



长安仁恒

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

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

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**

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

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This announcement, for which the directors (the "**Directors**") of Zhejiang Chang'an Renheng Technology Co., Ltd.\* (the "**Company**", together with its subsidiaries, the "**Group**", "**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**

- Revenue increased by 7.6% to approximately RMB162,278,000 (2022: RMB150,818,000).
- Gross profit increased by 18.2% to approximately RMB65,363,000 (2022: RMB55,290,000).
- Gross profit margin was approximately 40.3% (2022: 36.7%).
- Profit before taxation increased by 63.9% to approximately RMB2,638,000 (2022: RMB1,610,000).
- Profit attributable to the equity holders of the Company for the year ended 31 December 2023 increased by 62.2% to approximately RMB2,303,000 (2022: RMB1,420,000).
- Basic earnings per share increased by 50.0% to approximately RMB0.06 (2022: RMB0.04).
- The Board did not recommend the payment of any final dividends for the year ended 31 December 2023 (2022: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Zhejiang Chang’an Renheng Technology Co., Ltd.\* (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to present the audited annual results of the Group for the year ended 31 December 2023 (the “**Year Under Review**”) and selected explanatory notes, together with the comparative figures for the year ended 31 December 2022 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	RMB	RMB
<b>Revenue</b>	3	<b>162,277,897</b>	150,817,540
Cost of sales	6	<u>(96,914,686)</u>	<u>(95,527,150)</u>
<b>Gross profit</b>		<b>65,363,211</b>	55,290,390
Selling expenses	6	(24,248,648)	(20,305,343)
Administrative expenses	6	(20,952,985)	(16,812,660)
Net impairment losses on financial assets	6	(1,982,165)	(576,092)
Research and development expenses	6	(11,585,685)	(10,613,283)
Other income	4	2,500,087	349,661
Other gains – net	5	<u>78,734</u>	<u>725,698</u>
<b>Operating profit</b>		<b>9,172,549</b>	8,058,371
Finance income	7	230,563	37,507
Finance costs	7	<u>(6,765,587)</u>	<u>(6,485,751)</u>
Finance costs – net	7	<u>(6,535,024)</u>	<u>(6,448,244)</u>
<b>Profit before income tax</b>		<b>2,637,525</b>	1,610,127
Income tax expense	8	<u>(334,849)</u>	<u>(189,920)</u>
<b>Profit for the year attributable to the equity holders of the Company</b>		<b>2,302,676</b>	1,420,207
<b>Other comprehensive income</b>		<u>–</u>	<u>–</u>
<b>Total comprehensive income for the year attributable to the equity holders of the Company</b>		<b><u>2,302,676</u></b>	<b><u>1,420,207</u></b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)</b>			
– Basic and diluted	9	<b><u>0.06</u></b>	<b><u>0.04</u></b>

## CONSOLIDATED BALANCE SHEET

as at 31 December 2023

		As at 31 December	
		2023	2022
	Note	RMB	RMB
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>90,871,199</b>	84,460,619
Right-of-use assets		<b>5,584,475</b>	6,117,932
Leasehold improvements and other non-current assets		<b>32,096,391</b>	25,096,363
Deferred income tax assets		<b>3,079,752</b>	3,142,353
		<b><u>131,631,817</u></b>	<u>118,817,267</u>
<b>Current assets</b>			
Inventories	10	<b>65,889,150</b>	60,820,690
Trade and other receivables and prepayments	11	<b>72,264,302</b>	69,127,257
Financial assets at fair value through other comprehensive income (FVOCI)		<b>5,064,216</b>	3,910,569
Prepaid income tax		<b>344,748</b>	118,651
Restricted cash	12	<b>2,766,988</b>	6,002,417
Cash and cash equivalents	12	<b>14,888,159</b>	19,355,608
		<b><u>161,217,563</u></b>	<u>159,335,192</u>
<b>Total assets</b>		<b><u>292,849,380</u></b>	<u>278,152,459</u>
<b>EQUITY</b>			
<b>Capital and reserve attributable to equity holders of the Company</b>			
Share capital	13	<b>38,400,000</b>	38,400,000
Other reserves		<b>50,347,405</b>	50,058,545
Retained earnings		<b>28,682,282</b>	26,668,466
<b>Total equity</b>		<b><u>117,429,687</u></b>	<u>115,127,011</u>

		<b>As at 31 December</b>	
		<b>2023</b>	2022
	<i>Note</i>	<b>RMB</b>	<b>RMB</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants		<b>2,163,057</b>	303,561
Provisions for environmental rehabilitation		<b>2,626,754</b>	2,131,093
Borrowings		<b>21,316,000</b>	27,950,000
Lease liabilities		<u>–</u>	<u>95,831</u>
		<b><u>26,105,811</u></b>	<b><u>30,480,485</u></b>
<b>Current liabilities</b>			
Deferred government grants		<b>281,241</b>	52,471
Trade and other payables	<i>14</i>	<b>58,851,610</b>	40,158,141
Borrowings		<b>90,085,200</b>	92,066,000
Lease liabilities		<u>95,831</u>	<u>268,351</u>
		<b><u>149,313,882</u></b>	<b><u>132,544,963</u></b>
<b>Total liabilities</b>		<b><u>175,419,693</u></b>	<b><u>163,025,448</u></b>
<b>Total equity and liabilities</b>		<b><u>292,849,380</u></b>	<b><u>278,152,459</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 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 papermaking bentonite chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products.

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

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

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

The consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 28 March 2024.

## 2 SUMMARY OF ACCOUNTING POLICIES

This note provides a list of the accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Summary of material accounting policies

#### 2.1.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards (“**IFRS**”) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and associates measured at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The consolidated financial statements are prepared on a going concern basis.

*(a) New and amended standards adopted by the Group*

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2023:

- Disclosure of Accounting Policies – Amendments to International Accounting Standards (IAS) 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates – Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12

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

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

	Effective for annual periods beginning on or after
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2024
Non-current liabilities with covenants – Amendments to IAS 1	1 January 2024
Lease liability in sale and leaseback – Amendments to IFRS 16	1 January 2024
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	1 January 2024
Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause – Hong Kong Interpretation 5 (2020)	1 January 2024

### ***2.1.2 Principles of consolidation***

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.2.1).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### ***2.1.3 Foreign currency translation***

#### ***(a) Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company and its subsidiaries' functional and the Group's presentation currency.

#### ***(b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses) - net.



#### **2.1.4 Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	<b>Estimated useful lives</b>	<b>Estimated residual rate</b>
Buildings, fixtures and facilities	5 to 40 years	5%
Machinery and equipment	4 to 10 years	5%
Vehicles	4 to 10 years	5%
Electronic and office equipment	3 to 5 years	5%

Construction in progress represents buildings, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.1.6).

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

#### **2.1.5 Leasehold improvements and other non-current assets**

Leasehold improvements and other non-current assets are stated at cost and amortised over the lower of expected beneficial periods or lease periods on a straight-line basis, net of any impairment losses, if any (Note 2.1.6).

### **2.1.6 Impairment of non-financial assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### **2.1.7 Investments and other financial assets**

#### *(i) Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### *(ii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### *(iii) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(iv) *Impairment*

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 11 for further details.

**2.1.8 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**2.1.9 Trade and other receivables**

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 11 for further information about the Group's accounting for trade receivables.

**2.1.10 Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**2.1.11 Restricted cash**

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as time deposits as security deposits for borrowing agreement, guaranteed deposits for issuance of bills payable and guaranteed deposits for purchase of equipment. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

### **2.1.12 Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **2.1.13 Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### **2.1.14 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### **2.1.15 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### **2.1.16 Employee benefits**

#### *(a) Pension obligations*

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

#### *(b) Housing benefits*

The Group contributes to the state-prescribed housing fund. Such costs are charged to profit or loss as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

#### *(c) Bonus entitlements*

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

### **2.1.17 Provisions**

Provisions for environmental rehabilitation are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### **2.1.18 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax.

#### *Sales of goods*

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been transferred to the buyer, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### **2.1.19 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### **2.1.20 Research and development**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### **2.1.21 Leases**

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

### **2.1.22 Interest income**

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 7 below. Any other interest income is included in other income.



## 2.2 Summary of other potentially material accounting policies

### 2.2.1 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

### ***2.2.2 Separate financial statements***

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### ***2.2.3 Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive director of the Company that makes strategic decisions.

### ***2.2.4 Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### ***2.2.5 Earnings per share***

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

### ***2.2.6 Dividend distribution***

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### ***2.2.7 Safety fund***

According to CaiQi [2022] No 136 "Management measures for the accruals and utilization of safety fund for enterprises", issued by the Ministry of Finance ("MOF") and Ministry of Emergency, the Group is required to accrue a "safety fund" to improve the production safety. Accruals to the safety fund are treated as an appropriation to reserves, which will be reversed to retained earnings upon utilization and charged to cost of sales.

### 3 REVENUE

	Year ended 31 December	
	2023	2022
	RMB	RMB
– Recognised at a point in time		
Organic bentonite	98,057,375	86,176,552
Papermaking chemicals series	35,861,709	40,431,887
Inorganic gel	19,818,703	18,570,069
Dry strength agent	3,323,095	1,729,573
Quality calcium-bentonite	1,600,204	1,642,834
Other chemicals (i)	3,616,811	2,266,625
	<u>162,277,897</u>	<u>150,817,540</u>

For the year ended 31 December 2023, only one external customer contributed 10% or above of the Group's revenue amounted to RMB18,485,624 (2022: one external customer, RMB23,234,770).

(i) Other chemicals mainly comprise flocculating agent, which are principally applied in the sewage purification.

### 4 OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB	RMB
Government grants		
– Relating to assets	196,734	52,471
– Relating to costs (i)	956,133	297,190
– Additional deduction of value-added tax	1,347,220	–
	<u>2,500,087</u>	<u>349,661</u>

(i) The government grants relating to costs were certain cost-related unconditional subsidies which were granted to award the Group's effort on environmental production, product development, contribution of tax payment and innovation.

## 5 OTHER GAINS – NET

	Year ended 31 December	
	2023	2022
	RMB	RMB
Net foreign exchange gains	11,270	480,527
Net gain on disposal of property, plant and equipment	47,078	18,769
Donations	(260,000)	(132,000)
Others	280,386	358,402
	<u>78,734</u>	<u>725,698</u>

## 6 EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB	RMB
Changes in finished goods	(4,891,159)	6,051,571
Raw materials and consumables used	73,922,966	64,760,656
Employee benefit expenses	28,518,993	21,247,552
Transportation expenses	14,339,641	14,681,557
Utilities	14,942,364	14,495,804
Depreciation	6,687,128	6,082,432
Travelling and communication expenses	3,370,298	3,213,572
Amortisation of leasehold improvements and other non-current assets	3,525,749	3,022,460
Entertainment expenses	3,519,309	1,776,172
Taxes and levies	2,014,669	1,708,303
Provision for impairment of trade and other receivables	1,882,165	576,092
Marketing and promotion expenses	1,726,014	636,647
Maintenance expenses	1,595,812	1,021,730
Professional service fees	1,502,966	1,802,293
Audit remuneration	1,200,000	1,200,000
Amortisation of right-of-use assets	533,456	519,189
Provision for impairment of FVOCI	100,000	–
Miscellaneous	1,193,798	1,038,498
	<u>155,684,169</u>	<u>143,834,528</u>
Total cost of sales, selling expenses, administrative expenses, net impairment losses on financial assets and research and development expenses		

## 7 FINANCE COSTS – NET

	Year ended 31 December	
	2023	2022
	RMB	RMB
Finance income		
– Interest income derived from bank deposits	<u>230,563</u>	<u>37,507</u>
Finance costs		
– Interest expense	(6,802,074)	(6,460,269)
– Lease liabilities	(25,421)	(27,237)
– Foreign exchange gains on cash and cash equivalents – net	<u>61,908</u>	<u>1,755</u>
	<u>(6,765,587)</u>	<u>(6,485,751)</u>
Finance costs – net	<u>(6,535,024)</u>	<u>(6,448,244)</u>

## 8 INCOME TAX EXPENSE

This note provides an analysis of the Group's income tax expense and shows how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

### (a) Income tax expense

	Year ended 31 December	
	2023	2022
	RMB	RMB
Current tax expense	(272,248)	(759,941)
Deferred tax (expense)/benefit	<u>(62,601)</u>	<u>570,021</u>
Income tax expense	<u>(334,849)</u>	<u>(189,920)</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 8 December 2023 to 7 December 2026.

The subsidiary Yangyuan Renheng Fine Clay Co., Ltd. (Renheng Refined Clay) obtained the certificates of High and New Tech Enterprises from the Ministry of Science and Technology, Ministry of Finance and office of the State Administration of Taxation and local taxation bureau of Heibei province, which granted tax preferential rate of 15% for three years from 1 December 2021 to 30 November 2024.

The other subsidiary is subject to income tax rate of 25% for the years ended 31 December 2023 and 2022.

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

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

	Year ended 31 December	
	2023	2022
	RMB	RMB
Profit before tax	<u>2,637,525</u>	<u>1,610,127</u>
Tax calculated at applicable corporate income tax rate	(659,381)	(419,784)
Expenses not deductible for tax purposes	(476,222)	(247,693)
Additional deduction for research and development expenses (i)	1,731,046	1,758,042
Unused tax losses for which no deferred tax asset has been recognised	(1,165,979)	(872,445)
Preferential tax rate impact of the Company	<u>235,687</u>	<u>(408,040)</u>
Income tax expense	<u><u>(334,849)</u></u>	<u><u>(189,920)</u></u>

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

**9 EARNING PER SHARE**

**(a) Basic**

Basic earnings per share is calculated by dividing the earnings attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the years ended 31 December 2023 and 2022.

	Year ended 31 December	
	2023	2022
	RMB	RMB
Profit attributable to the equity holders of the Company	2,302,676	1,420,207
Weighted average number of ordinary shares in issue	<u>38,400,000</u>	<u>38,400,000</u>
Basic earnings per share (RMB per share)	<u><u>0.06</u></u>	<u><u>0.04</u></u>

**(b) Diluted**

The fully diluted earnings per share for the years ended 31 December 2023 and 2022 are the same as the basic earnings per share as there were no dilutive potential ordinary share for the years ended 31 December 2023 and 2022.

## 10 INVENTORIES

	As at 31 December	
	2023	2022
	RMB	RMB
Raw materials	52,879,197	52,902,113
Finished goods	10,268,546	5,377,387
Low value consumables	3,438,092	3,237,875
	<u>66,585,835</u>	<u>61,517,375</u>
Less: provision for write-down	<u>(696,685)</u>	<u>(696,685)</u>
	<u>65,889,150</u>	<u>60,820,690</u>

The cost of inventories recognised as cost of sales amounted to RMB94,900,017 and RMB93,720,848 for the years ended 31 December 2023 and 2022, respectively.

## 11 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2023	2022
	RMB	RMB
Trade receivables	71,469,009	64,611,918
Less: provision for impairment	<u>(6,445,799)</u>	<u>(4,332,677)</u>
Trade receivables – net (1)	<u>65,023,210</u>	<u>60,279,241</u>
Other receivables	959,772	2,025,191
Less: provision for impairment	<u>(104,697)</u>	<u>(335,654)</u>
Other receivables – net (2)	<u>855,075</u>	<u>1,689,537</u>
Prepayments (3)	<u>6,386,017</u>	<u>7,158,479</u>
Trade and other receivables and prepayments - net	<u>72,264,302</u>	<u>69,127,257</u>
Current portion	<u>72,264,302</u>	<u>69,127,257</u>

As at 31 December 2023 and 2022, the fair values of the trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB</b>	<b>RMB</b>
RMB	<b>68,208,125</b>	65,667,368
USD	<b>4,056,177</b>	3,459,889
	<b><u>72,264,302</u></b>	<b><u>69,127,257</u></b>

**(1) The aging analysis of trade receivables is as follows:**

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB</b>	<b>RMB</b>
– Within 180 days	<b>47,396,394</b>	47,238,592
– Over 180 days and within 1 year	<b>16,369,448</b>	11,256,733
– Over 1 year and within 2 years	<b>3,538,361</b>	3,913,262
– Over 2 years and within 3 years	<b>2,271,548</b>	2,203,331
– Over 3 years	<b>1,893,258</b>	–
	<b><u>71,469,009</u></b>	<b><u>64,611,918</u></b>

The credit period granted to customers is normally between 90 days to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

	<b>Year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB</b>	<b>RMB</b>
At the beginning of the year	<b>4,332,677</b>	12,479,868
Provision for impairment ( <i>Note 6</i> )	<b>2,113,122</b>	807,819
Write off of impairment provision	<b>–</b>	(8,955,010)
At the end of the year	<b><u>6,445,799</u></b>	<b><u>4,332,677</u></b>

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



(2) As at 31 December 2023 and 2022, details of other receivables are as follows:

	As at 31 December	
	2023	2022
	RMB	RMB
<b>Current:</b>		
Related party borrowing	28,665	28,665
Staff advances	107,200	1,320,070
Deposits	475,649	335,166
Others	348,258	341,290
	<u>                    </u>	<u>                    </u>
<b>Total</b>	<b><u>959,772</u></b>	<b><u>2,025,191</u></b>

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

	Year ended 31 December	
	2023	2022
	RMB	RMB
At the beginning of the year	335,654	567,381
Reversal of impairment ( <i>Note 6</i> )	<u>(230,957)</u>	<u>(231,727)</u>
At the end of the year	<b><u>104,697</u></b>	<b><u>335,654</u></b>

Reversal of provision for other receivables is charged to the consolidated statement of comprehensive income.

(3) As at 31 December 2023 and 2022, prepayments are in connection with:

	As at 31 December	
	2023	2022
	RMB	RMB
Purchase of raw materials	5,497,970	6,836,088
Service fees	344,927	19,042
Input VAT to be deducted	543,120	303,349
	<u>                    </u>	<u>                    </u>
	<b><u>6,386,017</u></b>	<b><u>7,158,479</u></b>

## 12 CASH AND BANK BALANCES

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB</b>	<b>RMB</b>
Cash at bank and on hand (1)	<b>17,655,147</b>	25,358,025
Less: Restricted cash (2)	<u><b>(2,766,988)</b></u>	<u>(6,002,417)</u>
Cash and cash equivalents	<u><b>14,888,159</b></u>	<u>19,355,608</u>

Cash at bank and in hand are denominated in:

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB</b>	<b>RMB</b>
– RMB	<b>17,654,509</b>	25,357,866
– HKD	<u><b>638</b></u>	<u>159</u>
	<u><b>17,655,147</b></u>	<u>25,358,025</u>

(1) Cash and cash equivalents are deposits with original maturity within 3 months. The Group earns interest on cash and cash equivalents, at fixed annual rates of 0.20% and 0.25% for the years ended 31 December 2023 and 2022, respectively.

(2) As at 31 December 2023 and 2022, details of restricted cash is as follows:

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB</b>	<b>RMB</b>
Time deposits	<b>2,700,000</b>	6,000,000
Guaranteed deposits	<u><b>66,988</b></u>	<u>2,417</u>
	<u><b>2,766,988</b></u>	<u>6,002,417</u>

## 13 SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital RMB</b>
At 31 December 2022 and 31 December 2023	<u><b>38,400,000</b></u>	<u>38,400,000</u>

## 14 TRADE AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB	RMB
Trade payables	39,371,472	24,664,261
Other payables	12,184,777	8,901,509
Staff salaries and welfare payables	6,051,355	3,564,067
Accrued taxes other than income tax	<u>1,244,006</u>	<u>3,028,304</u>
	<u><b>58,851,610</b></u>	<u><b>40,158,141</b></u>

As at 31 December 2023 and 2022, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2023 and 2022, trade and other payables were all denominated in RMB.

The aging analysis of the trade payables is as follows:

	As at 31 December	
	2023	2022
	RMB	RMB
Trade payables		
– Within 6 months	35,105,842	20,178,003
– Over 6 months and within 1 year	367,291	100,746
– Over 1 year and within 2 years	316,111	301,027
– Over 2 years and within 3 years	157,970	418,655
– Over 3 years	<u>3,424,258</u>	<u>3,665,830</u>
	<u><b>39,371,472</b></u>	<u><b>24,664,261</b></u>

## 15 DIVIDENDS

The Board did not recommend the payment of any final dividends for the year ended 31 December 2023 (2022: Nil).

## INDUSTRY REVIEW

The Group's main business is the research, development, production and sale of bentonite fine chemicals. The main products are mainly used in two fields: paint coatings and paper manufacturing.

The national policy encourages the development of new materials, with a focus on the deep processing of non-metallic minerals such as graphite, kaolin, bentonite and diatomaceous earth. The policy increases public relations efforts in the areas of mineral homogenization, purification, ultrafine grinding, grading and surface modification, and vigorously develops mineral functional materials based on non-metallic minerals for energy conservation, fire prevention, filling and coating, environmental protection and treatment, and energy storage and insulation. The policy document mentions the urgent need to accelerate the transformation and upgrading of mineral functional materials such as bentonite.

Coating, as one kind of coating material on the surface of objects, is widely used in various industries, such as metal components, equipment, bridges, buildings, vehicles, etc., and is an important engineering material supporting the national economy. Coating cannot only improve the product appearance, prolong the product service life, but also be used for the purpose of safety and other special effects, such as electrical insulation, antifouling, resistance reduction, heat insulation, radiation resistance, electrical conductivity, magnetic conductivity, etc.

China continues to promote the urbanization construction, the national new infrastructure projects, new urbanization, urban redevelopment, urban renewal, affordable housing construction, rural revitalization and other policy opportunities will become new growth points of coating demand. Under the new era background, environmental protection requirements have become stricter, green, low carbon, innovation, high-quality development have become the main theme of the industry, household consumption upgrading accelerated, driving the development of the home decoration recoating and the high-end environmental protection coating markets, high-quality products and construction services will be more and more popular. The 20th CPC National Progress proposed to adhere to innovation-driven development, develop green and low-carbon industries, and steadily promote the green and low-carbon transformation. The coating enterprises are still in the strategic development opportunity period.

The 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". The Group adhered to take the path of sustainable development of circular economy, and achieved circular development, energy saving and emission reduction and clean production by means of comprehensive utilization of resources and environmental protection investment.

## **BUSINESS REVIEW**

In 2023, the Group continued to focus on promoting bentonite for paints and coatings, and promoted and applied bentonite products with high-solid coatings. China has further raised stricter requirements for coating VOC emissions. The best solutions are to improve the solid content and reduce the use of solvents, and high-solid coatings have become the industry research and development trend. However, the traditional organic bentonite is the introduction of foreign products and application technology in the early years, with the best performance of high product viscosity, but the too much high viscosity cannot be applied in the high-solid system. The Group's bentonite products have the performance and characteristics of low viscosity and easy dispersion. The prepared coating has low viscosity and high solid content, and has excellent storage and construction performance, and reduces the use of organic solvents to a higher extent.

The Group's bentonite products such as ZW, ZL which are applied in the field of construction coatings, have been processed through fine classification and purification of raw materials. The application in the field of construction coatings has completely avoided the disadvantages of traditional bentonite, and has excellent storage stability among the new construction coating products such as water-coated sand and inorganic coating products. They can improve the construction performance.

The Group attaches great importance to investment in the research and development of new products. In 2023, the research and development expenses of the Group's was RMB11,586,000.

In 2023, the Group undertook the development of two provincial-level new products. The Group has completed the production line of special mortar grease with an annual production capacity of 200,000 tons, which is located at the headquarter of the Company in Changxing, Zhejiang Province.

In 2023, the Group passed the re-evaluation of national high-tech enterprise and individual champion in Zhejiang Province. Our low-carbon and water-saving bentonite rheological additives have been included in the Catalogue of Industrial Water-saving Techniques, Technologies and Equipment Encouraged by the State (2023).

## FINANCIAL REVIEW

### 1. Revenue

The following table sets out revenue by product categories and the corresponding percentage of total revenue for the Year Under Review:

Product	For the year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Papermaking chemicals series	35,862	22.1	40,432	26.8
Organic bentonite	98,057	60.4	86,177	57.1
Inorganic gel	19,819	12.2	18,570	12.3
Dry strength agent	3,323	2.0	1,729	1.1
Quality calcium-bentonite	1,600	1.0	1,643	1.1
Other chemicals (i)	<u>3,617</u>	<u>2.2</u>	<u>2,267</u>	<u>1.6</u>
Total	<u><u>162,278</u></u>	<u><u>100.0</u></u>	<u><u>150,818</u></u>	<u><u>100.0</u></u>

(i) Other chemicals mainly comprise flocculating agent which are principally applied in the sewage purification.

Total revenue was approximately RMB162,278,000 for the year ended 31 December 2023 (2022: approximately RMB150,818,000), representing an increase of 7.6% as comparing the revenue of the Year Under Review with that of last year. The increase in revenue was mainly due to the increase in sales volume of organic bentonite during the Year Under Review as compared to the year ended 31 December 2022.

## 2. Cost of sales

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

	For the year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Cost of raw materials and consumable	<b>69,842</b>	<b>72.0</b>	69,257	72.5
Direct labour costs	<b>9,959</b>	<b>10.3</b>	9,648	10.1
Manufacturing overhead costs	<b>14,310</b>	<b>14.8</b>	14,042	14.7
Others	<b>2,804</b>	<b>2.9</b>	2,580	2.7
Total	<b><u>96,915</u></b>	<b><u>100.0</u></b>	<u>95,527</u>	<u>100.0</u>

The cost of sales increased by approximately RMB1,388,000 or 1.5% from approximately RMB95,527,000 for the year ended 31 December 2022 to approximately RMB96,915,000 for the year ended 31 December 2023.

Cost of raw materials and consumable accounted for approximately 72.0% and 72.5% of cost of sales for the year ended 31 December 2023 and 2022, respectively. The cost of raw materials and consumable increased by approximately RMB585,000 or 0.8% from approximately RMB69,257,000 for the year ended 31 December 2022 to approximately RMB69,842,000 for the year ended 31 December 2023 was mainly due to the increase in production volume and average unit cost of CPAM. CPAM was the major raw material for a kind of product in papermaking chemicals with a relatively high unit cost. As the average unit cost of CPAM increased for the year ended 31 December 2023, the overall cost of sales increased accordingly.

Direct labour costs accounted for approximately 10.3% and 10.1% of cost of sales for the year ended 31 December 2023 and 2022, respectively. Direct labour costs increased by approximately RMB311,000 or 3.2% from approximately RMB9,648,000 to RMB9,959,000 during the comparative years.

Manufacturing overhead costs accounted for approximately 14.8% and 14.7% of cost of sales for the year ended 31 December 2023 and 2022, respectively. Manufacturing overhead costs increased by approximately RMB268,000 or 1.9% from approximately RMB14,042,000 for the year ended 31 December 2022 to approximately RMB14,310,000 for the year ended 31 December 2023.

### **3. Gross profit and gross profit margin**

The gross profit increased by approximately RMB10,073,000 or 18.2% from approximately RMB55,290,000 for the year ended 31 December 2022 to approximately RMB65,363,000 for the Year Under Review. The increase was mainly due to the increase in gross profit margin.

Gross profit margin for the Year Under Review was 40.3%, representing an increase of 3.6% points as compared to 36.7% for the previous year. The increase in gross profit margin was mainly due to the change in sale mix and the decrease in unit cost of raw materials and consumable.

### **4. Selling expenses**

The selling expenses for the year ended 31 December 2023 and 2022 amounted to approximately RMB24,249,000 and RMB20,305,000, respectively. The selling expenses increased by approximately RMB3,944,000 or 19.4% mainly because of the increase in transportation expenses during the Year Under Review.

### **5. Administrative expenses**

The administrative expenses increased by approximately RMB4,140,000 or 24.6% from approximately RMB16,813,000 for the year ended 31 December 2022 to approximately RMB20,953,000 for the year ended 31 December 2023. The increase was mainly due to the increase in professional service fees and staff costs.

### **6. Net impairment losses on financial assets**

The net impairment loss on financial assets increased by approximately RMB1,406,000 or 244.1% from approximately RMB576,000 for the year ended 31 December 2022 to approximately RMB1,982,000 for the year ended 31 December 2023.



## **7. Research and development expenses**

The research and development expenses increased by approximately RMB973,000 or 9.2% from approximately RMB10,613,000 for the year ended 31 December 2022 to approximately RMB11,586,000 for the year ended 31 December 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.

## **8. Other income and gains, net**

Other income and gains, net for the year ended 31 December 2023 and 2022 amounted to approximately RMB2,579,000 and RMB1,075,000, respectively. The increase in other income and gains, net was mainly due to the increase in government grants from approximately RMB350,000 for the year ended 31 December 2022 to approximately RMB2,500,000 for the year ended 31 December 2023.

## **9. Finance costs – net**

The finance costs - net increased by approximately RMB87,000 or 1.3% from approximately RMB6,448,000 for the year ended 31 December 2022 to approximately RMB6,535,000 for the year ended 31 December 2023. The increase was mainly due to the increase of interest expenses on borrowings as a result of the increase in average bank borrowings interest rate. The bank borrowings were financed for working capital and capital investments in the production facilities.

## **10. Income tax expense**

The income tax expense for the year ended 31 December 2023 and 2022 amounted to approximately RMB335,000 and RMB190,000, respectively. The income tax expense increased by approximately RMB145,000 or 76.3% mainly due to the increase in profit before income tax. The details are set out in Note 8 to the consolidated financial statements.

The effective tax rates were 12.7% and 11.8% for the years ended 31 December 2023 and 2022, respectively.

## **11. Profit for the year attributable to the equity holders of the Company**

As a result of the foregoing, the profit for the year attributable to the equity holders of the Company increased by approximately RMB883,000 or 62.2% from approximately RMB1,420,000 for the year ended 31 December 2022 to approximately RMB2,303,000 for the year ended 31 December 2023.

## ANALYSIS OF MAJOR BALANCE SHEET ITEMS

### 1. Inventories

The inventories comprise raw materials, finished goods and low-value consumables. The following table sets out the inventories as at balance sheet dates indicated:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials	52,879	52,902
Finished goods	9,572	4,681
Low-value consumables	3,438	3,238
Total	<u>65,889</u>	<u>60,821</u>

Raw materials mainly comprised bentonite and CPAM. Finished goods are bentonite fine chemicals mainly applied in the papermaking industries. The Group customizes the formulas for bentonite fine chemicals based on customers' requirements and makes enhancement in response to customers' production conditions.

#### *Provision for impairment of inventories*

The Group has established policies to evaluate the amount of provision required for impairment of inventories. The Group inspects and reviews the aging and conditions of inventories on a regular basis. If the Group considers that the inventories have become obsolete or damaged, provision for impairment of inventories will be provided against these inventories to reflect the net realisable value of these inventories.

The amount of the provision for impairment of inventories was approximately RMB697,000 at 31 December 2023 (31 December 2022: RMB697,000).

#### *Inventory turnover*

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

	Year ended 31 December	
	2023	2022
Average inventory turnover days (note)	<u>239</u>	<u>229</u>

*Note:*

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

The average inventory turnover days increased from 229 days for the year ended 31 December 2022 to 239 days for the year ended 31 December 2023. The increase in average inventory turnover days in 2023 was primarily due to the increase in average inventory.

## 2. Trade and other receivables and prepayments

The following table sets out an analysis of the Trade and other receivables and prepayments as at the balance sheet dates indicated:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	<b>71,469</b>	64,612
Less: provision for impairment	<u>(6,446)</u>	<u>(4,333)</u>
Trade receivables – net	<u><b>65,023</b></u>	<u>60,279</u>
Other receivables	<b>960</b>	2,025
Less: provision for impairment	<u>(105)</u>	<u>(336)</u>
Other receivables – net	<u><b>855</b></u>	<u>1,690</u>
Prepayments	<u><b>6,386</b></u>	<u>7,158</u>
Trade and other receivables and prepayments – net	<b>72,264</b>	69,127
Less: non-current portion	<u>–</u>	<u>–</u>
Current portion	<u><b>72,264</b></u>	<u>69,127</u>

### *Trade receivables*

Trade receivables as at 31 December 2023 and 2022 mainly represented the outstanding amounts of receivable from customers less any provision for impairment of trade receivables. The following table sets out an analysis of the trade receivables as at the balance sheet dates indicated:

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Trade receivables	<b>71,469</b>	64,612
Less: provision for impairment	<b>(6,446)</b>	(4,333)
Trade receivables – net	<b><u>65,023</u></b>	<b><u>60,279</u></b>

The customers are normally required to make payment pursuant to the credit terms which is determined by the length of the customers' relationship with the Group and the contract value. The Group generally provides a credit term normally from 90 days to 180 days to its customers.

The table below sets out the aging breakdown of trade receivables as at the balance sheet dates indicated:

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Within 180 days	<b>47,396</b>	47,239
Over 180 days and within 1 year	<b>16,370</b>	11,257
Over 1 year and within 2 years	<b>3,538</b>	3,913
Over 2 years and within 3 years	<b>2,272</b>	2,203
Over 3 years	<b>1,893</b>	–
Total	<b><u>71,469</u></b>	<b><u>64,612</u></b>

The Group's trade receivables increased by approximately RMB6,857,000 or 10.6% from approximately RMB64,612,000 as at 31 December 2022 to approximately RMB71,469,000 as at 31 December 2023. The trade receivables due over 180 days increased by approximately RMB6,700,000 or 38.6% from approximately RMB17,373,000 as at 31 December 2022 to approximately RMB24,073,000 as at 31 December 2023. The increase was mainly due to the increase in trade receivables due over 3 years during the Year Under Review.

### *Trade receivables turnover days*

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

	<b>Year ended 31 December</b>	
	<b>2023</b>	<b>2022</b>
Trade receivables turnover days (note)	<b><u>153</u></b>	<b><u>157</u></b>

#### *Note:*

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

The Group's trade receivables turnover days for the years ended 31 December 2023 and 2022 was approximately 153 days and 157 days respectively. The decrease of turnover days was mainly due to the increase in revenue.

### *Provision for impairment of trade receivables*

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

The expected loss rates of trade receivables is based on the payment profiles of sales over a period of 36 month before 1 January 2023 respectively and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers. The Group has identified the GDP and Producer Price Index to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

### 3. Trade and other payables

The following table sets out an analysis of the trade and other payables as at the balance sheet dates indicated:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade payables	39,371	24,664
Other payables	12,185	8,902
Staff salaries and welfare payables	6,051	3,564
Accrued taxes other than income tax	1,244	3,028
	<u>58,851</u>	<u>40,158</u>
Total	<u>58,851</u>	<u>40,158</u>

As at 31 December 2023 and 2022, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The trade payables increased by approximately RMB14,707,000 or 59.6% from approximately RMB24,664,000 as at 31 December 2022 to approximately RMB39,371,000 as at 31 December 2023.

#### *Trade payables turnover days*

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

	Year ended 31 December	
	2023	2022
Trade payable turnover days ( <i>note</i> )	<u>121</u>	<u>88</u>

*Note:*

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

The trade payables turnover days increased from 88 days for the year ended 31 December 2022 to 121 days for the year ended 31 December 2023, which was due to the increase in average trade payables for the Year Under Review.

#### **4. Property, plant and equipment**

Our property, plant and equipment comprised (i) buildings, fixtures and facilities; (ii) machinery and equipment; (iii) vehicles; (iv) electronic and office equipment; and (v) construction in progress. The carrying amount of our property, plant and equipment increased by approximately RMB6,410,000 or 7.6% from approximately RMB84,461,000 as at 31 December 2022 to approximately RMB90,871,000 as at 31 December 2023.

### **CAPITAL STRUCTURE**

#### **1. Indebtedness**

The total indebtedness of the Group as at 31 December 2023 was approximately RMB111,401,000 (31 December 2022: approximately RMB120,016,000). During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

#### **2. Gearing ratio**

As at 31 December 2023, the Group's gearing ratio was approximately 82.2% (31 December 2022: 87.4%), calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

#### **3. Pledge of assets**

As at 31 December 2023, the Group had pledged certain land use rights and property, plant and equipment with aggregate carrying amount of approximately RMB14,967,000 (31 December 2022: approximately RMB15,707,000).

#### **4. Capital expenditures**

The capital expenditures of the Group primarily included purchases of plant and equipment, construction in progress. The Group's capital expenditures amounted to approximately RMB27,543,000 and RMB23,636,000 for the year ended 31 December 2023 and 2022, respectively.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings and other borrowings. Other borrowings were obtained from financial institutions by discounting bank acceptance notes. For the Year Under Review, the weighted average effective annual interest rate of bank borrowings was 5.01% and the weighted average effective annual interest rate of other borrowings was 2.30%. The currency of the borrowings is in Renminbi. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this announcement.

As at 31 December 2023, the Group had cash and cash equivalents of RMB14,889,000 (31 December 2022: approximately RMB19,356,000) which was mainly generated from operations of the Group.

#### **CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS**

As at 31 December 2023, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

#### **CAPITAL COMMITMENT**

As at 31 December 2023, the Group had capital commitment of approximately RMB4,677,000 (31 December 2022: approximately RMB76,000).

#### **SEGMENT INFORMATION**

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

#### **MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP**

For the year ended 31 December 2023, the Group had not made any material acquisition or disposal.



## **SIGNIFICANT INVESTMENTS**

The Company had not held any significant investments during the year ended 31 December 2023.

## **FUTURE OUTLOOK**

Due to domestic industrial upgrading and the increasing demand for green environmental protection, China is currently importing a large amount of bentonite deep-processed products at high prices. The Group is committed to developing a series of bentonite products to replace foreign products and to fill the shortcomings in the domestic market. This will not only improve the technical standard of the bentonite industry in China, but also enhance its competitiveness in the world.

The Group relies on bentonite mines and their associated mines to develop strategic new products. The products are divided into three categories: highly dispersible organic bentonite series; water-based bentonite series; and inorganic gel series. Solvent-free coatings do not use organic solvents in production to reduce VOC emissions, which is a strategic direction for the development of environmental coatings in China.

At present, a large number of imported rheological additives are used. Our products can replace imported rheological additives to solve the problem of high viscosity and thickness of solvent-free coatings, reduce the viscosity of coatings, so as to regulate and balance the contradiction between leveling and hanging. Change viscosity thickening can reduce viscosity rheology, improve storage stability, enhance anti-sinking and anti-hanging performance, reduce the production cost of the coating industry, better realize energy saving and emission reduction, and improve the economic efficiency and value.

Currently, the domestic building materials market is huge and continues to grow. Bentonite products with very low added value are largely used in the low-end market, most of them are domestic raw minerals that are simply processed for use. While the high-end market has long been monopolized by foreign companies. The price of imported products is as high as several tens of thousands of dollars per ton, and the annual use of high-end products is nearly 10,000 tons.

The bentonite products developed by the Group for building materials have high dispersibility and have no effect on the strength of building materials. The performance of these products is superior to imported products and has no effect on the strength and water resistance, and the price is lower than that of foreign products.

In 2024, the Group will devote itself to the sales promotion of special mortar. At present, the production line of “200,000 tons of special mortar per year” has been completed. In 2024, the Group will continue to adhere to the development strategy of focusing on profitability and taking innovation as the driving force. On the basis of consolidating existing products, the Group will actively develop new products.

## **HUMAN RESOURCES AND TRAINING**

For the year ended 31 December 2023, the Group had a total of 165 employees, of which 56 worked at the Group's headquarter in Changxing, and 109 stationed in Yangyuan and various regions with main responsibility of production, sales and marketing. Total staff cost for the Year Under Review amounted to RMB28,519,000 (2022: RMB21,248,000). The Group releases an annual sales guideline at the beginning of each year, formulates the sales strategies and sets out the sales targets of different sales areas after discussing with sales representatives. At the end of each year, the Group makes performance appraisal for sales personnel based on the review results and the achievement of sales target.

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

## **DIVIDENDS**

The Board resolved not to recommend the payment of any final dividends for the year ended 31 December 2023 (2022: Nil).

## **CLOSURE OF THE REGISTER OF MEMBERS OF H SHARES**

### **To be eligible to attend and vote in the forthcoming annual general meeting**

For the purpose of determining the Shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on Monday, 20 May 2024, the register of members of the Company will be closed from Saturday, 20 April 2024 to Monday, 20 May 2024 (both days inclusive) during which period no transfer of H shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's H share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. on Friday, 19 April 2024.

## **OTHER CORPORATE INFORMATION**

### **Directors' and Supervisors' Service Contracts**

Each of the Directors and supervisors has entered into a service agreement with the Company for a term of three years. No Director and supervisor has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **Directors', Supervisors' and Controlling Shareholders' Interests in Transaction, Arrangement And Contract**

None of the Directors, the supervisors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the Year Under Review.

## **Directors', Supervisors' and Chief Executive's Interests in Shares, Debentures and Underlying Shares of the Company or any Associated Corporation**

As at 31 December 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 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:

<b>Name of Director/ supervisor</b>	<b>Nature of interest</b>	<b>Number of shares in the Company held</b>	<b>Approximate percentage of Issued Share Capital</b>
Mr. Zhang Youlian	Beneficial owner	19,220,600	50.05%
Ms. Zhang Jinhua	Beneficial owner	398,400	1.04%
Mr. Xu Qinsi <sup>(i)</sup>	Interest of spouse	100,000	0.26%

- (i) Mr. Xu Qinsi, the supervisor of the Company, is deemed (by virtue of the SFO) to be interested in 100,000 domestic shares in the Company held by his spouse. Ms. Ling Weixing.

Save as disclosed above, as at 31 December 2023, none of the Directors, supervisors and chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

## **Directors' and Supervisors' Rights To Acquire Shares or Debentures**

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

## **Substantial Shareholders' and Other Persons' Interests In Shares and Underlying Shares**

As at 31 December 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:

<b>Name of Shareholder</b>	<b>Nature of interest</b>	<b>Number of shares in the Company held</b>	<b>Interest in Underlying Shares</b>	<b>Total number of shares in the Company held</b>	<b>Approximate percentage of Issued Share Capital</b>
Ms. Yu Hua	Beneficial owner	3,576,000	–	3,576,000	9.31%

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2023.

## **Corporate Governance**

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

During the Year Under Review, the Company has complied with the code provisions, other than code provisions 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 Year Under Review, the Company did not take out directors and officers liability insurance to cover liabilities arising from legal action against its directors.

### **Audit Committee**

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

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

During the Year Under Review, the Audit Committee had held four meetings and all the members attended the meetings. Pursuant to the meeting of the Audit Committee held on 28 March 2024, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2023, this results announcement, the 2023 annual report and accounting principles and practices adopted for the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this announcement complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosures have been made.

## **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the Year Under Review.

## **Public Float**

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

## **Purchases, Sale or Redemption of the Company’s Listed Securities**

For the year ended 31 December 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

## **Events After the Reporting Period**

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

## **Disclosure of Information**

This announcement of results has been published on our website at [www.renheng.com](http://www.renheng.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). The annual report of our Company for the year ended 31 December 2023 containing all the information required by the GEM Listing Rules will be dispatched to the Shareholders of our Company and published on our website at [www.renheng.com](http://www.renheng.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in due course.

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

Zhejiang, PRC, 28 March 2024

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

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its publication.*