Zhejiang Chang'an Renheng Technology Co., Ltd. *

浙江長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

ANNUAL REPORT

* For identification purpose only

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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*

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Fan Fang
Mr. She Wenjie

Non-executive Director

Ms. Zhang Jinhua

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Zhang Lei *(Chairman)*
Mr. Tang Jingyan
Mr. Chen Jianping

NOMINATION COMMITTEE

Mr. Tang Jingyan *(Chairman)*
Mr. Zhang Li
Mr. Fan Fang

REMUNERATION COMMITTEE

Mr. Zhang Li *(Chairman)*
Mr. Tang Jingyan
Mr. Fan Fang

SUPERVISORY COMMITTEE

Mr. Xu Qinsi *(Chairman)*
Mr. Zhang Donglian
Ms. Li Lijiao

COMPANY SECRETARY

Mr. Chan Hon Wan

COMPLIANCE OFFICER

Mr. Fan Fang

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan
Mr. Zhang Youlian

Corporate Information

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REGISTERED ADDRESS

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Changxing County
Zhejiang Province
PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

Laoya Tang, Si'an Town
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North Point
Hong Kong

PRINCIPAL BANKERS

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Zhicheng Town, Changxing County
Zhejiang Province, PRC

Industrial and Commercial Bank of China
Huzhou Changxing Sub-branch
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Zhejiang Province, PRC

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COMPANY'S WEBSITE

www.renheng.com

STOCK CODE

8139

Financial Highlights

	For the year ended 31 December		
	2023	2022	Changes
	RMB'000	*RMB'000*	Increase/(Decrease)
Financial Highlights			
Revenue	**162,278**	150,818	7.6%
Cost of sales	**(96,915)**	(95,527)	1.5%
Gross profit	**65,363**	55,290	18.2%
Profit before income tax	**2,638**	1,610	63.9%
Profit attributable to the equity holders of the Company	**2,303**	1,420	62.2%
Basic earnings per share (RMB)	**0.06**	0.04	50.0%
Proposed final dividends per share (HK$)	**NIL**	NIL	N/A

	As at 31 December		Changes
	2023	2022	Increase/(Decrease)
Current ratio (1)	**1.08**	1.20	(10.0)%
Quick ratio (2)	**0.64**	0.74	-14.1%
Gearing ratio (3)	**82.2%**	87.4%	(5.2)% pts

Notes:

(1) Current ratio represents total current assets divided by total current liabilities as at the relevant year end.

(2) Quick ratio represents total current assets less inventories divided by total current liabilities as at the relevant year end.

(3) Gearing ratio represents total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of Directors, I hereby present the annual report of Zhejiang Chang'an Renheng Technology Company, Limited for the year ended 31 December 2023 (the "Year Under Review") to shareholders (the 'Shareholders") and potential investors.

RESULTS OF OPERATION

The Group recorded a revenue of approximately RMB162,278,000 for the year ended 31 December 2023, representing an increase of approximately RMB11,460,000 or 7.6% as compared to the previous year of approximately RMB150,818,000. Profit for the year attributable to the equity holders of the Company was approximately RMB2,303,000, representing an increase of approximately RMB883,000 or 62.2% as compared to approximately RMB1,420,000 for the year ended 31 December 2022. The overall gross profit margin was 40.3%, representing an increase of 3.6% points as compared to 36.7% for the previous year. Earnings per share was approximately RMB0.06, representing an increase of approximately RMB0.02 or 50.0% as compared to approximately RMB0.04 for the previous year. The Board believes that the existing financial position and cash flow of the Group are sufficient to support the long-term development of the Group.

BUSINESS DEVELOPMENT OF THE GROUP

The Group is a national level high-tech enterprise integrally engaged in bentonite mining, technology research and development, production and product application services. We are a national "Specialized and New" small giant enterprise. Our bentonite series products can provide high quality rheological additives for emulsion paints, stone paints, color paints and artistic paints. The most important function of which is to improve construction performance, save labor, and empower users to increase efficiency. It is conducive to the sustainable development of low carbon and is contributable to the development of green industries.

In 2023, in accordance with our business development plan, the Group explored the application of bentonite in new fields and undertook the development of two new products at provincial level, including bentonite rheological agents for high solid content coatings and active high montmorillonite for concrete.

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).

FUTURE OUTLOOK AND PLANED STRATEGY

The Group will continue to implement the development direction set by the Board and will be committed to the promotion and application of high-end organic bentonite and high-end water-based bentonite. The Group has completed the production line of special mortar with an annual capacity of 200,000 tons. The Group will implement a full staff sales strategy to fully explore the market of special mortar. In response to national policies, the Group will develop green bentonite fine chemicals to achieve sustainable development of the Group's business.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our Shareholders, investors and business partners for their full trust and support to the Group.

Opportunity embraces excitement, innovation achieves greatness. A new year opens up new hopes and a new journey carries new dreams. We would like to thank our Directors, management team and all employees for their tireless efforts, cooperation and contributions. In 2024, we will continue to take reform and restructuring as the driving force, face difficulties, forge ahead with determination, unite and cooperate, and boldly innovate to strive for maximum returns for our Shareholders. We will work hard for the high quality and healthy development of the Group!

Mr. Zhang Youlian
Chairman of the Board

Zhejiang, the PRC, 28 March 2024

Management Discussion and Analysis

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.

Management Discussion and Analysis

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:

	For the year ended 31 December			
	2023		2022	
Product	*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)*	**3,617**	**2.2**	2,267	1.6
Total	**162,278**	**100.0**	150,818	100.0

(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.

Management Discussion and Analysis

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	
	RMB'000	*%*	*RMB'000*	*%*
Cost of raw materials and consumable	**69,842**	**72.0**	69,257	72.5
Direct labour costs	**9,959**	**10.3**	9,648	10.1
Manufacturing overhead costs	**14,310**	**14.8**	14,042	14.7
Others	**2,804**	**2.9**	2,580	2.7
Total	**96,915**	**100.0**	95,527	100.0

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 12 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.

Management Discussion and Analysis

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	**65,889**	60,821

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)*	**239**	229

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.

Management Discussion and Analysis

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

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:

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

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.

Management Discussion and Analysis

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

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

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:

	Year ended 31 December	
	2023	2022
Trade receivables turnover days *(note)*	**153**	157

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.

Management Discussion and Analysis

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
Total	**58,851**	40,158

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 *(note)*	**121**	88

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. The details are set out in Note 14 to the consolidated financial statements.

Management Discussion and Analysis

CASH FLOWS

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB4,467,000, which mainly comprised the net cash generated from operating activities of approximately RMB35,082,000, net cash used in investing activities of approximately RMB23,900,000, net cash used in financing activities of approximately RMB15,711,000, and the foreign exchange gain of approximately RMB62,000. Details of cash flows of the Group are set out on page 48 of the "Consolidated Cash Flow Statement" of this report.

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 RMB27,485,000 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 report.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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).

Directors' and Senior Management's Biographies

DIRECTORS

Executive Directors

Mr. Zhang Youlian (張有連), aged 62, was appointed as a Director and the Chairman of the Board (董事長) on 29 December 2008. Mr. Zhang graduated from Zhejiang Taizhou Business School (浙江台州商業學校) in July 1982. He worked for Changxing Agricultural Materials Co. (長興農資公司) between February 1982 and May 1987. He worked as the vice director (理事副主任) of Changxing Litang Supplier (長興里塘供銷社) between May 1987 and December 1999. He founded Changxing Renheng Fine Bentonite Co., Ltd. (長興仁恒精製膨潤土有限公司) in December 2000 and has been a Director of the Board since December 2008. Mr. Zhang has been appointed as Chairman of the board of directors of Shanghai Nongfuguoyuan Co., Ltd. (上海農夫果園有限公司), Changxing Guyinxing Tourism Resort Co., Ltd. (長興古銀杏旅遊度假山莊有限公司) and Changxing Wuguo Agriculture and Technology Co., Ltd. (長興五果農業科技有限公司), since June 2001, February 2003 and August 2010, respectively. Mr. Zhang is a brother of Ms. Zhang Jinhua (張金花), a non-executive Director; and a cousin of Mr. Zhang Donglian (張冬連), a supervisor.

Mr. Fan Fang (范芳), aged 58, was appointed as a Director of the Company on 29 December 2008 and is a member of the Nomination Committee and a member of Remuneration Committee. Mr. Fan graduated from Jinhua Supply and Marketing College in Zhejiang Province (浙江省金華供銷學校) in July 1985. He was responsible for financial matters of a subsidiary of the Changxing County Supplier (長興縣供銷社) between September 1985 and December 1997. Mr. Fan has been appointed as the head of the finance department of the Company since March 2003. Mr. Fan was appointed as the financial controller of the Company as well on 15 August 2019.

Mr. She Wenjie (佘文傑先生), aged 36, was appointed as a Director on 19 October 2019. Mr. She has been a salesman of our Company since 2016. From 2012 to 2016, Mr. She worked as a salesman of Zvhejiang Hougyu New Materials Co., Ltd.* (浙江紅宇新材料股份有限公司). Mr. She held the position of a sales manager of the Northern West district of Changxing Dingneng Electrical Co., Ltd.* (長興鼎能電源有限公司). He completed his tertiary education at Chagnxing Huasheng Huasheng Hongxi Secondary School* (長興華盛洪溪中學) in 2006.

Non-Executive Director

Ms. Zhang Jinhua (張金花), aged 51, was appointed as a non-executive Director of the Company on 14 May 2016. She worked for Changxing Gulong Hotel (長興古龍大酒店) from January 1994 to December 2002 and was in charge of procurement work for the hotel. She joined the Company in January 2003 and was in charge of finance related work of the Company. Ms. Zhang is the sister of Mr. Zhang Youlian (張有連), the executive Director and Chairman of the Company and a cousin of Mr. Zhang Donglian (張冬連), a supervisor of the Company.

Directors' and Senior Management's Biographies

Independent Non-Executive Directors

Mr. Zhang Lei (章磊), aged 42, was appointed as an independent non-executive Director, the chairman of the Audit Committee and Remuneration Committee, and a member of Nomination Committee on 11 May 2019. He obtained a bachelor's degree in management which was awarded by Zhejiang University of Finance and Economics (浙江財經大學) in June 2003 and a master's degree in accounting which was awarded by Xiamen University (廈門大學) in December 2013. He served as the audit project manager and the department manager in Zhejiang Oriental Accounting Firm and a manager and a partner of Tianjian Certified Public Accountants. He had been a partner of Ruihua Certified Public Accountants. At present, he is a senior partner of Zhonghui Certified Public Accountants. He is a Certified Public Accountant and an International Internal Auditor. He is also a tutor for the program of Master of Accounting at Zhejiang University of Technology (浙江工業大學) and a tutor for the Master of Professional Accounting of Zhejiang University (浙江大學).

Mr. Tang Jingyan (唐靖炎先生), aged 67, was appointed as an independent non-executive Director, the chairman of the Nomination committee and a member of Audit Committee and Remuneration Committee on 19 October 2019. Mr. Tang has been a vice president of the China Non-metallic Minerals Industry Association since August 2016. From 2006 to 2016, Mr. Tang was the chairman and general manager of Suzhou SINOMA Design & Research Institute of Non-metallic Minerals Industry Co., Ltd.* (中國建材集團蘇州中材非金屬礦工業設計研究院有限公司), the director of the National Institute of Non-metallic Mineral Processing Engineering Technology* (國家非金屬礦深加工工程技術研究中心) and a vice president of Sinoma Science & Technology Co., Ltd.* (中材科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 00280). Mr. Tang was awarded the title of professorate senior engineer in 1999. From 1990 to 1996, Mr. Tang worked in Suzhou Non-metallic Mineral Industry Design Academia* (蘇州非金屬礦工業設計研究院) and became the deputy president in 1993 and the president in 1996 respectively. Mr. Tang obtained his doctorate degree in mineral processing engineering from Wuhan University of Technology in 2008 and obtained his bachelor's degree from JiangXi University of Science and Technology in 1982 respectively.

Mr. Chen Jianping (陳建平), aged 65, was appointed as an independent non-executive Director and a member of Audit Committee on 21 February 2022. Mr. Chen obtained a bachelor's degree in administrative management profession and law awarded by East China Normal University in 1989 and a master degree of advanced business administration awarded by National Accounting Institute in 2007. In 2000, he obtained the qualification as a senior economist. Mr. Chen has worked in the futures industry for nearly thirty years. He participated in the establishment of the Shanghai Grain and Oil Commodity Exchange* (上海糧油商品交易所) from 1991 to 1998, and had worked as the manager of the trading department of the Shanghai Grain and Oil Commodity Exchange. He participated in the establishment of the Shanghai Futures Exchange from 1998 to 2015, and had worked as the senior supervisor of the trading department, information department, marketing department, membership department and supervision department of the Shanghai Futures Exchange and the executive supervisor of the trading operation committee of the Shanghai Futures Exchange. He had worked as the executive dean, dean and director of Shanghai Institute of Futures and Derivatives from 2015 to 2018. He had worked as the chief of the postdoctoral workstation and postdoctoral tutor of Shanghai Futures Exchange from 2015 to 2018.

He had served as an arbitrator of the Shanghai Arbitration Commission from 1995 to 2001, a member of the Futures Company Classification Supervision Review Committee of the China Securities Regulatory Commission from 2009 to 2012, and a member of the Futures Analyst Committee of the China Futures Association from 2008 to 2011. From 2020 to 2021, he has been a part-time professor in Shanghai Ocean University. Since 2020, he has been a corporate tutor of the College of Economics and Management of Shanghai Ocean University. Since 2018, he has been a member of the Academic Committee of the Beijing Dalian Commodity Exchange Futures and Options Research Centre* (北京大商所期貨與期權研究中心).

Directors' and Senior Management's Biographies

SUPERVISORY COMMITTEE

Mr. Xu Qinsi (徐勤思), aged 59, is the chairman of the Supervisory Committee and was appointed as a Supervisor on 1 September 2012. He is an economist. Mr. Xu served as the vice plant manager of Changxing Thread Factory (長興線廠) between October 1993 and August 2005. He graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), majored in economic management, in December 1997. Mr. Xu served as the head of the office of the Company between September 2006 and March 2009. He worked for Zhejiang Tailun Insulator Co., Ltd. (浙江泰侖絕緣子有限公司) as a deputy director of its supply department between May 2009 and August 2010. Mr. Xu joined the Company again in August 2010 and has been responsible for human resources management.

Mr. Xu Qinsi is a brother of Ms. Xu Qinwei (徐勤偉), the general manager of the Company, and the spouse of Ms. Ling Weixing (淩衛星), a Shareholder. Save as disclosed, Mr. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Zhang Donglian (張冬連), aged 57, was appointed as a Supervisor on 29 December 2008. Mr. Zhang joined the Company in March 2007 and he is now the deputy general manager of Yangyuan Renheng Fine Clay Co., Ltd. (陽原縣仁恒精細粘土有限責任公司). Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian (張有連), an executive Director, and Ms. Zhang Jinhua (張金花), a Shareholder and a non-executive Director. Save as disclosed, Mr. Zhang does not have any relationship with any other Director, Supervisor, senior management of the Company, the Substantial Shareholder or the Controlling Shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Ms. Li Lijiao (李麗姣), aged 34, was elected as the employee representative to serve as a Supervisor on 22 March 2019. Ms. Li graduated from Hanzhou Institute of Technology (杭州職業技術學院) in June 2011. She worked for Changxing County Changshung Motor Sales Services Co. Ltd. (長興縣長順汽車銷售服務有限公司) between June 2011 and July 2014. Ms. Li joined the Company in May 2016. She now serves as an assistant accounting supervisor of the Company.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Ms. Xu Qinwei (徐勤偉), aged 68, is the general manager of the Company. Ms. Xu joined Changxing Jingu Industrial Co. (長興金谷實業公司) in July 1991. She was appointed as the deputy manager of Zhejiang Province Zhongrun Real Estate Co. Changxing Branch (浙江省中潤房地產總公司長興分公司) (in 2004 renamed as Zhejiang Province Zhongrun Food and Oil Trading Co. (浙江省中潤糧油工貿公司)), a subsidiary of Zhejiang Province Food Group Co., Ltd. (浙江省糧食集團有限公司), between April 1994 and March 2006. She has been the general manager of the Company since May 2006. Ms. Xu is a sister of Mr. Xu Qinsi (徐勤思), a Supervisor, and the spouse of Mr. Wang Shunmiao (王順淼), a Shareholder. Save as disclosed, Ms. Xu does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Su Pin (蘇品), aged 59, Mr. Su graduated from the correspondence school at Party School of the Central Committee of Communist Party of China (中共中央黨校), with a graduation certificate in economic management, in December 2001. He is an economist. He served as a deputy general manager of Zhoushan Taihe Local Products Co., Ltd. (舟山市泰和土產有限責任公司) between January 1991 and April 1994, he served as the general manager of Zhoushan Taihe Local Products Co., Ltd. between April 1994 and March 2000. He worked for Zhoushan Hongli Specialty Co., Ltd. (舟山市弘立特產有限公司) as the general manager between April 2000 and June 2004. Mr. Su has been appointed as the deputy general manager of the Company since June 2004. Mr. Su does not have any relationship with any other Director, Supervisor, senior management of the Company, the substantial shareholder or the controlling shareholder of the Company and does not hold any directorship in companies listed in Hong Kong or on overseas security market within the three years immediately preceding the date of this report.

Mr. Chan Hon Wan (陳漢雲), aged 63, is the company secretary of the Company and joined the Group in April 2014. Mr. Chan graduated with a Bachelor's Degree in Economics from Macquarie University in Australia in 1986 and a Master's Degree in Accountancy from the Hong Kong Polytechnic University in 2005. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants (HKICPA), and an associate member of The Institute of Chartered Accountants in Australia. Mr. Chan has over 35 years of extensive experience in accounting and finance fields, gaining from an international accounting firm and various listed corporations. He served as the financial controller of Fairwood Holdings Limited (stock code: 00052), a company listed on the Main Board of the Stock Exchange from 1995 to 1998. He worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a Business Director of Texwood Group from 2006 to 2008.

Corporate Governance Report

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

During the Year Under Review, the Company has complied with the code provisions, other than code provisions 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.

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.

BOARD OF DIRECTORS

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. Board should ensure that changes to its composition can be managed without undue disruption. Board should include a balanced composition of executive Directors (the "Executive Directors"), non-executive Director (the "Non-executive Director") and independent non-executive Directors (the "Independent Non-executive Directors") so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Board currently comprises a total of seven Directors, being three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Mr. Zhang Youlian, Mr. She Wenjie and Mr. Fan Fang, served as Executive Directors, Ms. Zhang Jinhua served as Non-executive Director and Mr. Zhang Lei, Mr. Chen Jianping and Mr. Tang Jingyan served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. One of the Independent Non-executive Directors is a qualified accountant who has appropriate professional quantifications or accounting or related financial management expertise. Each Non-executive Director and Independent Non-executive Director has been appointed for a 3-years term of services.

There is no financial, business, family or other material/relevant relationship amongst Directors and supervisors, except (i) Mr. Zhang Youlian is a brother of Ms. Zhang Jinhua, a Non-executive Director; and a cousin of Mr. Zhang Donglian, a supervisor; (ii) Ms. Zhang Jinhua is a sister of Mr. Zhang Youlian, an Executive Director; and a cousin of Mr. Zhang Donglian, a supervisor; and (iii) Mr. Zhang Donglian is a cousin of Mr. Zhang Youlian, an Executive Director, and Ms. Zhang Jinhua, a Non-executive Director.

Corporate Governance Report

Biographical details of and the relationship between the Directors and supervisors are set out in the section headed "Directors' and Senior Management's Biographies" on pages 19 to 22 of this report.

An updated list of Directors and their role and functions is maintained at the websites of the Company and the Stock Exchange and the Independent Non-executive Directors are identified by name in all corporate communications.

Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 5.09 of the GEM Listing Rules.

Pursuant to Article 10.2 of the articles of association of the Company (the "Articles of Association"), Directors shall be elected or changed by the Shareholders' meeting. Every term of a Director is three years. Upon expiry of the term, a Director shall be eligible for re-election and re-appointment.

RESPONSIBILITIES OF THE BOARD

All the Directors (including the Independent Non-executive Directors) have acquired a proper understanding of the Company's operation and business and are fully aware of his/her functions and responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. Every Director has given the Company the details on the number and nature of offices held in other companies and significant commitments at the time of his/her appointment.

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. Though the Board delegates the day-to-day management, administration and operation of the Group to management, all the Directors continue to give sufficient time and attention to the Company's affairs. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 19 December 2014 in compliance with provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board has performed the abovementioned corporate governance functions during the Year Under Review.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Independent Non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association. Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence and must provide an annual confirmation of his independency to the Company. Up to the date of this report, no Independent Non-executive Director has served the Company more than 9 years.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy (the "Board Diversity Policy"). The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Corporate Governance Report

As at the date of this report, the Board comprises seven Directors. One of them is a woman. Three of the Directors are Independent Non-executive Directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements.

All Directors (with the names set out in the section "Board of Directors" in this Corporate Governance Report) are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge his/her duties. In addition, briefings and updates on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. On 14 November 2023, the Company organized a training session to provide each of the Directors with an update on the GEM Listing Rules.

BOARD COMMITTEES

The Board has formed three committees, namely the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with Appendix 15 to the GEM Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary (the "Company Secretary"), are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

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. The attendance record of committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report. 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, the results announcement, this 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 annual report complies with the applicable accounting standards and the requirements under the GEM Listing Rules and adequate disclosures have been made.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company established a Remuneration Committee on 26 March 2014 and has formulated its written terms of reference, which have been modified on 30 December 2022, in accordance with the prevailing provisions of the CG Code. The Remuneration Committee currently has three members, namely Mr. Fan Fang, an Executive Director, Mr. Tang Jingyan and Mr. Zhang Lei, both Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to make recommendation to the Board the terms of remuneration packages, bonuses and other compensation (including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management. During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

NOMINATION COMMITTEE

The Company established a Nomination 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 Nomination Committee currently has three members, namely Mr. Fan Fang, an Executive Director, Mr. Zhang Lei and Mr. Tang Jingyan, both Independent Non-executive Directors. Mr. Tang has been appointed as the chairman of the Nomination Committee.

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilizes various methods for identifying potential candidates, including recommendations from the members of the Board, management, and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

The principal responsibilities of the Nomination Committee are (among other things) to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Proceedings and Individual Attendance" of this report.

Corporate Governance Report

BOARD PROCEEDINGS AND INDIVIDUAL ATTENDANCE

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve quarterly, interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate. Minutes of meetings of the Board and Board committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

Details of the attendance records of Directors on Board meetings, Board committee meetings, annual general meeting and extraordinary general meeting for the Year Under Review are as follows:

	Attendance/Number of meetings				
Name of Directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhang Youlian *(Chairman)*	4/4	–	–	–	1/1
Mr. Fan Fang	4/4	–	2/2	2/2	1/1
Mr. She Wenjie	4/4	–	–	–	1/1
Non-executive Director					
Ms. Zhang Jinhua	4/4	–	–	–	1/1
Independent Non-executive Directors					
Mr. Zhang Lei	4/4	4/4	2/2	2/2	1/1
Mr. Tang Jingyan	4/4	4/4	2/2	2/2	1/1
Mr. Chen Jianping	4/4	4/4	–	–	1/1

Subsequent to the year ended 31 December 2023 and up to date of this report, the Board held another Board meeting on 28 March 2024 for the main purposes of approving the annual results of the Group for the year ended 31 December 2023, this annual report and formulating business development strategies. All Directors attended such meeting.

Corporate Governance Report

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the Company Secretary of the Company on 1 April 2014. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures. Mr. Chan resigned as the financial controller and Company Secretary of the Company on 31 March 2019 and rejoined as the Company Secretary of the Company on 15 August 2019.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules. Mr. Chan's biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

The Board acknowledges its responsibility, as set out in the Independent Auditor's Report, to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of PricewaterhouseCoopers, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal control and risk management

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the Year Under Review. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The Group's risk management framework includes the following elements: (i) identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business; (ii) develop necessary measures to manage those risks; and (iii) monitor and review the effectiveness of such measures. The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews the Group's risk management systems from time to time in accordance with the prevailing Group's business environment.

Audit Committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the reports from the Group's internal control department and the Audit Committee, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (the "SFO") (Cap 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including: (i) arousing the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly; and (iii) disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

Corporate Governance Report

BUSINESS COMPLIANCE AND ANTI-CORRUPTION

We strive to maintain a high level of business integrity as it is vital to our reputation and the protection of our business partners and customers. To achieve so, the Group is in strict compliance with the Prevention of Bribery Ordinance (Cap. 201) in Hong Kong, and the Anti-Money Laundering Law and the Criminal Law of the PRC.

We do not, in any case, tolerate any business misconduct and malpractices, this includes any form of bribery, extortion, fraud and money laundering. As stated clearly in the Prevention of Bribery Ordinance incorporated in our Employee's Handbook, unethical business practices such as the offering and accepting of gifts are strictly prohibited. Once we discover any misconduct committed, the employees will be subject to termination of employment or disciplinary action.

Holding on to the values of openness, probity and accountability, we have formulated the Whistleblowing Policy which allows employees to voice their concerns or if they suspect any misconduct is being committed within the business. As the policy provides absolute anonymous reporting channels, it protects the whistleblowers from any unfair treatment and undesired consequences such as dismissal, victimization and disciplinary action, even for substantiated cases. At the same time, the Audit Committee has been tasked with handling the cases and delineating the investigation procedures. The Whistleblowing Policy not only apply to internal employees but also to our suppliers and contractors.

During the Year Under Review, there were no reported legal cases regarding the corrupt practices of our employees relating to bribery, extortion, fraud and/or money laundering. Though the Group did not provide any internal anti-corruption training to directors and employees during the Year Under Review, they are encouraged to attend anti-corruption training provided by external parties at the Company's expenses.

EXTERNAL AUDITOR

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2023, the fees payable to external auditor in respect of its audit services provided to the Group was RMB1,200,000. The external auditor did not provide non-audit service for the Group for the year ended 31 December 2023.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2023.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the Company Secretary of the Company at the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

Corporate Governance Report

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

According to article 8.6 of the Articles of Association, when the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five days before the date of the meeting (including the date of the meeting but excluding the date on which the written notice is sent) to notify all shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty days before the date of the meeting.

Making Proposals at Shareholders' Meetings

According to article 8.7 of the Articles of Association, when the Company convenes a shareholder's annual general meeting, shareholders (either independently or jointly) holding 3% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the shareholders in general meeting.

Shareholders who would like to propose new motions in annual general meeting should send the written requisition by post to the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Company's principal place of business in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong or by phone at (852) 2526 6311. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2023, there had been no significant change in the Company's constitutional documents. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.renheng.com to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.
Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 28 March 2024

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2023 (the "Financial Statements").

BACKGROUND

The Company was established in the PRC as a limited liability company in December 2000 and was converted into a joint stock limited liability company in December 2008 under the Company Law of the PRC. The Company's H Shares were listed on the GEM of the Stock Exchange on 16 January 2015.

PRINCIPAL BUSINESS

The Group is 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.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2023 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 44 to 107.

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

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.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 18. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the "Financial Highlights" on page 5.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Report of the Directors

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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.

Report of the Directors

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

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.

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 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

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.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 21 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 47 of the "Consolidated Statement of Changes in Equity", Notes 23 and 36 to the Financial Statements, respectively.

DISTRIBUTABLE RESERVES

The amount of the Company's reserves available for distribution at 31 December 2023, calculated in accordance with PRC rules and regulation, was retained earnings of approximately RMB71,468,000 (31 December 2022: RMB68,057,000).

FINANCIAL SUMMARY

A Summary of the results, the assets and liabilities of the Group for the last five financial years is set out on page 108.

CHARITY DONATIONS

During the Year Under Review, the Group made charity donations of approximately RMB260,000 (2022: approximately RMB132,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2023 are set out in Note 14 to the Financial Statements.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2023 are set out in Note 34 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2023 and up to the date of this report have been:

Executive Directors

Mr. Zhang Youlian *(Chairman)*
Mr. Fan Fang
Mr. She Wenjie

Non-executive Director

Ms. Zhang Jinhua

Independent Non-executive Directors

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

Supervisors

Mr. Xu Qinsi
Mr. Zhang Donglian
Ms. Li Lijiao

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, supervisors and senior management of the Company are set out on pages 19 to 22 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 18.39B of the GEM Listing Rules from each of the Independent Non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2023.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

Report of the Directors

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 35 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2022: 2 Directors). Details of the five highest paid individuals are set out in Note 10 to the Financial Statements.

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:

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

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

Save as disclosed above, as at 31 December 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.

Report of the Directors

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:

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

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

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

NON-COMPETITION UNDERTAKING

As disclosed in the Company's prospectus dated 31 December 2014, Mr. Zhang Youlian (the "Controlling Shareholder"), has executed a deed of non-competition through which he has undertaken and procure that none of his associates will (a) directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the Group's existing business activity or any principal business activity of any member of the Group or be in competition with the Group in any business activities which the Group may undertake in the future (the "Restricted Business"); or (b) take any direct or indirect action which constitutes an interference with or a disruption to the Group's business activities including, but not limited to, solicitation of the Group's customers, suppliers or staff. He has warranted that neither he nor any of his associates is currently engaging in and has not had any interest in any business that directly or indirectly competes or may compete with the Group's business. The Controlling Shareholder also undertakes and covenants to the Group that, if any new business opportunity relating to any Restricted Business is made available to him, he will direct the Restricted Business to the Group with such required information to enable the Group to evaluate the merits of the Restricted Business.

The Controlling Shareholder has confirmed in writing to the Company of his compliance with the deed of non-competition for disclosure in this report during the Year Under Review.

Report of the Directors

CONNECTED TRANSACTION

During the Year Under Review, 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' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors or supervisors 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.

PLEDGE OF ASSETS

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

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. 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 report.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 34.7% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 15.8% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 59.7% of the Group's total cost of sales, in which purchase from the largest supplier of the Group accounted for approximately 47.6% of the total cost of sales of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

Report of the Directors

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2023 are set out in Notes 2.1.16 and Note 10 to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

At no time during the Year Under Review and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

COMPANY SECRETARY

Mr. Chan Hon Wan is our Company Secretary. Please refer to Mr. Chan's biographies in the section headed "Directors' and Senior Management's Biographies" for details.

COMPLIANCE OFFICER

Mr. Fan Fang, who is also an Executive Director, is our compliance officer. Please refer to Mr. Fan's biographies in the section headed "Directors' and Senior Management's Biographies" for details.

EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2023 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhejiang Chang'an Renheng Technology Co., Ltd.
Mr. Zhang Youlian
Chairman of the Board

Zhejiang, PRC, 28 March, 2024

Supervisory Committee Report

The Supervisory Committee is pleased to present this report of the Supervisory Board in the annual report of the Company for the year ended 31 December 2023.

In 2023, all members of the Supervisory Committee have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Company Law of the PRC, the Articles of Association, the Terms of Reference of the Supervisory Committee and the relevant provisions in the GEM Listing Rules. Members of the Supervisory Committee carried out examination of the Company's financial accounts and supervision of the Directors, and other senior management officers for their compliance with the laws, administrative regulations and the Articles of Association in executing their respective duties.

MEETING OF THE SUPERVISORY COMMITTEE

For the year ended 31 December 2023, a meeting of the Supervisory Committee was held on 31 March 2023 to consider the 2022 audited financial report of the Company and the report of Supervisory Committee for 2022 and to receive the report on the 2022 results announcement of the Company.

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

The Supervisory Committee is of the view that during the Year Under Review, the operation of the Company has been consistent with the provisions of the Company Law of the PRC, the PRC Securities Law and the Articles of Association; that the decision-making process of the Company has been in compliance with the laws, and the Company has established a relatively comprehensible internal control system; and that the Directors and senior management have not violated any law, regulation or the Articles of Association, nor have they acted in a way which is prejudicial to the interests of the Company.

INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee agreed with the audit opinion issued on 28 March 2024 on the 2023 annual financial report of the Company, and that the financial report of the Company has given a true and fair view of the financial position and the operating results of the Company.

INDEPENDENT OPINION ON THE IMPLEMENTATION OF THE RESOLUTIONS OF GENERAL MEETINGS

The Supervisory Committee considered that the Board earnestly implemented the resolutions approved by the general meetings.

In 2024, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the GEM Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. Xu Qinsi

Zhejiang, PRC, 28 March 2024

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Zhejiang Chang'an Renheng Technology Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Zhejiang Chang'an Renheng Technology Co., Ltd. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 44 to 107, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to Revenue recognition – sales of goods

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of goods	
Refer to Note 2.1.18 and Note 6 to the consolidated financial statements of the Group. Revenue recognition has significant and wide influence on financial statements. Revenue is recognised when the amounts and the related costs are reliably measured, and the control of the underlying products have been transferred to the customers. Revenue from the sale of goods is primarily recognised when control of the products has transferred, which is that the Group has delivered products to the customers and the customers have confirmed the acceptance of the products. We focused on this area due to that the sales of the Group are derived from a large number of customers which locate across the country with relatively small transaction amounts. As a result, to obtain sufficient audit evidence, magnitude audit work and resources are required.	We understood, evaluated and validated the key controls related to Group's sales process from end to end, from contracts approval and sign-off, customer order's approval, recording of sales, all the way through to reconciliations with cash receipts and customers' records. We inspected contracts with customers, on a sample basis, to understand the terms of the sale transactions, including the terms of delivery and goods acceptance and any sales return arrangements, to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards. We conducted substantive testing of revenue recorded covering different products, locations and customers, using sampling techniques, by examining the relevant supporting documents including customer orders, goods delivery notes and customer receipt notes. In addition, we confirmed certain customers' receivable balances at the balance sheet date and their transaction amounts during the period, selected on a sample basis by considering the amount, nature and characteristics of those customers. Furthermore, we tested the sales transactions recognised shortly before and after the balance sheet date, including the credit notes issued after that date, whether sales transactions were recorded in the correct reporting periods. Based on our audit work performed, we found the Group's revenue recognition in relation to sales of goods was supported by the evidence that we gathered.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Ying Hei.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2024

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	*RMB*	*RMB*
Revenue	6	162,277,897	150,817,540
Cost of sales	9	(96,914,686)	(95,527,150)
Gross profit		65,363,211	55,290,390
Selling expenses	9	(24,248,648)	(20,305,343)
Administrative expenses	9	(20,952,985)	(16,812,660)
Net impairment losses on financial assets	9	(1,982,165)	(576,092)
Research and development expenses	9	(11,585,685)	(10,613,283)
Other income	7	2,500,087	349,661
Other gains – net	8	78,734	725,698
Operating profit		9,172,549	8,058,371
Finance income	11	230,563	37,507
Finance costs	11	(6,765,587)	(6,485,751)
Finance costs – net	11	(6,535,024)	(6,448,244)
Profit before income tax		2,637,525	1,610,127
Income tax expense	12	(334,849)	(189,920)
Profit for the year attributable to the equity holders of the Company		2,302,676	1,420,207
Other comprehensive income		–	–
Total comprehensive income for the year attributable to the equity holders of the Company		2,302,676	1,420,207
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	13	0.06	0.04

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 31 December 2023

		As at 31 December	
		2023	2022
	Note	*RMB*	*RMB*
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	90,871,199	84,460,619
Right-of-use assets	*15(a)*	5,584,475	6,117,932
Leasehold improvements and other non-current assets	*16*	32,096,391	25,096,363
Deferred income tax assets	*28*	3,079,752	3,142,353
		131,631,817	118,817,267
Current assets			
Inventories	*19*	65,889,150	60,820,690
Trade and other receivables and prepayments	*17*	72,264,302	69,127,257
Financial assets at fair value through other comprehensive income (FVOCI)	*18*	5,064,216	3,910,569
Prepaid income tax		344,748	118,651
Restricted cash	*20*	2,766,988	6,002,417
Cash and cash equivalents	*20*	14,888,159	19,355,608
		161,217,563	159,335,192
Total assets		292,849,380	278,152,459
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	*21*	38,400,000	38,400,000
Other reserves	*23*	50,347,405	50,058,545
Retained earnings	*22*	28,682,282	26,668,466
Total equity		117,429,687	115,127,011

Consolidated Balance Sheet

as at 31 December 2023

		As at 31 December	
		2023	2022
	Note	*RMB*	*RMB*
LIABILITIES			
Non-current liabilities			
Deferred government grants	24	2,163,057	303,561
Provisions for environmental rehabilitation	25	2,626,754	2,131,093
Borrowings	27	21,316,000	27,950,000
Lease liabilities	15(b)	–	95,831
		26,105,811	30,480,485
Current liabilities			
Deferred government grants	24	281,241	52,471
Trade and other payables	26	58,851,610	40,158,141
Borrowings	27	90,085,200	92,066,000
Lease liabilities	15(b)	95,831	268,351
		149,313,882	132,544,963
Total liabilities		175,419,693	163,025,448
Total equity and liabilities		292,849,380	278,152,459

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 44 to 107 were approved by the Board of Directors on 28 March 2024 and were signed on its behalf.

Zhang Youlian **Fan Fang**

Consolidated Statement of Changes In Equity

for the year ended 31 December 2023

		Attributable to equity holders of the Company			
		Share capital	**Other reserves**	**Retained earnings**	**Total**
	Note	*RMB*	*RMB*	*RMB*	*RMB*
As at 1 January 2022		38,400,000	50,058,545	25,248,259	113,706,804
Comprehensive income					
Profit for the year		–	–	1,420,207	1,420,207
Transactions with owners:					
Appropriation of statutory reserve	*23*	–	–	–	–
Appropriation of safety fund	*23*	–	–	–	–
Utilisation of safety fund	*23*	–	–	–	–
As at 31 December 2022		38,400,000	50,058,545	26,668,466	115,127,011
As at 1 January 2023		38,400,000	50,058,545	26,668,466	115,127,011
Comprehensive income					
Profit for the year		–	–	2,302,676	2,302,676
Transactions with owners:					
Appropriation of statutory reserve		–	288,860	(288,860)	–
Appropriation of safety fund		–	125,037	(125,037)	–
Utilisation of safety fund		–	(125,037)	125,037	–
As at 31 December 2023		38,400,000	50,347,405	28,682,282	117,429,687

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

for the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	RMB	RMB
Cash flows from operating activities			
Cash generated from operations	29(a)	35,426,608	15,802,682
Income tax paid		(344,748)	(991,909)
Net cash generated from operating activities		35,081,860	14,810,773
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		111,463	82,997
Interest income received from time deposits		230,563	37,507
Proceeds from maturity of time deposits		20,000,000	–
Purchase of time deposits		(16,700,000)	–
Purchases of leasehold land improvements and other non-current assets		(11,675,526)	(12,365,948)
Purchases of property, plant and equipment		(15,867,071)	(11,270,205)
Net cash used in investing activities		(23,900,571)	(23,515,649)
Cash flows from financing activities			
Proceeds from borrowings		98,085,200	117,700,000
Repayment of borrowings		(106,700,000)	(91,245,452)
Payments of interest expenses		(6,802,074)	(6,460,269)
Principal elements of lease payments		(293,772)	(171,366)
Net cash (used in)/generated from financing activities		(15,710,646)	19,822,913
Net (decrease)/increase in cash and cash equivalents		(4,529,357)	11,118,038
Cash and cash equivalents at the beginning of the year		19,355,608	8,235,815
Exchange difference on cash and cash equivalents		61,908	1,755
Cash and cash equivalents at end of the year	20	14,888,159	19,355,608

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

2.1.1 *Basis of preparation (Continued)*

(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 2022:

- 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 2022 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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

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:

	Estimated useful lives	Estimated residual rate
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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

2.1.4 *Property, plant and equipment (Continued)*

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/(losses) – 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

2.1.7 *Investments and other financial assets (Continued)*

(ii) Recognition and derecognition

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

(iii) Measurement

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

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

(iv) Impairment

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

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.1.8 *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 17 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

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.

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

2.1.15 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

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 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.1 Summary of material accounting policies *(Continued)*

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 11 below. Any other interest income is included in other income.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.2 Summary of other potentially material accounting policies *(Continued)*

2.2.1 *Business combinations (Continued)*

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 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

2 SUMMARY OF ACCOUNTING POLICIES *(Continued)*

2.2 Summary of other potentially material accounting policies *(Continued)*

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's risk management is predominantly controlled by a central finance department under policies approved by the board of directors. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars("USD"). The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the years ended 31 December 2023 and 2022, the Group did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2023, if the RMB had strengthened/weakened by 5% against the USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB176,510 lower/higher (2022: RMB150,512) respectively for various financial assets and liabilities denominated in USD.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risks arise from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2023, no borrowing (2022: nil) was charged at variable rates while the Group's borrowings of RMB111,401,200 (2022: RMB120,016,000) were charged at fixed rates, respectively. The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

The Group has not hedged its respective cash flow and fair value interest rate risks. The interest rates, terms of repayments and fair value of borrowings are disclosed in Note 27.

(b) Credit risk

Credit risk is managed on a group basis. The carrying amounts of cash and cash equivalents, restricted cash and trade and other receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) *Credit risk (Continued)*

The table below shows the maximum credit risk exposure of the Group without consideration of the collateral and pledges:

	Year ended 31 December	
	2023 *RMB*	2022 *RMB*
Financial assets at amortised cost		
– Cash and cash equivalents	14,888,159	19,355,608
– Restricted cash	2,766,988	6,002,417
– Trade and other receivables	65,878,285	61,968,778
	83,533,432	87,326,803
Financial assets at fair value through other comprehensive income		
– FVOCI	5,064,216	3,910,569
Total	88,597,648	91,237,372

The amounts of the credit risk exposures set out above are the carrying amounts as at 31 December 2023 and 2022. For financial instruments measured at fair value, the risk exposure considered as its carrying value changes in accordance with future fair value.

(i) Risk management

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash and cash equivalents, restricted cash at banks, financial assets at fair value through other comprehensive income (FVOCI), trade and other receivables, etc.

The Group expects that there is no significant credit risk associated with cash at bank, and restricted cash at bank, since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to monitor the credit exposure of trade and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) *Impairment of financial assets*

i. Trade receivables

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 are based on the payment profiles of sales over a period of 36 month before 31 December 2023 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 to settle the receivables. 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.

On that basis, the loss allowance as at 31 December was determined as follows for trade receivables:

31 December 2023	Within 180 days	More than 180 days to one year	More than one year to two years	More than two years to three years	More than three years	Total
Expected loss rate	2%	4%	25%	86%	100%	
Gross carrying amount						
– trade receivables (RMB)	47,396,394	16,369,448	3,538,361	2,271,548	1,893,258	71,469,009
Loss allowance						
– trade receivables (RMB)	1,106,970	625,713	872,297	1,947,561	1,893,258	6,445,799

31 December 2022	Within 180 days	More than 180 days to one year	More than one year to two years	More than two years to three years	More than three years	Total
Expected loss rate	2%	4%	27%	82%	100%	
Gross carrying amount						
– trade receivables (RMB)	47,238,592	11,256,733	3,913,262	2,203,331	–	64,611,918
Loss allowance						
– trade receivables (RMB)	1,085,952	396,765	1,048,388	1,801,572	–	4,332,677

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

i. Trade receivables *(Continued)*

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2023 *RMB*
Opening loss allowance as at 1 January	4,332,677
Provision for impairment	2,113,122
Closing loss allowance at 31 December	6,445,799

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than three years past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

ii. Other receivables

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of other receivables and adjusts for forward looking macroeconomic data.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

(ii) *Impairment of financial assets (Continued)*

ii. Other receivables *(Continued)*

	Stage 1	Stage 2	Stage 3	Total
Other receivables				
31 December 2023				
Expected loss rate	10.91%	–	–	10.91%
Gross carrying amount (RMB)	959,772	–	–	959,772
Loss allowance provision (RMB)	104,697	–	–	104,697
31 December 2022				
Expected loss rate	16.57%	–	–	16.57%
Gross carrying amount (RMB)	2,025,191	–	–	2,025,191
Loss allowance provision (RMB)	335,654	–	–	335,654

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	2023 *RMB*
Opening loss allowance as at 1 January	335,654
Reversal of allowance	(230,957)
Closing loss allowance at 31 December	104,697

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

iii. Fair value through other comprehensive income (FVOCI)

The Group applies the simplified approach to provide ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all financial assets at fair value through other comprehensive income (FVOCI).

As at 31 December 2023, all financial assets at fair value through other comprehensive income (FVOCI) were notes receivable, the impact of expected loss of fair value through other comprehensive income (FVOCI) was assessed to be insignificant, except one individually assessed notes receivable amounted to RMB100,000, which was fully provided impairment during year 2023 due to the bankruptcy of the counter party.

The loss allowances for FVOCI as at 31 December reconcile to the opening loss allowances as follows:

	2023 *RMB*
Opening loss allowance as at 1 January	–
Provision of allowance	100,000
Closing loss allowance at 31 December	100,000

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 6 months *RMB*	Between 6 months and 1 year *RMB*	Between 1 and 2 years *RMB*	Between 2 and 3 years *RMB*	Total *RMB*
Group					
As at 31 December 2023					
Borrowings, including interest payables	49,671,929	40,603,200	22,227,545	–	112,502,674
Trade and other payables, excluding staff salaries and welfare payables and accrued taxes other than income tax	51,556,249	–	–	–	51,556,249
	101,228,178	40,603,200	22,227,545	–	164,058,923
As at 31 December 2022					
Borrowings, including interest payables	71,212,955	24,668,474	28,817,867	–	124,699,296
Trade and other payables, excluding staff salaries and welfare payables and accrued taxes other than income tax	33,565,770	–	–	–	33,565,770
	104,778,725	24,668,474	28,817,867	–	158,265,066

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

The gearing ratios as at 31 December 2023 and 2022, respectively, are as follows:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Total borrowings *(Note 27)*	111,401,200	120,016,000
Add: lease liabilities *(Note 15))*	95,831	364,182
Less: Cash and cash equivalents *(Note 20)*	(14,888,159)	(19,355,608)
Restricted cash *(Note 20)*	(2,766,988)	(6,002,417)
Net debt	93,841,884	95,022,157
Total equity	117,429,687	115,127,011
Total capital	211,271,571	210,149,168
Gearing ratio	44%	45%

The slight decrease in gearing ratio as at 31 December 2023 was mainly due to the decrease of total borrowings.

3.3 Fair value estimation

Financial assets not measured at fair value included cash and cash equivalents, restricted cash and trade and other receivables and financial liabilities included borrowings and trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax). The carrying amount of these financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

The Group adopts the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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for the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

An explanation of each level follows underneath the table.

	As at 31 December 2023			
	Level 1	Level 2	Level 3	Total
	RMB	*RMB*	*RMB*	*RMB*
Notes receivable	–	–	5,164,216	5,164,216

	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
	RMB	*RMB*	*RMB*	*RMB*
Notes receivable	–	–	3,910,569	3,910,569

During the year ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

Fair value measurements using significant unobservable inputs (level 3):

	2023	2022
	RMB	*RMB*
As at 1 January	3,910,569	13,393,174
Additions	98,762,453	85,178,644
Deductions	(97,418,806)	(94,661,249)
As at 31 December	5,164,216	3,910,569

Fair value of notes receivable (Note 18) is considered approximate to their carrying amount. The fair value change was insignificant.

Financial instruments	Fair value hierarchy	Valuation Techniques and key Inputs	Significant Unobservable Inputs	Relationship of Unobservable Inputs to fair value
Financial Assets at FVOCI				
– Notes receivable	Level 3	Discounted cash flow with future cash flows that are estimated based on excepted recoverable amounts, discounted at rates that reflect management's best estimation of the excepted risk level	Excepted future cash flow, excepted recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value

Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Sensitivity analyses

The sensitivity analysis below has been determined based on the change of rate of return in isolation used in the expected future cash flow that reflect the expected risk level of the financial assets at the end of the reporting period. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax), for the year ended 31 December 2023 would have decreased by approximately RMB1,941 or increased by approximately RMB1,703 (31 December 2022: decreased by approximately RMB3,263 or increased by approximately RMB2,860) as a result of the changes in fair value of the financial assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates

(a) Provision for credit losses of trade and other receivables

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of financial assets and adjusts for forward looking macroeconomic data including Gross Domestic Product and Producer Price Index.

(b) Deferred income taxes

A deferred tax asset is recognized for the carryforward of unused deductible losses to the extent that it is probable that future taxable profits will be available against which the deductible losses can be utilized. Future taxable profits include taxable profits that can be achieved through normal operations and the increase in taxable profits due to the reversal of taxable temporary differences arising from previous period in future period. The Group needs to apply estimates and judgement in determining the timing and amount of future taxable profits. If there is any difference between the actual and the estimates, adjustment may be made to the carrying amount of deferred tax assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates *(Continued)*

(c) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including property, plant and equipment, right-of-use assets and leasehold improvements and other non-current assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets, observable market prices, or transaction prices of similar assets in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, or other valuation techniques, as appropriate, less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5 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.

6 REVENUE

	Year ended 31 December	
	2023 *RMB*	2022 *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
	162,277,897	150,817,540

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.

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7 OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Government grants		
– Relating to assets *(Note 24)*	196,734	52,471
– Relating to costs *(i)*	956,133	297,190
– Additional deduction of value-added tax	1,347,220	–
	2,500,087	349,661

(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.

8 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
	78,734	725,698

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for the year ended 31 December 2023

9 EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Changes in finished goods *(Note 19)*	(4,891,159)	6,051,571
Raw materials and consumables used	73,922,966	64,760,656
Employee benefit expenses *(Note 10)*	28,518,993	21,247,552
Transportation expenses	14,339,641	14,681,557
Utilities	14,942,364	14,495,804
Depreciation *(Note 14)*	6,687,128	6,082,432
Travelling and communication expenses	3,370,298	3,213,572
Amortisation of leasehold improvements and other non-current asset *(Note 16)*	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 *(Note 17)*	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 *(Note 15)*	533,456	519,189
Provision for impairment of FVOCI *(Note 18)*	100,000	–
Miscellaneous	1,193,798	1,038,498
Total cost of sales, selling expenses, administrative expenses, net impairment losses on financial assets and research and development expenses	155,684,169	143,834,528

10 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Salaries, wages and bonuses	25,493,531	18,516,652
Housing fund, welfare, medical and other benefits	1,559,093	1,379,370
Contributions to pension plans	1,466,369	1,351,530
	28,518,993	21,247,552

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

10 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2022: one) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining two (2022: four) individuals during the year are as follows:

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Salaries, wages and bonuses	632,400	1,234,400
Housing fund, welfare, medical and other benefits	100,992	82,520
Contributions to pension plans	111,470	42,517
	844,862	1,359,437

The emoluments fell within the following bands:

	Year ended 31 December	
	2023	2022
Emoluments bands (in RMB)		
RMB0-RMB500,000	2	4

11 FINANCE COSTS – NET

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Finance income		
– Interest income derived from bank deposits	230,563	37,507
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	61,908	1,755
	(6,765,587)	(6,485,751)
Finance costs – net	(6,535,024)	(6,448,244)

Notes to the Consolidated Financial Statements

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12 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	(62,601)	570,021
Income tax expense	(334,849)	(189,920)

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	2,637,525	1,610,127
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	235,687	(408,040)
Income tax expense	(334,849)	(189,920)

(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.

Notes to the Consolidated Financial Statements

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13 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	38,400,000	38,400,000
Basic earnings per share (RMB per share)	0.06	0.04

(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.

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for the year ended 31 December 2023

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings, fixtures and facilities *RMB*	Machinery and equipment *RMB*	Vehicles *RMB*	Electronic and office equipment *RMB*	Construction in progress *RMB*	Total *RMB*
At 1 January 2022						
Cost	55,404,979	60,982,866	5,892,827	2,604,590	24,164,661	149,049,923
Accumulated depreciation	(23,569,668)	(36,594,849)	(4,331,184)	(2,279,270)	–	(66,774,971)
Net book amount	31,835,311	24,388,017	1,561,643	325,320	24,164,661	82,274,952
Year ended 31 December 2022						
Opening net book amount	31,835,311	24,388,017	1,561,643	325,320	24,164,661	82,274,952
Transfers *(Note 16)*	600,092	2,254,726	–	–	(16,316,394)	(13,461,576)
Additions	220,223	705,733	753,004	72,209	20,032,319	21,783,488
Disposals	–	(40,490)	(6,465)	(6,858)	–	(53,813)
Depreciation *(Note 9)*	(2,233,612)	(3,432,467)	(284,297)	(132,056)	–	(6,082,432)
Closing net book amount	30,422,014	23,875,519	2,023,885	258,615	27,880,586	84,460,619
At 31 December 2022						
Cost	56,225,294	63,280,935	6,517,731	2,546,491	27,880,586	156,451,037
Accumulated depreciation	(25,803,280)	(39,405,416)	(4,493,846)	(2,287,876)	–	(71,990,418)
Net book amount	30,422,014	23,875,519	2,023,885	258,615	27,880,586	84,460,619
Year ended 31 December 2023						
Opening net book amount	30,422,014	23,875,519	2,023,885	258,615	27,880,586	84,460,619
Transfers *(Note 16)*	8,814,221	965,923	–		(24,115,796)	(14,335,652)
Additions	–	8,771,915	135,636	114,496	18,462,875	27,484,922
Disposals	–	(51,562)	–		–	(51,562)
Depreciation *(Note 9)*	(2,537,395)	(3,776,878)	(289,820)	(83,035)	–	(6,687,128)
Closing net book amount	36,698,840	29,784,917	1,869,701	290,076	22,227,665	90,871,199
At 31 December 2023						
Cost	65,039,515	72,696,232	6,653,367	2,660,987	22,227,665	169,277,766
Accumulated depreciation	(28,340,675)	(42,911,315)	(4,783,666)	(2,370,911)	–	(78,406,567)
Net book amount	36,698,840	29,784,917	1,869,701	290,076	22,227,665	90,871,199

As at 31 December 2023 and 2022, certain buildings with a carrying amount of RMB9,925,012 and RMB10,524,233, respectively, were pledged as collateral for the borrowings of the Group (Note 32).

Notes to the Consolidated Financial Statements

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14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income (Note 9) as follows:

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Cost of sales	4,526,333	4,596,252
Administrative expenses	1,147,229	819,491
Research and development expenses	1,013,566	666,689
	6,687,128	6,082,432

Notes to the Consolidated Financial Statements

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15 LEASES

(a) Right-of-use assets

The Group's interests in right-of-use asset represented land use right, mining right and buildings located in the PRC, the net book values of which are analysed as follows:

	Land use rights *RMB*	Mining right *RMB*	Buildings *RMB*	Total *RMB*
As at 1 January 2022				
Cost	7,633,091	916,300	–	8,549,391
Accumulated amortisation	(1,928,148)	(492,433)	–	(2,420,581)
Net book amount	5,704,943	423,867	–	6,128,810
Year ended 31 December 2022				
Opening net book amount	5,704,943	423,867	–	6,128,810
Additions	–	–	508,311	508,311
Amortisation *(Note 9)*	(248,886)	(115,600)	(154,703)	(519,189)
Closing net book amount	5,456,057	308,267	353,608	6,117,932
As at 31 December 2022				
Cost	7,633,091	916,300	508,311	9,057,702
Accumulated amortisation	(2,177,034)	(608,033)	(154,703)	(2,939,770)
Net book amount	5,456,057	308,267	353,608	6,117,932
Year ended 31 December 2023				
Opening net book amount	5,456,057	308,267	353,608	6,117,932
Amortisation *(Note 9)*	(152,650)	(115,600)	(265,206)	(533,456)
Closing net book amount	5,303,407	192,667	88,402	5,584,476
As at 31 December 2023				
Cost	7,633,091	916,300	508,311	9,057,702
Accumulated amortisation	(2,329,684)	(723,634)	(419,909)	(3,473,227)
Net book amount	5,303,407	192,666	88,402	5,584,475

Notes to the Consolidated Financial Statements

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15 LEASES *(Continued)*

(a) Right-of-use assets *(Continued)*

Amortisation of right-of-use asset has been charged to the consolidated statements of comprehensive income (Note 9) as follows:

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Cost of sales	115,600	115,600
Administrative expenses	417,856	403,589
	533,456	519,189

As at 31 December 2023 and 2022, certain land use rights with a carrying amount of RMB5,041,787 and RMB5,182,583, respectively, were pledged as collateral for the borrowings of the Group (Note 32).

(b) Lease liabilities

(i) Lease liabilities recognised in the consolidated balance sheets:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Lease liabilities		
Current	95,831	268,351
Non-current	–	95,831
	95,831	364,182

(ii) The following table shows the remaining contractual maturities of the lease liabilities:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Within 1 year	97,924	293,772
Between 1 and 2 years	–	97,924
	97,924	391,696
Less: total future interest expenses	(2,093)	(27,514)
Present value of lease liabilities	95,831	364,182

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16 LEASEHOLD IMPROVEMENTS AND OTHER NON-CURRENT ASSETS

Leasehold improvements and other non-current assets include construction of drilling, reservoir, bleachery and other improvements engineering on leasehold land.

	RMB
At 1 January 2022	
Cost	37,008,522
Accumulated amortisation	(22,351,275)
Net book amount	14,657,247
Year ended 31 December 2022	
Opening net book amount	14,657,247
Transfer from construction in progress *(Note 14)*	13,461,576
Amortisation	(3,022,460)
Closing net book amount	25,096,363
At 31 December 2022	
Cost	50,470,098
Accumulated amortisation	(25,373,735)
Net book amount	25,096,363
Year ended 31 December 2023	
Opening net book amount	25,096,363
Transfer from construction in progress *(Note 14)*	14,335,652
Amortisation	(7,335,624)
Closing net book amount	32,096,391
At 31 December 2023	
Cost	64,805,750
Accumulated amortisation	(32,709,359)
Net book amount	32,096,391

Notes to the Consolidated Financial Statements

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16 LEASEHOLD IMPROVEMENTS AND OTHER NON-CURRENT ASSETS *(Continued)*

The amortisation of leasehold improvements and other non-current assets has been charged to the consolidated statement of comprehensive income (Note 9) and balance sheet as follows:

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Cost of sales	3,525,749	3,022,460
Inventories – raw materials	3,809,875	–
	7,335,624	3,022,460

17 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	(6,445,799)	(4,332,677)
Trade receivables – net (1)	65,023,210	60,279,241
Other receivables	959,772	2,025,191
Less: provision for impairment	(104,697)	(335,654)
Other receivables – net (2)	855,075	1,689,537
Prepayments (3)	6,386,017	7,158,479
Trade and other receivables and prepayments – net	72,264,302	69,127,257
Current portion	72,264,302	69,127,257

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17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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.

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

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

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

The credit period granted to customers is normally between 90 days to 180 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

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

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
At the beginning of the year	4,332,677	12,479,868
Provision for impairment *(Note 9)*	2,113,122	807,819
Write off of impairment provision	–	(8,955,010)
At the end of the year	6,445,799	4,332,677

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

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17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

	As at 31 December	
	2023	2022
	RMB	*RMB*
Current:		
Related party borrowing *(Note 33(d))*	28,665	28,665
Staff advances	107,200	1,320,070
Deposits	475,649	335,166
Others	348,258	341,290
Total	959,772	2,025,191

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 *(Note 9)*	(230,957)	(231,727)
At the end of the year	104,697	335,654

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
	6,386,017	7,158,479

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	As at 31 December	
	2023	2022
	RMB	*RMB*
Notes receivable	5,164,216	3,910,569
Less: provision for impairment	(100,000)	–
FVOCI – net	5,064,216	3,910,569

As at 31 December 2023, all financial assets at fair value through other comprehensive income (FVOCI) were notes receivable, the impact of expected loss of fair value through other comprehensive income (FVOCI) was assessed to be insignificant, except one individually assessed notes receivables amounted to RMB100,000, which was fully provided impairment during year 2023.

Movements in the provision for impairment of FVOCI are as follows:

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
At the beginning of the year	–	–
Provision for impairment *(Note 9)*	100,000	–
At the end of the year	100,000	–

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

Notes to the Consolidated Financial Statements

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19 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
	66,585,835	61,517,375
Less: provision for write-down	(696,685)	(696,685)
	65,889,150	60,820,690

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.

20 CASH AND BANK BALANCES

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

20 CASH AND BANK BALANCES *(Continued)*

Cash at bank and in hand are denominated in:

	As at 31 December	
	2023	2022
	RMB	*RMB*
– RMB	17,564,509	25,357,866
– HKD	638	159
	17,655,147	25,358,025

(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:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Time deposits	2,700,000	6,000,000
Guaranteed deposits	66,988	2,417
	2,766,988	6,002,417

21 SHARE CAPITAL

	Number of shares	Share capital
		RMB
At 31 December 2022 and 31 December 2023	38,400,000	38,400,000

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

22 RETAINED EARNINGS

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
At the beginning of the year	26,668,466	25,248,259
Profit for the year	2,302,676	1,420,207
Appropriation of statutory reserve	(288,860)	–
Appropriation of safety fund *(Note 23)*	(125,037)	–
Utilisation of safety fund *(Note 23)*	125,037	–
At the end of the year	28,682,282	26,668,466

23 OTHER RESERVES

	Share Premium	Statutory reserve	Safety fund	Total
	RMB	*RMB*	*RMB*	*RMB*
As at 1 January 2022	43,531,246	6,527,299	–	50,058,545
Appropriation of statutory reserve *(i)*	–	–	–	–
Appropriation of safety fund *(ii)*	–	–	–	–
Utilisation of safety fund *(ii)*	–	–	–	–
As at 31 December 2022	43,531,246	6,527,299	–	50,058,545
As at 1 January 2023	43,531,246	6,527,299	–	50,058,545
Appropriation of statutory reserve *(i)*	–	288,860	–	288,860
Appropriation of safety fund *(ii)*	–	–	125,037	125,037
Utilisation of safety fund *(ii)*	–	–	(125,037)	(125,037)
As at 31 December 2023	43,531,246	6,816,159	–	50,347,405

(i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company and its subsidiaries, it is required to appropriate certain percentages of the annual statutory net profits of the Company and its subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve before distributing any dividends. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into capital.

(ii) Pursuant to certain regulations issued by the Ministry of Finance and Ministry of Emergency, the Group is required to set aside an amount to a safety fund at RMB3 per ton of raw ore mined. The fund can be used for improvements of safety at the mines and are not available for distribution to shareholders.

Notes to the Consolidated Financial Statements

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24 DEFERRED GOVERNMENT GRANTS

Government grants relating to integrated utilization project of associated mine are deferred. The Group benefits from the government grants by using the production lines which are depreciated on a straight-line basis to the grants. So the government grants are recognised in the profit or loss on a straight-line basis over the expected useful lives of the related production lines.

The analysis of deferred government grants is as follows:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Deferred government grants		
– Current	281,241	52,471
– Non-current	2,163,057	303,561
	2,444,298	356,032

Movements in deferred government grants for the years ended 31 December 2023 and 2022 are as follows:

	As at 31 December	
	2023	2022
	RMB	*RMB*
At the beginning of the year	356,032	408,503
Additions	3,500,000	–
Credited to the consolidated statement of comprehensive income	(1,411,734)	(52,471)
At the end of the year	2,444,298	356,032

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

25 PROVISION FOR ENVIRONMENTAL REHABILITATION

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
At the beginning of the year	2,131,093	1,588,262
Debited to profit or loss	495,661	542,831
At the end of the year	2,626,754	2,131,093

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam which has been determined by management based on their past experience and best estimate of future expenditure. However, if the impact on the land and the environment from current mining activities becomes different in future periods from originally estimated, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, rehabilitation and environmental clean-up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly.

26 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	1,244,006	3,028,304
	58,851,610	40,158,141

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

26 TRADE AND OTHER PAYABLES *(Continued)*

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	3,424,258	3,665,830
	39,371,472	24,664,261

27 BORROWINGS

	As at 31 December	
	2023	2022
	RMB	*RMB*
Non-current		
Bank borrowings – secured or guaranteed (1)	12,950,000	27,950,000
Other borrowings (2)	8,366,000	–
	21,316,000	27,950,000
Current		
Bank borrowings – secured or guaranteed (1)	88,500,000	83,500,000
Other borrowings – secured (3)	1,585,000	200,000
Other borrowings (2)	–	8,366,000
	90,085,200	92,066,000
Total borrowings	111,401,200	120,016,000

The weight average effective annual interest rates were as follows:

	As at 31 December	
	2023	2022
Bank borrowings – secured or guaranteed (1)	5.01%	5.75%
Other borrowings (2)	5.00%	10.00%
Other borrowings – secured (3)	2.30%	3.36%

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

27 BORROWINGS *(Continued)*

At 31 December 2023 and 2022, the Group's borrowings were repayable as follows:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Within 1 year	90,085,000	92,066,000
Between 1 and 2 years	21,316,000	27,950,000
	111,401,200	120,016,000

The fair values of borrowings approximate their carrying amounts as the discounting impact is not significant.

The borrowings are all denominated in RMB.

(1) Bank borrowings – secured

Bank borrowings were secured as follows:

	As at 31 December	
	2023	2022
Secured by property, plant and equipment and land use rights, guaranteed by a third party and Zhang Youlian and his spouse *(i)*	51,950,000	61,450,000
Guaranteed by Zhang Youlian and his spouse *(i)*	39,500,000	40,000,000
Guaranteed by a third party	5,000,000	5,000,000
Secured by property, plant and equipment and land use rights	5,000,000	5,000,000
	101,450,000	111,450,000

(i) Zhang Youlian is the controlling shareholder of the Company (Notes 33)

(2) As at 31 December 2023, other borrowings of RMB8,366,000 (31 December 2022: RMB8,366,000) were obtained from a third party. The due date of the borrowings is September 2024.

(3) As at 31 December 2023, other borrowings of RMB1,585,200.00 (31 December 2022: RMB200,000) were secured by notes receivable of the Group.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

28 DEFERRED INCOME TAX

	As at 31 December	
	2023 *RMB*	2022 *RMB*
Deferred income tax assets:		
Deductible tax losses	821,752	719,231
Provision for rehabilitation	394,013	319,665
Unrealised profits on intra-group transactions	71,727	30,834
Provision for impairment of financial assets	1,941,263	2,245,753
Lease liabilities	22,100	88,402
	3,250,855	3,403,885
Deferred income tax liabilities:		
Differences in the depreciation of assets	149,003	173,130
Right-of-use assets	22,100	88,402
	171,103	261,532
	3,079,752	3,142,353

Movements in deferred income tax assets during the year ended 31 December 2023 and 2022, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	Provision for impairment *RMB*	Unrealised profits On intra-group transactions *RMB*	Employee benefit expenses *RMB*	Provision for rehabilitation *RMB*	Deductible tax losses *RMB*	Lease liabilities *RMB*	Total *RMB*
At 1 January 2022	2,314,917	19,175	–	238,240	–	–	2,572,332
(Debited)/credited to the consolidated statement of comprehensive income *(Note 12)*	(69,164)	11,659	–	81,425	719,231	88,402	831,553
At 31 December 2022	2,245,753	30,834	–	319,665	719,231	88,402	3,403,885
At 1 January 2023	2,245,753	30,834	–	319,665	719,231	88,402	3,403,885
(Debited)/credited to the consolidated statement of comprehensive income *(Note 12)*	(304,490)	40,893	–	74,348	102,521	(66,302)	(153,030)
At 31 December 2023	1,941,263	71,727	–	394,013	821,752	22,100	3,250,855

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

28 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities	**Differences in the depreciation of assets** *RMB*
At 1 January 2022	–
Debited to the consolidated statement of comprehensive income *(Note 12)*	(261,532)
At 31 December 2022	(261,532)
At 1 January 2023	(261,532)
Credited to the consolidated statement of comprehensive income *(Note 12)*	90,429
At 31 December 2023	(171,103)

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The accumulated tax losses recognised as deferred tax assets amounted to RMB4,507,248 will expire between 2032 and 2033 (As at 31 December 2022, RMB4,394,199 will expire in 2032).

The Group did not recognise cumulative deferred income tax assets in respect of the accumulated tax losses of certain subsidiaries amounted to RMB16,284,584, which will expire between 2024 and 2033 (As at 31 December 2022, RMB10,772,682 will expire between 2024 and 2027).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Profit for the year before income tax	2,637,525	1,610,127
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 14)*	6,687,128	6,082,432
– Amortisation of right-of-use assets *(Note 15)*	533,456	519,189
– Amortisation of leasehold improvements and other non-current assets *(Note 16)*	7,335,624	3,022,460
– Net impairment losses on financial assets *(Note 17)*	1,982,165	576,092
– Gains on disposal of property, plant and equipment *(Note 8)*	(47,078)	(18,769)
– Finance costs *(Note 11)*	6,535,024	6,448,244
	25,663,844	18,239,775
Changes in working capital:		
– Changes of restricted cash	(64,571)	(6,001,562)
– (Increase)/decrease in trade and other receivables and prepayments	(6,498,954)	265,850
– Increase in inventories	(5,068,460)	(1,516,734)
– Increase in trade and other payables	21,394,749	4,815,353
Cash generated from operations	35,426,608	15,802,682

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Assets		Liabilities		
	Cash and cash equivalents *RMB*	Restricted cash *RMB*	Borrowings due within One year *RMB*	Borrowings due after One year *RMB*	Total *RMB*
Net debt as at 1 January 2022	8,235,815	855	(93,561,452)	–	(85,324,782)
Cash flows	11,118,038	6,001,562	1,495,452	(27,950,000)	(9,334,948)
Exchange difference	1,755	–	–	–	1,755
Net debt as at 31 December 2022	19,355,608	6,002,417	(92,066,000)	(27,950,000)	(94,657,975)
Net debt as at 1 January 2023	19,355,608	6,002,417	(92,066,000)	(27,950,000)	(94,657,975)
Cash flows	(4,529,357)	(3,235,429)	8,614,800	–	(850,014)
Reclassification	–	–	(6,634,000)	(6,634,000)	–
Exchange difference	61,908	–	–	–	61,908
Net debt as at 31 December 2023	14,888,159	2,766,988	(90,085,200)	(21,316,000)	(93,746,053)

30 CONTINGENCIES

The Group had no material contingent liabilities as at 31 December 2023.

31 COMMITMENTS

Capital commitments

Capital expenditure contracted for at each balance sheet date, but not yet incurred is as follows:

	As at 31 December	
	2023 *RMB*	2022 *RMB*
Property, plant and equipment	4,676,878	76,000

Notes to the Consolidated Financial Statements

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32 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	As at 31 December	
	2023	2022
	RMB	*RMB*
Property, plant and equipment *(Note 14)*	9,925,012	10,524,233
Land use rights *(Note 15)*	5,041,787	5,182,583
	14,966,799	15,706,816

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group, the Company and its related parties during the years ended 31 December 2023 and 2022, and balances arising from related party transactions as at 31 December 2023 and 2022.

(a) Name and relationship with related parties

Name of related party	Relationship
Zhang Youlian (張有連)	Controlling shareholder, chairman and chief executive officer of the Company
Yangyuan Huanyou Agricultural Technology Co., Ltd.	Controlled by key management of the Company
Shanghai Farmer's Orchard	Controlled by controlling shareholder
Changxing Wuguo Agricultural Technology Co., Ltd	Controlled by controlling shareholder

Notes to the Consolidated Financial Statements

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33 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

(i) Advance payment of Zhang Youlian on behalf of the Group

	As of 31 December	
	2023 RMB	2022 RMB
Beginning of the year	–	–
Payment	636,400	5,428,000
Repayment	–	(5,428,000)
End of the year	636,400	–

(ii) As at 31 December 2023, the bank borrowings of RMB91,450,000 (31 December 2022: RMB101,450,000) were guaranteed by Zhang Youlian.

(iii) Advance payment of Shanghai Farmer's Orchard on behalf of the Group

	As of 31 December	
	2023 RMB	2022 RMB
Beginning of the year	–	–
Payment	150,000	–
End of the year	150,000	–

(iv) Transactions with Changxing Wuguo Agricultural Technology Co., Ltd

	As of 31 December	
	2023 RMB	2022 RMB
Purchase of plants for environmental rehabilitation	863,450	–

(c) Key management compensation (Note 35)

	Year ended 31 December	
	2023 RMB	2022 RMB
Salaries, wages and bonuses	2,574,425	1,925,639
Contributions to pension plans	36,195	44,313
Housing fund, welfare, medical and other benefits	51,428	59,472
	2,662,048	2,029,424

Key management including executive directors, non-executive directors, independent non-executive directors, supervisors and senior management.

Notes to the Consolidated Financial Statements

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33 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balance with related party

Other receivables

	As at 31 December	
	2023	2022
	RMB	*RMB*
Yangyuan Huanyou Agricultural Technology Co., Ltd. *(Note 17(2))*	28,665	28,665

Other payables

	As at 31 December	
	2023	2022
	RMB	*RMB*
Zhang Youlian	636,400	–
Shanghai Farmer's Orchard	150,000	–
	786,400	–

34 SUBSIDIARIES

The following is a list of all the subsidiaries at 31 December 2023:

Name	Place and date of establishment	Principal activities and place of operation	Registered and fully paid capital	Proportion of intend directly held by parent (%)
陽原縣仁恒精細粘土有限責任公司 (“Renheng Refined Clay”)	Yangyuan, Hebei 25 March 2004	Clay mining and processing	24,335,000	100%
浙江長安仁恒化工有限公司 (“Renheng Chemicals”)	Changxing, Zhejiang 21 November 2002	Wholesaling and retailing chemicals and equipment	5,000,000	100%

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35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

Directors', supervisors' and senior management's emoluments for the years ended 31 December 2023 and 2022, respectively, are set out as follows:

	Year ended 31 December	
	2023	2022
	RMB	*RMB*
Directors' fees	252,000	240,611
Salaries, wages and bonuses	2,322,425	1,685,028
Contributions to pension plans	36,195	44,313
Housing fund, welfare, medical and other benefits	51,428	59,472
	2,662,048	2,029,424

No director, supervisor or senior management has waived or agreed to waive any emoluments for the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

Directors', supervisors' and senior management's emoluments are set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:					
	Directors' fees *RMB*	Salaries, wages and bonuses *RMB*	Contributions to pension plans *RMB*	Housing fund, welfare, medical and other benefits *RMB*	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking *RMB*	Total *RMB*
For the year ended 31 December 2023:						
Executive Directors						
Zhang Youlian (張有連) *(i)*	–	261,800	–	–	–	261,800
She Wenjie (佘文傑) *(ii)*	–	56,580	7,239	9,424	–	73,243
Fan Fang (范芳)	–	265,736	7,239	9,424	–	282,399
Non-executive Directors						
Zhang Jinhua (張金花) *(iii)*	–	90,836	–	–	–	90,836
Independent Non-executive Directors						
Zhang Lei (章磊) *(iv)*	92,000	–	–	–	–	92,000
Tang Jinyan (唐靖炎) *(v)*	80,000	–	–	–	–	80,000
Chen Jianping (陳建平) *(vi)*	80,000	–	–	–	–	80,000
Supervisors						
Xu Qinsi (徐勤思) *(vii)*	–	266,351	7,239	9,424	–	283,014
Zhang Donglian (張冬連)	–	152,800	7,239	9,424	–	169,463
Li Lijiao (李麗姣) *(viii)*	–	165,726	7,239	9,424	–	182,389
Senior Management						
Xu Qinwei (徐勤偉)	–	362,736	–	–	–	362,736
Su Pin (蘇品)	–	357,860	–	4,308	–	362,168
Chan Hon Wan (陳漢雲) *(ix)*	–	342,000	–	–	–	342,000
	252,000	2,322,425	36,195	51,428	–	2,662,048

Notes to the Consolidated Financial Statements

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35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

Directors', supervisors' and senior management's emoluments are set out below: *(Continued)*

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:					
	Directors' fees	Salaries, wages and bonuses	Contributions to pension plans	Housing fund, welfare, medical and other benefits	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
For the year ended 31 December 2022:						
Executive Directors						
Zhang Youlian (張有連) *(i)*	–	258,000	–	–	–	258,000
She Wenjie (佘文傑) *(ii)*	–	48,000	6,647	8,965	–	63,612
Fan Fang (范芳)	–	192,000	6,647	8,965	–	207,612
Non-executive Directors						
Zhang Jinhua (張金花) *(iii)*	–	48,000	4,431	5,682	–	58,113
Independent Non-executive Directors						
Zhang Lei (章磊) *(iv)*	92,000	–	–	–	–	92,000
Tang Jinyan (唐靖炎) *(v)*	80,000	–	–	–	–	80,000
Chen Jianping (陳建平) *(vi)*	68,611	–	–	–	–	68,611
Supervisors						
Xu Qinsi (徐勤思) *(vii)*	–	192,000	6,647	8,965	–	207,612
Zhang Donglian (張冬連)	–	120,000	6,647	8,965	–	135,612
Li Lijiao (李麗姣) *(viii)*	–	71,028	6,647	8,965	–	86,640
Senior Management						
Xu Qinwei (徐勤偉)	–	258,000	–	–	–	258,000
Su Pin (蘇品)	–	156,000	6,647	8,965	–	171,612
Chan Hon Wan (陳漢雲) *(ix)*	–	342,000	–	–	–	342,000
	240,611	1,685,028	44,313	59,472	–	2,029,424

Notes to the Consolidated Financial Statements

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35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(Continued)*

(i) Mr. Zhang Youlian was also the chief executive and chairman for the years ended 31 December 2023 and 2022.

(ii) Mr. She Wenjie was appointed as an executive director since October 2019.

(iii) Ms. Zhang Jinhua was appointed as a non-executive director since 14 May 2016.

(iv) Mr Zhang Lei was appointed as independent non-executive directors since 11 May 2019.

(v) Mr Tang Jinyan was appointed as independent non-executive directors since 19 October 2019.

(vi) Mr. Chen Jianping, was appointed as an independent non-executive director since 21 February 2022.

(vii) Mr. Xu Qinsi was appointed as a supervisor since September 2012.

(viii) Ms Li Lijiao was appointed as a supervisor since 22 March 2019.

(ix) Mr. Chan Hon Wan, was appointed as Company secretary since April 2014.

36 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

		As at 31 December	
	Note	2023 RMB	2022 *RMB*
ASSETS			
Non-current assets			
Property, plant and equipment		32,880,934	25,176,692
Right-of-use assets		3,404,560	3,772,946
Investments in subsidiaries	*34*	26,520,736	26,520,736
Deferred income tax assets		1,846,581	1,929,722
		64,652,811	57,400,096
Current assets			
Inventories		6,316,571	2,817,294
Trade and other receivables and prepayments		63,183,732	58,533,347
Trade and other receivables and prepayments due from subsidiaries		82,125,874	70,568,992
Financial assets at fair value through other comprehensive income (FVOCI)		4,896,216	3,688,000
Prepaid income tax		265,662	117,278
Restricted cash		2,766,313	6,001,741
Cash and cash equivalents		9,911,100	16,213,343
		169,465,468	157,939,995
Total assets		234,118,279	215,340,091

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

36 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

		As at 31 December	
	Note	2023	2022
		RMB	*RMB*
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital		38,400,000	38,400,000
Other reserves	*(a)*	50,347,405	50,058,545
Retained earnings	*(a)*	20,597,882	17,998,141
Total equity		109,245,287	106,456,686
LIABILITIES			
Non-current liabilities			
Deferred government grants		2,163,057	303,561
Borrowings		–	15,000,000
Lease liabilities		–	95,831
		2,163,057	15,399,392
Current liabilities			
Deferred government grants		281,241	52,471
Trade and other payables		38,147,663	19,463,191
Borrowings		84,085,200	73,700,000
Lease liabilities		95,831	268,351
		122,609,935	93,484,013
Total liabilities		124,772,992	108,883,405
Total equity and liabilities		234,118,279	215,340,091

The balance sheet of the Company was approved by the Board of Directors on 28 March 2024 and was signed on its behalf.

Zhang Youlian **Fan Fang**

Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

36 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

Note (a) Reserves movements of the Company

	Retained earnings *RMB*	Other reserves *RMB*
At 1 January 2022	19,041,417	50,058,545
Loss for the year	(1,043,276)	–
At 31 December 2022	17,998,141	50,058,545
At 1 January 2023	17,998,141	50,058,545
Profit for the year	2,888,601	–
Appropriation to statutory reserve	(288,860)	341,095
At 31 December 2023	20,597,882	50,399,640

Financial Summary

The following table sets out the financial summary of our Group for the five years ended 31 December:

	For the year ended 31 December				
	2023	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	162,278	150,818	144,398	112,718	100,293
Profit/(loss) before taxation	2,638	1,610	8,370	1,340	(1,069)
Income tax (expense)/credit	(235)	(190)	(935)	(163)	167
Profit/(loss) for the year	2,303	1,420	7,435	1,177	(901)
Attributable to					
Equity holders of the Company	2,303	1,420	7,435	1,177	(901)

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Total assets	292,849	278,152	248,598	230,280	224,936
Total liabilities	(175,420)	(163,025)	(134,891)	(124,008)	(119,841)
Equity attributable to equity holders of the Company	117,429	115,127	113,707	106,272	105,095

	As at 31 December				
	2023	2022	2021	2020	2019
Liquidity and Asset-liability Ratio					
Current ratio (1)	1.08	1.20	1.08	1.17	1.10
Quick ratio (2)	0.64	0.74	0.63	0.77	0.71
Gearing ratio (3)	82.2%	87.4%	75.0%	73.3%	68.5%

Note:

(1) Current ratio represents total current assets divided by total current liability as at the relevant year end.

(2) Quick ratio represents total current assets less inventories divided by total current liability as at the relevant year end.

(3) Gearing ratio represents total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%.