



长安仁恒

Zhejiang Chang'an Renheng Technology Co., Ltd.*
浙江长安仁恒科技股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8139)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE
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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”, “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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

* For identification purpose only

RESULTS HIGHLIGHTS

For the six months ended 30 June 2022, the results highlights were as follows:

- Revenue decreased by 2.1% to approximately RMB68,065,000 (2021: RMB69,519,000).
- Gross profit decreased by 12.4% to approximately RMB24,645,000 (2021: RMB28,130,000).
- Gross profit margin was 36.2% (2021: 40.5%).
- Loss for the period attributable to the equity holders of the Company was approximately RMB1,005,000 (2021: profit for the period attributable to the equity holders of the Company was approximately RMB4,116,000).
- Basic losses per share was approximately RMB0.026 (2021: basic earnings per share was approximately RMB0.107).
- The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2022 (2021: nil).

UNAUDITED CONSOLIDATED INTERIM 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 six months ended 30 June 2022 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2021 as follows:

Unaudited condensed consolidated statement of profit or loss and other comprehensive income For the six months ended 30 June 2022

	Note	Three months ended 30 June		Six months ended 30 June	
		2022 RMB (unaudited)	2021 RMB (unaudited)	2022 RMB (unaudited)	2021 RMB (unaudited)
Revenue	5	39,271,961	42,721,704	68,065,441	69,519,419
Cost of sales		(24,280,152)	(25,824,715)	(43,420,291)	(41,389,731)
Gross profit		14,991,809	16,896,989	24,645,150	28,129,688
Distribution costs		(5,702,061)	(4,423,425)	(9,529,453)	(8,040,570)
Administrative expenses		(4,113,403)	(4,867,266)	(8,995,948)	(9,638,672)
Research and development expenses		(2,926,598)	(2,644,281)	(4,903,098)	(3,883,735)
Other gains – net	6	567,881	476,992	636,575	1,225,758
Operating profit		2,817,628	5,439,009	1,853,226	7,792,469
Finance income		8,179	11,015	13,199	23,697
Finance expenses		(1,847,318)	(1,410,115)	(3,242,381)	(2,652,657)
Finance expenses – net	7	(1,839,139)	(1,399,100)	(3,229,182)	(2,628,960)
Profit/(loss) before income tax	8	978,489	4,039,909	(1,375,956)	5,163,509
Income tax (expense)/credit	9	(253,327)	(995,147)	371,044	(1,047,697)
Profit/(loss) for the period attributable to the equity holders of the Company		725,162	3,044,762	(1,004,912)	4,115,812
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the period attributable to the equity holders of the Company		725,162	3,044,762	(1,004,912)	4,115,812
Earnings/(losses) per share for profit/(loss) attributable to the equity holders of the Company during the period (expressed in RMB per share)					
– Basic and diluted	10	0.019	0.079	(0.026)	0.107
Dividends	11	-	-	-	-

Unaudited condensed consolidated balance sheet

As at 30 June 2022

		30 June	31 December
		2022	2021
		RMB	RMB
	<i>Note</i>	(unaudited)	(audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	82,037,656	82,274,952
Right-of-use assets		5,994,684	6,128,810
Leasehold improvements		15,546,753	14,657,247
Deferred income tax assets		2,960,113	2,572,332
		<u>106,539,206</u>	<u>105,633,341</u>
Current assets			
Inventories		66,794,255	59,401,955
Trade and other receivables	13	75,614,563	60,348,289
Financial assets at fair value through other comprehensive income (FVOCI)		12,497,469	13,393,174
Prepaid income tax		1,394,884	1,584,164
Restricted cash		–	855
Cash and cash equivalents		16,404,098	8,235,815
		<u>172,705,269</u>	<u>142,964,252</u>
Total assets		<u><u>279,244,475</u></u>	<u><u>248,597,593</u></u>
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	14	38,400,000	38,400,000
Other reserves		50,058,545	50,058,545
Retained earnings		24,243,347	25,248,259
Total equity		<u>112,701,892</u>	<u>113,706,804</u>

		30 June	31 December
		2022	2021
		RMB	RMB
	<i>Note</i>	(unaudited)	(audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		356,033	356,032
Provisions for environmental rehabilitation		1,859,678	1,588,262
Borrowings		<u>—</u>	<u>—</u>
		<u>2,215,711</u>	<u>1,944,294</u>
Current liabilities			
Deferred government grants		26,235	52,471
Trade and other payables	<i>15</i>	45,503,269	39,332,572
Current income tax liabilities		335,916	—
Borrowings		<u>118,461,452</u>	<u>93,561,452</u>
		<u>164,326,872</u>	<u>132,946,495</u>
Total liabilities		<u>166,542,583</u>	<u>134,890,789</u>
Total equity and liabilities		<u><u>279,244,475</u></u>	<u><u>248,597,593</u></u>

Unaudited condensed consolidated statement of changes in equity*For the six months ended 30 June 2022*

	(Unaudited)			
	Attributable to equity holders of the Company			
	Share capital	Other reserves	Retained earnings	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
As at 1 January 2021	38,400,000	49,569,370	18,302,715	106,272,085
Comprehensive income				
Profit for the period	—	—	4,115,812	4,115,812
Total comprehensive income for the period	—	—	4,115,812	4,115,812
As at 30 June 2021	<u>38,400,000</u>	<u>49,569,370</u>	<u>22,418,527</u>	<u>110,387,897</u>
As at 1 January 2022	38,400,000	50,058,545	25,248,259	113,706,804
Comprehensive loss				
Loss for the period	—	—	(1,004,912)	(1,004,912)
Total comprehensive loss for the period	—	—	(1,004,912)	(1,004,912)
As at 30 June 2022	<u>38,400,000</u>	<u>50,058,545</u>	<u>24,243,347</u>	<u>112,701,892</u>

Unaudited condensed consolidated cash flow statement*For the six months ended 30 June 2022*

	Six months ended 30 June	
	2022	2021
	RMB	RMB
	(unaudited)	(unaudited)
Net cash (used in)/generated from operating activities	<u>(13,310,390)</u>	<u>9,044,448</u>
Net cash used in investing activities	<u>(4,433,823)</u>	<u>(8,826,042)</u>
Net cash generated from/(used in) financing activities	<u>25,650,000</u>	<u>(39,475)</u>
Net increase in cash and cash equivalents	7,905,787	178,931
Cash and cash equivalents at beginning of the period	8,235,815	9,803,873
Exchange difference on cash and cash equivalents	<u>262,496</u>	<u>259,788</u>
Cash and cash equivalents at end of the period	<u><u>16,404,098</u></u>	<u><u>10,242,592</u></u>

Notes to the unaudited condensed consolidated financial statements

For the six months ended 30 June 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 announcement 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 interim financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim financial reporting’, and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2021, as described in those annual financial statements.

The Directors anticipate that the adoption of the amendments to IFRSs effective for the financial year ending 31 December 2022 do not have a material impact on the results and financial position of the Group.

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

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

4 SEGMENT INFORMATION

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

5 REVENUE

	<u>Six months ended 30 June</u>	
	2022 <i>RMB</i> (unaudited)	2021 <i>RMB</i> (unaudited)
Papermaking chemicals	21,647,162	20,841,861
Organic bentonite	38,108,519	37,566,398
Inorganic gel	5,340,695	6,872,549
Bentonite for metallurgy pellet	–	492,000
Quality calcium-bentonite	660,958	942,368
Others (<i>Note</i>)	2,308,107	2,804,243
	<u>68,065,441</u>	<u>69,519,419</u>

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

6 OTHER GAINS – NET

	<u>Six months ended 30 June</u>	
	2022 <i>RMB</i> (unaudited)	2021 <i>RMB</i> (unaudited)
Government grants		
– Relating to assets	26,235	26,235
– Relating to costs	71,499	1,356,797
Others	538,841	(157,274)
	<u>636,575</u>	<u>1,225,758</u>

7 FINANCE EXPENSES – NET

	<u>Six months ended 30 June</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
Finance income		
– Interest income derived from bank deposits	<u>13,199</u>	<u>23,697</u>
Finance expenses		
– Interest expense	(2,979,885)	(2,912,445)
– Capitalised interest expense	<u>–</u>	<u>–</u>
	(2,979,885)	(2,912,445)
– Foreign exchange gains on borrowings and cash and cash equivalents – net	(262,496)	259,788
– Unrealised financial charges from financial assets measured at amortised cost	<u>–</u>	<u>–</u>
	<u>(3,242,381)</u>	<u>(2,652,657)</u>
Finance expenses – net	<u>(3,229,182)</u>	<u>(2,628,960)</u>

8 LOSS FOR THE PERIOD

	<u>Six months ended 30 June</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
Loss for the period has been arrived after charging:		
Depreciation	2,616,323	3,089,667
Amortisation of prepaid leasing expenses	82,759	82,759
Amortisation of mining rights	57,800	57,800
Amortisation of leasehold improvements	<u>895,939</u>	<u>622,924</u>

9 INCOME TAX CREDIT/(EXPENSE)

	<u>Six months ended 30 June</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
Current income tax	(33,649)	(1,047,697)
Deferred income tax	<u>404,693</u>	<u>–</u>
Income tax credit/(expense)	<u><u>371,044</u></u>	<u><u>(1,047,697)</u></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 Co., Ltd.” obtained the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Heibei province, which granted tax preferential rate of 15% for three years from 1 December 2021 to 30 November 2024.

The other subsidiaries are subject to income tax rate of 25% for the six months ended 30 June 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>Six months ended 30 June</u>	
	2022 RMB (unaudited)	2021 RMB (unaudited)
(Loss)/Profit before tax	<u>(1,375,956)</u>	<u>5,163,509</u>
Calculated at statutory tax rate	343,989	(1,290,877)
Expenses not deductible for tax purposes	(23,855)	(18,884)
Additional deduction for research and development expense (<i>Note</i>)	1,103,197	728,200
Preferential tax rate impact of the Company	(586,342)	(27,121)
Unused tax losses for which no deferred tax asset has been recognised	<u>(465,945)</u>	<u>(439,015)</u>
Income tax credit/(expense)	<u><u>371,044</u></u>	<u><u>(1,047,697)</u></u>

Note: Pursuant to the Corporate Income Tax Law, the Company can enjoy an additional tax deduction calculated at 100% of the actual research and development expenses recognised under PRC GAAP. The tax deduction can be charged to the consolidated statement of comprehensive income after obtaining approval from tax authorities.

10 (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 six months ended 30 June 2022 and 2021.

	<u>Six months ended 30 June</u>	
	2022 (unaudited)	2021 (unaudited)
(Loss)/Profit attributable to the equity holders of the Company (RMB)	(1,004,912)	4,115,812
Weighted average number of ordinary shares in issue	<u>38,400,000</u>	<u>38,400,000</u>
Basic (losses) earnings per share (RMB per share)	<u>(0.026)</u>	<u>0.107</u>

(b) Diluted

The fully diluted (losses)/earnings per share for the six months ended 30 June 2022 and 2021 is the same as the basic (losses)/earnings per share as there is no dilutive potential ordinary share for the six months ended 30 June 2022 and 2021.

11 DIVIDENDS

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2022 (2021: nil).

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired property, plant and equipment of approximately RMB4,433,823 (2021: RMB5,339,192).

13 TRADE AND OTHER RECEIVABLES

	30 June 2022 RMB (unaudited)	31 December 2021 RMB (audited)
Trade receivables	71,902,195	65,246,586
Less: provision for impairment	<u>(12,479,869)</u>	<u>(12,479,868)</u>
Trade receivables – net	<u>59,422,326</u>	<u>52,766,718</u>
Other receivables	7,100,064	1,939,671
Less: provision for impairment	<u>(567,381)</u>	<u>(567,381)</u>
Other receivables – net	<u>6,532,683</u>	<u>1,372,290</u>
Prepayments	<u>9,659,554</u>	<u>6,209,281</u>
Trade and other receivables – net	<u>75,614,563</u>	<u>60,348,289</u>
Less: non-current portion	<u>–</u>	<u>–</u>
Current portion	<u>75,614,563</u>	<u>60,348,289</u>

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

	30 June 2022 RMB (unaudited)	31 December 2021 RMB (audited)
– Within 180 days	41,433,261	40,148,685
– Over 180 days and within 1 year	16,309,215	12,036,977
– Over 1 year and within 2 years	1,791,322	3,485,737
– Over 2 years and within 3 years	1,108,084	2,061,299
– Over 3 years	<u>11,260,313</u>	<u>7,513,888</u>
	<u>71,902,195</u>	<u>65,246,586</u>

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

14 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Ordinary shares	
	<i>Number</i>	<i>RMB</i>
As at 30 June 2022 (unaudited)	<u>38,400,000</u>	<u>38,400,000</u>

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

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

15 TRADE AND OTHER PAYABLES

	30 June 2022 RMB (unaudited)	31 December 2021 RMB (audited)
Trade payables	27,269,881	21,361,473
Other payables	7,295,930	10,289,107
Bill payables	6,000,000	–
Staff salaries and welfare payables	2,706,730	3,441,362
Advances from customers	152,808	–
Accrued taxes other than income tax	2,077,920	4,240,630
	<u>45,503,269</u>	<u>39,332,572</u>

The ageing analysis of the trade payables is as follows:

	30 June 2022 RMB (unaudited)	31 December 2021 RMB (audited)
Trade payables		
– Within 6 months	22,953,809	16,678,101
– Over 6 months and within 1 year	275,574	445,188
– Over 1 year and within 2 years	202,671	487,469
– Over 2 years and within 3 years	293,015	59,783
– Over 3 years	3,544,812	3,690,932
	<u>27,269,881</u>	<u>21,361,473</u>

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

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

Product	For the six months ended 30 June			
	2022		2021	
	RMB'000	%	RMB'000	%
Papermaking chemicals	21,647	31.8	20,842	30.0
Organic bentonite	38,108	56.0	37,566	54.0
Inorganic gel	5,341	7.8	6,873	9.9
Bentonite for metallurgy pellet	–	–	492	0.7
Quality calcium-bentonite	661	1.0	942	1.4
Others	2,308	3.4	2,804	4.0
Total	<u>68,065</u>	<u>100.0</u>	<u>69,519</u>	<u>100.0</u>

Revenue from sales of papermaking chemicals increased by approximately RMB805,000 or 3.9% from approximately RMB20,842,000 for the six months ended 30 June 2021 to approximately RMB21,647,000 for the six months ended 30 June 2022. As the average unit selling price remained similar for the comparative periods, the increase in revenue was mainly due to the increase in sales volume, which increased by approximately 3.1% from approximately 5,255 tonnes for the six months ended 30 June 2021 to approximately 5,308 tonnes for the six months ended 30 June 2022.

Revenue from sales of organic bentonite increased by approximately RMB542,000 or 1.4% from approximately RMB37,566,000 for the six months ended 30 June 2021 to approximately RMB38,108,000 for the six months ended 30 June 2022. The increase was mainly due to the increase in the sales volume.

Revenue from sales of inorganic gel decreased by approximately RMB1,532,000 or 22.3% from approximately RMB6,873,000 for the six months ended 30 June 2021 to approximately RMB5,341,000 for the six months ended 30 June 2022. The decrease was mainly due to the decrease in sales volume.

Revenue of bentonite for metallurgy pellet decreased by approximately RMB492,000 or 100.0% from approximately RMB492,000 for the six months ended 30 June 2021 to approximately RMBnil for the six months ended 30 June 2022. The decrease was mainly due to the decrease in sales volume.

Revenue of quality calcium-bentonite decreased by approximately RMB281,000 or 29.8% from approximately RMB942,000 for the six months ended 30 June 2021 to approximately RMB661,000 for the six months ended 30 June 2022. While the average unit selling price remained steady for these two periods, the decrease in revenue was mainly due to the decrease in sales volume.

Revenue of other chemicals decreased by approximately RMB496,000 or 17.7% from approximately RMB2,804,000 for the six months ended 30 June 2021 to approximately RMB2,308,000 for the six months ended 30 June 2022. Other chemicals mainly comprise flocculating agents which are principally applied in the coating preparation industry.

Cost of sales

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

	For the six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost of raw materials	32,875	75.7	32,200	77.8
Direct labour costs	2,587	6.0	2,269	5.5
Manufacturing overhead costs	6,569	15.1	5,713	13.8
Others	1,389	3.2	1,208	2.9
Total	<u>43,420</u>	<u>100.0</u>	<u>41,390</u>	<u>100.0</u>

The cost of sales increased by approximately RMB2,030,000 or 4.9% from approximately RMB41,390,000 for the six months ended 30 June 2021 to approximately RMB43,420,000 for the six months ended 30 June 2022.

Cost of raw materials accounted for approximately 75.7% and 77.8% of cost of sales for the six months ended 30 June 2022 and 2021 respectively. The cost of raw materials increased by approximately 2.1% from approximately RMB32,200,000 for the six months ended 30 June 2021 to approximately RMB32,875,000 for the six months ended 30 June 2022. The increase was mainly due to the increase in average purchase unit cost and the increase in quantity consumed of CPAM. CPAM was the major raw material for a kind of product in bentonite with a relatively high unit price. As sales volume of this kind of product increased for the six months ended 30 June 2022, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 6.0% and 5.5% of cost of sales for the six months ended 30 June 2022 and 2021, respectively. Direct labour costs increased by approximately RMB318,000 or 14.0% during the comparative periods.

Manufacturing overhead costs accounted for approximately 15.1% and 13.8% of cost of sales for the six months ended 30 June 2022 and 2021 respectively. Manufacturing overhead costs increased by approximately RMB856,000 or 15.0% from approximately RMB5,713,000 for the six months ended 30 June 2021 to approximately RMB6,569,000 for the six months ended 30 June 2022.

Gross profit and gross profit margin

The gross profit decreased by approximately RMB3,485,000 or 12.4% from approximately RMB28,130,000 for the six months ended 30 June 2021 to approximately RMB24,645,000 for the Reporting Period.

Gross profit margin decreased from 40.5% for the six months ended 30 June 2021 to 36.2% for the six months ended 30 June 2022. The decrease in gross profit margin was mainly due to the fact that the average cost of the raw materials and energy for the Reporting Period were higher than those in the prior year, which led to a relatively higher cost of sales for the six months ended 30 June 2022.

Distribution costs

The distribution costs for the six months ended 30 June 2022 and 2021 amounted to approximately RMB9,529,000 and RMB8,041,000, respectively. The distribution costs increased by approximately RMB1,488,000 or 18.5% mainly because of the increase in transportation costs from approximately RMB2,441,000 for the six months ended 30 June 2021 to approximately RMB3,251,000 for the six months ended 30 June 2022.

Administrative expenses

The administrative expenses decreased by approximately RMB643,000 or 6.7% from approximately RMB9,639,000 for the six months ended 30 June 2021 to approximately RMB8,996,000 for the six months ended 30 June 2022. The decrease was mainly due to the decrease in professional service fees.

Research and development expenses

The research and development expenses increased by approximately RMB1,019,000 or 26.2% from approximately RMB3,884,000 for the six months ended 30 June 2021 to approximately RMB4,903,000 for the six months ended 30 June 2022. The increase was mainly due to the increase in scale of the research and development project for the environmental protection field with Jilin Design and Research Institute for Petrochemical Engineering.

Other gains – net

Other gains for the six months ended 30 June 2022 and 2021 amounted to approximately RMB637,000 and RMB1,226,000, respectively. The decrease in other gains mainly due to the decrease in government grants from approximately RMB1,357,000 for the six months ended 30 June 2021 to approximately RMB71,000 for the six months ended 30 June 2022.

Finance expenses – net

The net finance expenses increased from approximately RMB2,629,000 for the six months ended 30 June 2021 to approximately RMB3,229,000 for the Reporting Period mainly as a result of increase in bank borrowings and average borrowing interest rate.

Income tax credit/(expense)

The income tax credit for the six months ended 30 June 2022 was approximately RMB371,000, while there was a income tax expense of approximately RMB1,047,000 for the six months ended 30 June 2021. The details are set out in note 9 to the financial statements.

(Loss)/Profit for the period attributable to the equity holders of the Company

As a result of the foregoing, loss for the period attributable to the equity holders of the Company was approximately RMB1,005,000 for the six months ended 30 June 2022, while profit for the period attributable to the equity holders of the Company was approximately RMB 4,116,000 for the six months ended 30 June 2021.

Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Reporting Period, the weight average effective annual interest rate of bank borrowings and other borrowings was 6.81% and 9.75% respectively. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 30 June 2022, the Group had cash and cash equivalents of RMB16,404,000 which was mainly generated from operations of the Group and bank borrowings.

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 increased by approximately RMB8,168,000, which mainly comprised the net cash used in operating activities of approximately RMB13,310,000, net cash used in investing activities of approximately RMB4,434,000, net cash generated from financing activities of approximately RMB25,650,000, and the foreign exchange gain of approximately RMB262,000. Details of cash flows of the Group are set out on page 7 of the "Unaudited condensed consolidated cash flow statement" of this announcement.

Capital Structure

Indebtedness

The total indebtedness of the Group as at 30 June 2022 was approximately RMB118,461,000 (as at 31 December 2021: approximately RMB93,561,000). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2022, the Group's gearing ratio was approximately 90.6% (as at 31 December 2021: 75.0%), calculated as the total interest-bearing bank and other borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant period/year multiplied by 100%. The increase was mainly due to increase in bank borrowings.

Pledge of assets

As at 30 June 2022, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB29,862,000 (as at 31 December 2021: approximately RMB29,862,000).

Capital expenditures

The capital expenditures of the Group primarily included purchases of plant and equipment, and construction in progress. The Group's capital expenditures amounted to approximately RMB4,434,000 and RMB5,339,000 for the six months ended 30 June 2022 and 2021, respectively.

Foreign exchange risk

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

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

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2022, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisition and Disposal

For the six months ended 30 June 2022, the Group had not made any material acquisition or disposal.

Going Concern

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

Future Outlook

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.

Human Resources and Training

As at 30 June 2022, the Group had a total of 156 employees, of which 52 worked at the Group’s headquarters in Changxing, and 104 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

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

OTHER INFORMATION

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

As at 30 June 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/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 shares in the Company held by his spouse, Ms. Ling Weixing.

Save as disclosed above, as at 30 June 2022, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 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%

Saved as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2022.

Directors' and supervisors' rights to acquire shares or debentures

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

Connected transaction

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

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

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

Public float

According to the information disclosed publicly and as far as the Directors are aware, during the Reporting Period and up to the date of this announcement, at least 25% of the issued shares of the Company was held by public shareholders.

Purchases, sale or redemption of the Company's listed securities

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

Capital commitment

As at 30 June 2022, the Group had capital commitment amounted to approximately RMB152,000 (as at 31 December 2021: RMB195,000).

Dividends

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2022 (2021: nil).

Corporate governance practice

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

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

According to code provision C.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 C.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 announcement, the Audit Committee has three members, namely Mr. Zhang Lei, Mr. Chen Jianping, and Mr. Tang Jingyan, who are independent non-executive Directors. Mr. Zhang Lei, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

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

The Audit Committee has reviewed the unaudited consolidated financial statements, this results announcement and the interim report of the Company for the six months ended 30 June 2022 with the management of the Group and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this results announcement complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosure have been made.

Events after the Reporting Period

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

Disclosure of information

The interim report for the six months ended 30 June 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, the PRC, 12 August 2022

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

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

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

* For identification only