



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

2023

INTERIM 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 six months ended 30 June 2023, the results highlights were as follows:

- Revenue increased by 11.4% to approximately RMB75,830,000 (2022: RMB68,065,000).
- Gross profit increased by 22.4% to approximately RMB30,177,000 (2022: RMB24,645,000).
- Gross profit margin was 39.8% (2022: 36.2%).
- Profit for the period attributable to the equity holders of the Company was approximately RMB4,028,000 (2022: loss for the period attributable to the equity holders of the Company was approximately RMB1,005,000).
- Basic earnings per share was approximately RMB0.105 (2022: basic losses per share was approximately RMB0.026).
- The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2023 (2022: nil).

UNAUDITED CONSOLIDATED INTERIM RESULTS OF 2023

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 2023 (the “Reporting Period”) and selected explanatory notes, together with the comparative unaudited figures of the corresponding period in 2022 as follows:

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

For the six months ended 30 June 2023

| | Note | Three months ended 30 June | | Six months ended 30 June | |
|--|------|----------------------------|----------------------------|----------------------------|----------------------------|
| | | 2023 RMB (unaudited) | 2022 RMB (unaudited) | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Revenue | 5 | 42,352,213 | 39,271,961 | 75,829,682 | 68,065,441 |
| Cost of sales | | (25,504,964) | (24,280,152) | (45,652,436) | (43,420,291) |
| Gross profit | | 16,847,249 | 14,991,809 | 30,177,246 | 24,645,150 |
| Distribution costs | | (5,687,371) | (5,702,061) | (10,329,206) | (9,529,453) |
| Administrative expenses | | (4,210,428) | (4,113,403) | (8,778,337) | (8,995,948) |
| Research and development expenses | | (2,749,544) | (2,926,598) | (5,343,483) | (4,903,098) |
| Other gains – net | 6 | 1,754,606 | 567,881 | 1,954,712 | 636,575 |
| Operating profit | | 5,954,512 | 2,817,628 | 7,680,932 | 1,853,226 |
| Finance income | | 19,306 | 8,179 | 22,868 | 13,199 |
| Finance expenses | | (1,177,714) | (1,847,318) | (3,500,323) | (3,242,381) |
| Finance expenses – net | 7 | (1,158,408) | (1,839,139) | (3,477,455) | (3,229,182) |
| Profit/(loss) before income tax | 8 | 4,796,104 | 978,489 | 4,203,477 | (1,375,956) |
| Income tax (expense)/credit | 9 | (484,878) | (253,327) | (174,996) | 371,044 |
| Profit/(loss) for the period attributable to the equity holders of the Company | | 4,311,226 | 725,162 | 4,028,481 | (1,004,912) |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income/(loss) for the period attributable to the equity holders of the Company | | 4,311,226 | 725,162 | 4,028,481 | (1,004,912) |
| 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 | 0.112 | 0.019 | 0.105 | (0.026) |
| Dividends | 11 | - | - | - | - |

Unaudited condensed consolidated balance sheet

As at 30 June 2023

| | | 30 June 2023 RMB (unaudited) | 31 December 2022 RMB (audited) |
|--|-------------|---------------------------------------|---|
| | <i>Note</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 90,861,651 | 84,460,619 |
| Right-of-use assets | | 5,851,205 | 6,117,932 |
| Leasehold improvements | | 24,234,969 | 25,096,363 |
| Deferred income tax assets | | 3,165,994 | 3,142,353 |
| | | 124,113,819 | 118,817,267 |
| Current assets | | | |
| Inventories | | 56,650,684 | 60,820,690 |
| Trade and other receivables | 13 | 73,900,678 | 69,127,257 |
| Financial assets at fair value through other comprehensive income (FVOCI) | | 6,410,833 | 3,910,569 |
| Prepaid income tax | | 1,373 | 118,651 |
| Restricted cash | | – | 6,002,417 |
| Cash and cash equivalents | | 18,558,337 | 19,355,608 |
| | | 155,521,905 | 159,335,192 |
| Total assets | | 279,635,724 | 278,152,459 |
| 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 | | 30,696,947 | 26,668,466 |
| Total equity | | 119,155,492 | 115,127,011 |

| | | 30 June 2023 RMB (unaudited) | 31 December 2022 RMB (audited) |
|---|-------------|---------------------------------------|---|
| | <i>Note</i> | | |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred government grants | | 2,665,924 | 303,561 |
| Provisions for environmental rehabilitation | | 2,355,339 | 2,131,093 |
| Borrowings | | 47,950,000 | 27,950,000 |
| Lease liabilities | | - | 95,831 |
| | | 52,971,263 | 30,480,485 |
| Current liabilities | | | |
| Deferred government grants | | 52,471 | 52,471 |
| Trade and other payables | 15 | 33,907,006 | 40,158,141 |
| Borrowings | | 73,316,000 | 92,066,000 |
| Lease liabilities | | 233,492 | 268,351 |
| | | 107,508,969 | 132,544,963 |
| Total liabilities | | 160,480,232 | 163,025,448 |
| Total equity and liabilities | | 279,635,724 | 278,152,459 |

Unaudited condensed consolidated statement of changes in equity

For the six months ended 30 June 2023

| | (Unaudited) | | | |
|--|---|----------------|-------------------|-------------|
| | Attributable to equity holders of the Company | | | |
| | Share capital | Other reserves | Retained earnings | Total |
| | RMB | RMB | RMB | RMB |
| 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 | 38,400,000 | 50,058,545 | 24,243,347 | 112,701,892 |
| As at 1 January 2023 | 38,400,000 | 50,058,545 | 26,668,466 | 115,127,011 |
| Comprehensive loss | | | | |
| Loss for the period | - | - | 4,028,481 | 4,028,481 |
| Total comprehensive loss for the period | - | - | 4,028,481 | 4,028,481 |
| As at 30 June 2023 | 38,400,000 | 50,058,545 | 30,696,947 | 119,155,492 |

Unaudited condensed consolidated cash flow statement*For the six months ended 30 June 2023*

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2023 | 2022 |
| | RMB | RMB |
| | (unaudited) | (unaudited) |
| Net cash generated from/(used in) operating activities | 2,126,229 | (13,310,390) |
| Net cash used in investing activities | (4,034,335) | (4,433,823) |
| Net cash generated from financing activities | 1,103,114 | 25,650,000 |
| Net (decrease)/increase in cash and cash equivalents | (804,992) | 7,905,787 |
| Cash and cash equivalents at beginning of the period | 19,355,608 | 8,235,815 |
| Exchange difference on cash and cash equivalents | 7,721 | 262,496 |
| Cash and cash equivalents at end of the period | 18,558,337 | 16,404,098 |

Notes to the unaudited condensed consolidated financial statements

For the six months ended 30 June 2023

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 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 2023 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 2022, 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 2022, 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 2023 do not have a material impact on the results and financial position of the Group.

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

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

4 SEGMENT INFORMATION

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

5 REVENUE

| | Six months ended 30 June | |
|---------------------------|----------------------------|----------------------------|
| | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Papermaking chemicals | 15,021,367 | 21,647,162 |
| Organic bentonite | 50,022,734 | 38,108,519 |
| Inorganic gel | 8,907,060 | 5,340,695 |
| Quality calcium-bentonite | 248,675 | 660,958 |
| Others (<i>Note</i>) | 1,629,846 | 2,308,107 |
| | 75,829,682 | 68,065,441 |

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

6 OTHER GAINS – NET

| | Six months ended 30 June | |
|----------------------|----------------------------|----------------------------|
| | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Government grants | | |
| – Relating to assets | 26,235 | 26,235 |
| – Relating to costs | 1,888,897 | 71,499 |
| Others | 39,580 | 538,841 |
| | 1,954,712 | 636,575 |

7 FINANCE EXPENSES – NET

| | Six months ended 30 June | |
|---|----------------------------|----------------------------|
| | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Finance income | | |
| – Interest income derived from bank deposits | 22,868 | 13,199 |
| Finance expenses | | |
| – Interest expense | (3,484,126) | (2,979,885) |
| | (3,484,126) | (2,979,885) |
| – Foreign exchange gains on borrowings and cash and cash equivalents – net | – | (262,496) |
| – Unrealised financial charges from financial assets measured at amortised cost | (16,197) | – |
| | (3,500,323) | (3,242,381) |
| Finance expenses – net | (3,477,455) | (3,229,182) |

8 PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|--|----------------------------|----------------------------|
| | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Profit for the period has been arrived after charging: | | |
| Depreciation | 2,479,192 | 2,616,323 |
| Amortisation of prepaid leasing expenses | 82,759 | 82,759 |
| Amortisation of mining rights | 57,800 | 57,800 |
| Amortisation of leasehold improvements | 659,930 | 895,939 |

9 INCOME TAX (EXPENSE)/CREDIT

| | Six months ended 30 June | |
|-----------------------------|----------------------------|----------------------------|
| | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Current income tax | (198,637) | (33,649) |
| Deferred income tax | 23,641 | 404,693 |
| Income tax (expense)/credit | (174,996) | 371,044 |

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 Hebei 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 2023 and 2022.

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

| | Six months ended 30 June | |
|---|----------------------------|----------------------------|
| | 2023 RMB (unaudited) | 2022 RMB (unaudited) |
| Profit/(loss) before tax | 4,203,477 | (1,375,956) |
| Calculated at statutory tax rate | (1,047,025) | 343,989 |
| Expenses not deductible for tax purposes | (157,407) | (23,855) |
| Additional deduction for research and development expense (<i>Note</i>) | 721,370 | 1,103,197 |
| Preferential tax rate impact of the Company | 570,497 | (586,342) |
| Unused tax losses for which no deferred tax asset has been recognised | (262,431) | (465,945) |
| Income tax (expense)/credit | (174,996) | 371,044 |

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 EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2023 and 2022.

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2023 (unaudited) | 2022 (unaudited) |
| Profit/(loss) attributable to the equity holders of the Company (RMB) | 4,028,481 | (1,004,912) |
| Weighted average number of ordinary shares in issue | 38,400,000 | 38,400,000 |
| Basic earnings/(losses) per share (RMB per share) | 0.105 | (0.026) |

(b) Diluted

The fully diluted (losses)/earnings per share for the six months ended 30 June 2023 and 2022 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 2023 and 2022.

11 DIVIDENDS

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2023 (2022: nil).

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired property, plant and equipment of approximately RMB9,903,546 (2022: RMB4,433,823).

13 TRADE AND OTHER RECEIVABLES

| | 30 June 2023 RMB (unaudited) | 31 December 2022 RMB (audited) |
|-----------------------------------|---------------------------------------|---|
| Trade receivables | 69,047,371 | 64,611,918 |
| Less: provision for impairment | (4,121,165) | (4,332,677) |
| Trade receivables – net | 64,926,206 | 60,279,241 |
| Other receivables | 7,526,828 | 2,025,191 |
| Less: provision for impairment | (335,654) | (335,654) |
| Other receivables – net | 7,191,174 | 1,689,537 |
| Prepayments | 1,783,298 | 7,158,479 |
| Trade and other receivables – net | 73,900,678 | 69,127,257 |
| Less: non-current portion | – | – |
| Current portion | 73,900,678 | 69,127,257 |

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

| | 30 June 2023 RMB (unaudited) | 31 December 2022 RMB (audited) |
|-----------------------------------|---------------------------------------|---|
| - Within 180 days | 48,523,967 | 47,238,592 |
| - Over 180 days and within 1 year | 16,785,285 | 11,256,733 |
| - Over 1 year and within 2 years | 1,410,245 | 3,913,262 |
| - Over 2 years and within 3 years | 2,327,874 | 2,203,331 |
| | 69,047,371 | 64,611,918 |

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 2023 (unaudited) | 38,400,000 | 38,400,000 |

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 2023 RMB (unaudited) | 31 December 2022 RMB (audited) |
|-------------------------------------|---------------------------------------|---|
| Trade payables | 24,169,911 | 24,664,261 |
| Other payables | 5,544,862 | 8,901,509 |
| Staff salaries and welfare payables | 3,211,758 | 3,564,067 |
| Accrued taxes other than income tax | 980,475 | 3,028,304 |
| | 33,907,006 | 40,158,141 |

The ageing analysis of the trade payables is as follows:

| | 30 June 2023 RMB (unaudited) | 31 December 2022 RMB (audited) |
|-----------------------------------|---------------------------------------|---|
| Trade payables | | |
| – Within 6 months | 19,453,035 | 20,178,003 |
| – Over 6 months and within 1 year | 274,388 | 100,746 |
| – Over 1 year and within 2 years | 361,829 | 301,027 |
| – Over 2 years and within 3 years | 459,037 | 418,655 |
| – Over 3 years | 3,621,622 | 3,665,830 |
| | 24,169,911 | 24,664,261 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2023, 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.

During the Reporting Period, the Group has undertaken the development of two provincial new products and has applied for a total of 6 patents. The “200,000 tonnes per annum special mortar putty” project proposed by the Group was approved and implemented in Changxing, Zhejiang where the headquarter of the Group is located.

During the Reporting Period, the Group has cooperated and established a key laboratory for the development and application of key mineral materials in China’s non-metallic mineral industry with Wuhan University of Technology. The key laboratory aims to combine the country’s medium and long-term development strategies, focus on the major national strategic needs, overcome a number of “bottleneck” issues, form a number of “unique” advantageous key technologies, and achieve landmark innovative results. On basis of the classification of strategic minerals and key minerals at home and abroad, the laboratory will focus on the issues of deep purification and refined processing, high-performance mineral materials, mine pollution control and solid waste recycling encountered in the green development of mineral resources such as “clay minerals, crystalline graphite, fluorite and high-purity quartz”.

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 | | | |
|---------------------------|----------------------------------|--------------|---------------|--------------|
| | 2023 | | 2022 | |
| | RMB'000 | % | RMB'000 | % |
| Papermaking chemicals | 15,021 | 19.8 | 21,647 | 31.8 |
| Organic bentonite | 50,023 | 66.0 | 38,108 | 56.0 |
| Inorganic gel | 8,907 | 11.7 | 5,341 | 7.8 |
| Quality calcium-bentonite | 249 | 0.3 | 661 | 1.0 |
| Others | 1,630 | 2.2 | 2,308 | 3.4 |
| Total | 75,830 | 100.0 | 68,065 | 100.0 |

Revenue from sales of papermaking chemicals decreased by approximately RMB6,626,000 or 30.6% from approximately RMB21,647,000 for the six months ended 30 June 2022 to approximately RMB15,021,000 for the six months ended 30 June 2023. As the average unit selling price remained similar for the comparative periods, the decrease in revenue was mainly due to the decrease in sales volume, which decreased by approximately 28.8% from approximately 5,308 tonnes for the six months ended 30 June 2022 to approximately 3,779 tonnes for the six months ended 30 June 2023.

Revenue from sales of organic bentonite increased by approximately RMB11,915,000 or 31.3% from approximately RMB38,108,000 for the six months ended 30 June 2022 to approximately RMB50,023,000 for the six months ended 30 June 2023. The increase was mainly due to the increase in the sales volume.

Revenue from sales of inorganic gel increased by approximately RMB3,566,000 or 66.8% from approximately RMB5,341,000 for the six months ended 30 June 2022 to approximately RMB8,907,000 for the six months ended 30 June 2023. The increase was mainly due to the increase in sales volume.

Revenue of quality calcium-bentonite decreased by approximately RMB412,000 or 62.3% from approximately RMB661,000 for the six months ended 30 June 2022 to approximately RMB249,000 for the six months ended 30 June 2023. 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 RMB678,000 or 29.4% from approximately RMB2,308,000 for the six months ended 30 June 2022 to approximately RMB1,630,000 for the six months ended 30 June 2023. 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 | | | |
|------------------------------|----------------------------------|--------------|---------------|--------------|
| | 2023 | | 2022 | |
| | RMB'000 | % | RMB'000 | % |
| Cost of raw materials | 35,061 | 76.8 | 32,875 | 75.7 |
| Direct labour costs | 2,648 | 5.8 | 2,587 | 6.0 |
| Manufacturing overhead costs | 7,213 | 15.8 | 6,569 | 15.1 |
| Others | 730 | 1.6 | 1,389 | 3.2 |
| Total | 45,652 | 100.0 | 43,420 | 100.0 |

The cost of sales increased by approximately RMB2,232,000 or 5.1% from approximately RMB43,420,000 for the six months ended 30 June 2022 to approximately RMB45,652,000 for the six months ended 30 June 2023.

Cost of raw materials accounted for approximately 76.8% and 75.7% of cost of sales for the six months ended 30 June 2023 and 2022 respectively. The cost of raw materials increased by approximately 6.6% from approximately RMB32,875,000 for the six months ended 30 June 2022 to approximately RMB35,061,000 for the six months ended 30 June 2023. 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 2023, the cost of sales for CPAM increased accordingly.

Direct labour costs accounted for approximately 5.8% and 6.0% of cost of sales for the six months ended 30 June 2023 and 2022, respectively. Direct labour costs increased by approximately RMB61,000 or 2.4% during the comparative periods.

Manufacturing overhead costs accounted for approximately 15.8% and 15.1% of cost of sales for the six months ended 30 June 2023 and 2022 respectively. Manufacturing overhead costs increased by approximately RMB644,000 or 9.8% from approximately RMB6,569,000 for the six months ended 30 June 2022 to approximately RMB7,213,000 for the six months ended 30 June 2023.

Gross profit and gross profit margin

The gross profit increased by approximately RMB5,532,000 or 22.4% from approximately RMB24,645,000 for the six months ended 30 June 2022 to approximately RMB30,177,000 for the Reporting Period.

Gross profit margin increased from 36.2% for the six months ended 30 June 2022 to 39.8% for the six months ended 30 June 2023. The increase 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 lower than those in the prior year, which led to a relatively lower cost of sales for the six months ended 30 June 2023.

Distribution costs

The distribution costs for the six months ended 30 June 2023 and 2022 amounted to approximately RMB10,329,000 and RMB9,529,000, respectively. The distribution costs increased by approximately RMB800,000 or 8.4% mainly because of the increase in transportation costs from approximately RMB3,251,000 for the six months ended 30 June 2022 to approximately RMB3,940,000 for the six months ended 30 June 2023.

Administrative expenses

The administrative expenses decreased by approximately RMB218,000 or 2.4% from approximately RMB8,996,000 for the six months ended 30 June 2022 to approximately RMB8,778,000 for the six months ended 30 June 2023. The decrease was mainly due to the decrease in professional service fees.

Research and development expenses

The research and development expenses increased by approximately RMB440,000 or 9.0% from approximately RMB4,903,000 for the six months ended 30 June 2022 to approximately RMB5,343,000 for the six months ended 30 June 2023. 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 – net for the six months ended 30 June 2023 and 2022 amounted to approximately RMB1,955,000 and RMB637,000, respectively. The increase in other gains – net mainly due to the increase in government grants from approximately RMB98,000 for the six months ended 30 June 2022 to approximately RMB1,915,000 for the six months ended 30 June 2023.

Finance expenses – net

The finance expenses – net increased from approximately RMB3,229,000 for the six months ended 30 June 2022 to approximately RMB3,477,000 for the Reporting Period mainly as a result of increase in bank borrowings and average borrowing interest rate.

Income tax (expense)/credit

The income tax expenses for the six months ended 30 June 2023 was approximately RMB175,000, while there was a income tax credit of approximately RMB371,000 for the six months ended 30 June 2022. The details are set out in note 9 to the financial statements.

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

As a result of the foregoing, profit for the period attributable to the equity holders of the Company was approximately RMB4,028,000 for the six months ended 30 June 2022, while there was a loss for the period attributable to the equity holders of the Company of approximately RMB1,005,000 for the six months ended 30 June 2022.

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 5.75% and 10.00% 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 report.

As at 30 June 2023, the Group had cash and cash equivalents of RMB18,588,000 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 Reporting Period, the Group's cash and cash equivalents decreased by approximately RMB798,000, which mainly comprised the net cash generated from operating activities of approximately RMB2,126,000, net cash used in investing activities of approximately RMB4,034,000, net cash generated from financing activities of approximately RMB1,103,000, and the foreign exchange gain of approximately RMB7,000. Details of cash flows of the Group are set out on page 7 of the "Unaudited condensed consolidated cash flow statement" of this report.

Capital Structure

Indebtedness

The total indebtedness of the Group as at 30 June 2023 was approximately RMB121,266,000 (as at 31 December 2022: approximately RMB120,016,000). 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 2023, the Group's gearing ratio was approximately 86.2% (as at 31 December 2022: 87.4%), 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 decrease was mainly due to increase in total equity.

Pledge of assets

As at 30 June 2023, the Group had pledged certain buildings, fixtures and facilities, land use rights and time deposits with aggregate carrying amount of approximately RMB15,707,000 (as at 31 December 2022: approximately RMB15,707,000).

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 RMB9,903,546 and RMB4,434,000 for the six months ended 30 June 2023 and 2022, 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 2023, 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 2023, 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

The solvent-based coatings use organic solvents as dispersion media, mainly including hydrocarbon, ketone, alcohol, ester and ether. The organic solvents are highly volatile and produce volatile organic compounds (VOCs). Therefore, it is the development direction of the coating industry to strictly control the VOC emission during the coating production and coating process, accelerate the development of coatings without or with less organic solvents, realize the transformation from traditional coatings to green coatings, and achieve greening and cleaning of the coating production and coating process.

The Group develops highly dispersed bentonite for the production of high-solid coatings and solvent-free coatings. The bentonite of Renheng has super high dispersion in alkyd resin and epoxy resin, which improves the stability of the coating. The solid content of the coating is up to 70%. Furthermore, the low viscosity of the coating ensures stability and eliminates the need for organic solvents to thin the coating, thus achieving a low or no solvents. A patent has been applied for. High solid and solvent-free coatings can be applied indoors or outdoors to large and complex structures with a high tolerance to ambient temperature and humidity. The Group participated in the key stage of coating formulation design, introduced bentonite products, and adopted appropriate resin and solvent systems to make the VOC emission of coating meet green paint standards and control VOC emission from the source.

The energy crisis and ecological protection have attracted more and more attention around the world, and the recycling of wastepaper as one of solutions has also gained more and more attention from people working in relevant fields around the world. Laws and regulations have been formulated to regulate the recycling of waste paper, and preferential policies have been introduced to encourage the recycling of waste paper. Some countries have incorporated the recycling of wastepaper into the recycling economic development system.

Due to excellent adsorption property of bentonite, the Group will help paper manufacturing enterprises take the sustainable development path of recycling economy based on the resource advantages of bentonite, and has achieved recycling development, energy conservation and emission reduction and clean production by means of comprehensive utilization of resources and environmental protection investment. The Group utilises the Company's unique bentonite raw materials to develop alternative products to paper fiber. The bentonite materials contain both bentonite and kaolin. The product has a high retention rate, most of which retained in the finished paper to increase the ash content, and adsorb other fine impurities such as fillers to improve the retention rate. The product enables paper mills to use more fillers and less pulp, and could significantly reduce production cost and clean the pulp system of the paper machine.

In the second half of 2023, the Group will promote the construction of "200,000 tonnes per annum special mortar" project. The project has been approved. The project responds to the "three products (三品)" implementation plan, improves the production technology of the special mortar industry, and improves the outdated production process. The Group adopts industrial production, strictly controls raw materials and proportions, selects the best raw materials, measures accurately and mixes evenly to ensure stable and reliable mortar quality. Special mortar is not only a change in production mode, but also a major breakthrough in design, production, quality, logistics system, construction technology and application scope. It is one of the important signs of modernization and civilization of construction, and an important means to implement resource conservation and environmental protection in the construction field and building materials industry. The special mortar is not only a change in production mode, but also a major breakthrough in design, production, quality, logistics system, construction technology and application scope. It is one of the important signs of modernization and civilization of construction, and an important means to implement resource conservation and environmental protection in the construction field and building materials industry.

Human Resources and Training

As at 30 June 2023, the Group had a total of 158 employees, of which 54 worked at the Group's headquarters in Changxing, and 104 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Reporting Period amounted to approximately RMB10,661,000 (2022: approximately RMB10,411,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

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

OTHER INFORMATION

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

As at 30 June 2023, 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 2023, 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 2023, 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 2023.

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 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.

Capital commitment

As at 30 June 2023, the Group had capital commitment amounted to approximately RMB118,000 (as at 31 December 2022: RMB76,000).

Dividends

The Board resolved not to recommend the payment of any interim dividends for the six months ended 30 June 2023 (2022: 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 report, 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, the results announcement and this interim report of the Company for the six months ended 30 June 2023 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 interim report 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 report.

Disclosure of information

The interim report for the six months ended 30 June 2023 will be dispatched to shareholders of the Company and published on the Company's website at www.renheng.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

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

Zhejiang, the PRC, 14 August 2023

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. Zhang Lei, Mr. Chen Jianping and Mr. Tang Jingyan.