

The administrative expenses of the Group was approximately RMB4,883,000 for the three months ended 31 March 2022, representing an increase of approximately RMB112,000 or 2.3% as compared to approximately RMB4,771,000 for the three months ended 31 March 2021. The increase was primarily due to an increase in expenses for prevention of the spread of the pandemic.

The research and development expenses increased by approximately 59.6% from approximately RMB1,239,000 for the three months ended 31 March 2021 to approximately RMB1,977,000 for the three months ended 31 March 2022. The increase was mainly due to the increase in research and development projects for the environmental protection field.

As a result of the foregoing, for the three months ended 31 March 2022, the loss for the period attributable to the equity holders of the Company was approximately RMB1,730,000, while for the three months ended 31 March 2021, the profit for the period attributable to the equity holders of the Company was approximately RMB1,071,000.

FUTURE OUTLOOK AND DEVELOPMENT STRATEGY

In the past, the solvent-based paints and coatings were preferred in the application of paints and coatings in the market, however, this type of paints and coatings will cause environment pollution during the construction and application due to the solvent volatilization. The water-based coating is a kind of coatings with low pollution, energy and resources saving. With the strengthening of people's awareness of environmental protection and the rising cost of organic solvents, the traditional solvent-based coatings are facing more and more challenges, and water-based coatings have attracted more and more attention and have been widely studied and developed.

The Group will be committed to the research and development of high-end water-based bentonite and its application in water-based coatings. By adjusting the formulation of the bentonite composite stabilizer, inorganic modified bentonite products are prepared to meet the stability requirements of different water-based coatings.

China Paper Association put forward the development plan of “adhering to green and low-carbon circular development, strengthening clean production, and effectively preventing and controlling pollution through resource conservation, energy conservation and emission reduction”. Based on the advantages of bentonite resources, the Group will help paper-making enterprises to take the path of sustainable development of circular economy, and achieve circular development, energy saving and emission reduction and clean production by means of comprehensive utilization of resources and environmental protection investment. The Group will develop and promote the following papermaking additive products:

- 1) Ash accelerator products, which will increase the ash content of paper, the Group will reduce the amount of fiber raw materials, and lower production costs; and
- 2) Application of modified bentonite in paper coating, which will improve the rheological properties of the coating and improve the surface quality of the coated paper.

In 2022, 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 develop and promote high-end water-based bentonite products on the basis of consolidating the oil-based organic bentonite market;
- 2) The Group will develop new products, and continue to cooperate with Jiangnan University to develop high-performance flame retardant composites based on non-metallic minerals; and
- 3) The Group will be committed to the construction of green mines, which is in line with the national requirements for sustainable green development.

OTHER INFORMATION

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

As at 31 March 2022, 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	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 March 2022, 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 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 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.

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

As at 31 March 2022, 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 March 2022.

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 report 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 report, 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.

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. As at the date of this report, the Audit Committee has three members, namely Mr. Chen Jianping, Mr. Tang Jingyan, and Mr. Zhang Lei, 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.

The Audit Committee has reviewed the unaudited financial statements, the results announcement and this quarterly report of the Company for the three months ended 31 March 2022 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this quarterly report complies with the applicable accounting standards and requirements under the GEM Listing Rules and adequate disclosures have been made.

Events after the Reporting Period

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

Disclosure of information

The quarterly report for the three months ended 31 March 2022 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, PRC, 13 May 2022

As at the date of this report, 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. Chen Jianping, Mr. Tang Jingyan and Mr. Zhang Lei.

* For identification purpose only