

Interim Report

2012



RENHENG Enterprise Holdings Limited  
仁恒實業控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*  
Stock Code: 8012

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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*This report, for which the directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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.*

**HIGHLIGHTS**

- Turnover for the six months ended 30 June 2012 was approximately HK\$52,908,000, representing a decrease of approximately 18.2% as compared with the corresponding period in 2011;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2012 was approximately HK\$5,187,000, representing an increase of approximately 43.4% as compared with the corresponding period in 2011; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012.

The board of Directors (the "Board") of the Company is pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the three months and the six months ended 30 June 2012 together with the unaudited and audited comparative figures for the corresponding period in 2011 respectively as follows:

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	For the three months ended 30 June		For the six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Audited)
<b>Turnover</b>	4	<b>36,431</b>	41,418	<b>52,908</b>	64,651
Cost of sales		<b>(21,190)</b>	(29,562)	<b>(30,856)</b>	(43,776)
<b>Gross profit</b>		<b>15,241</b>	11,856	<b>22,052</b>	20,875
Other income	5	<b>959</b>	593	<b>1,485</b>	1,038
Other gains and losses	6	<b>(42)</b>	(14)	<b>(42)</b>	(14)
Selling and distribution costs		<b>(2,461)</b>	(2,930)	<b>(4,022)</b>	(6,985)
Administrative expenses		<b>(4,556)</b>	(2,403)	<b>(7,928)</b>	(5,246)
Research and development costs		<b>(2,706)</b>	(571)	<b>(4,171)</b>	(717)
Listing expenses		<b>-</b>	(1,945)	<b>-</b>	(2,225)
<b>Profit before taxation</b>	7	<b>6,435</b>	4,586	<b>7,374</b>	6,726
Taxation	8	<b>(1,775)</b>	(2,008)	<b>(2,187)</b>	(3,108)
<b>Profit for the period</b>		<b>4,660</b>	2,578	<b>5,187</b>	3,618
Other comprehensive income:					
Exchange differences arising on translation		<b>(2,857)</b>	1,056	<b>(786)</b>	2,235
Total comprehensive income for the period		<b>1,803</b>	3,634	<b>4,401</b>	5,853
		<b>HK cents</b>	HK cents	<b>HK cents</b>	HK cents
<b>Earnings per share</b>	9				
– Basic		<b>2.3</b>	1.7	<b>2.6</b>	2.4
– Diluted		<b>2.3</b>	N/A	<b>2.6</b>	N/A

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	As at <b>30 June 2012</b> <b>HK\$'000</b> <b>(Unaudited)</b>	As at 31 December 2011 <i>HK\$'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	11	14,739	15,404
Land use rights		3,027	3,072
Investment properties		19,311	19,366
		<u>37,077</u>	<u>37,842</u>
<b>Current assets</b>			
Inventories	12	17,307	18,238
Trade and other receivables	13	78,120	80,230
Land use rights		74	74
Amounts due from customers for contract work		13,468	2,334
Amounts due from related companies		436	437
Restricted bank deposits	14	–	265
Bank balances and cash	14	103,916	103,353
		<u>213,321</u>	<u>204,931</u>
<b>Current liabilities</b>			
Trade and other payables	15	48,645	50,768
Amounts due to customers for contract work		13,130	7,406
Tax payable		3,664	4,343
		<u>65,439</u>	<u>62,517</u>
<b>Net current assets</b>		<u>147,882</u>	142,414
<b>Total assets less current liabilities</b>		<u>184,959</u>	180,256
<b>Non-current liabilities</b>			
Deferred tax liabilities		353	360
		<u>184,606</u>	<u>179,896</u>
<b>Capital and reserves</b>			
Share capital	16	2,000	2,000
Reserves		182,606	177,896
<b>Total equity</b>		<u>184,606</u>	<u>179,896</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
At 1 January 2011	390	-	48,701	3,338	4,877	999	2,775	-	4,121	28,880	94,081
Profit for the period	-	-	-	-	-	-	-	-	-	3,618	3,618
Exchange differences arising on translation	-	-	-	-	-	-	-	-	2,235	-	2,235
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,235</b>	<b>3,618</b>	<b>5,853</b>
Transfer	-	-	-	-	1,176	-	-	-	-	(1,176)	-
Issue of shares arising from the group reorganization	(390)	-	390	-	-	-	-	-	-	-	-
<b>At 30 June 2011</b>	<b>-</b>	<b>-</b>	<b>49,091</b>	<b>3,338</b>	<b>6,053</b>	<b>999</b>	<b>2,775</b>	<b>-</b>	<b>6,356</b>	<b>31,322</b>	<b>99,934</b>

	Share capital	Share premium	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1 January 2012	2,000	52,940	49,091	3,338	6,053	999	2,775	124	9,193	53,383	179,896
Profit for the period	-	-	-	-	-	-	-	-	-	5,187	5,187
Exchange differences arising on translation	-	-	-	-	-	-	-	-	(786)	-	(786)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(786)	5,187	4,401
Transfer	-	-	-	-	6,248	-	-	-	-	(6,248)	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	309	-	-	309
At 30 June 2012	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>12,301</u>	<u>999</u>	<u>2,775</u>	<u>433</u>	<u>8,407</u>	<u>52,322</u>	<u>184,606</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**

	<b>For the six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Net cash from (used in) operating activities	<b>1,401</b>	(12,005)
Net cash from (used in) investing activities	<b>414</b>	(694)
Net cash used in financing activities	–	(3,105)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>1,815</b>	(15,804)
Cash and cash equivalents at the beginning of period	<b>103,353</b>	54,383
Effect of foreign exchange rate changes	<b>(1,252)</b>	1,433
	<hr/>	<hr/>
Cash and cash equivalents at the end of period, represented by bank balances and cash	<b><u>103,916</u></b>	<u>40,012</u>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

### 1. GENERAL

The Company was incorporated in the Cayman Islands on 2 February 2011 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company acts as an investment holding company while its subsidiaries are principally engaged in the manufacture and sale of tobacco machinery products in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Room 1303, 13/F., Keen Hung Commercial Building, 80 Queen's Road East, Wanchai, Hong Kong, respectively.

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The financial results for the six months ended 30 June 2012 were unaudited but have been reviewed by the audit committee of the Company. The unaudited financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the GEM Listing Rules.

The accounting policies used in the preparation of the unaudited consolidated financial statements for the six months ended 30 June 2012 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2011.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied all the standards, amendments and interpretations issued by HKICPA, which are effective for the Group's financial year beginning 1 January 2012. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and presentation of the Group's unaudited consolidated financial statements.

#### 4. TURNOVER

Turnover represents revenue arising from sale of goods and construction contracts of casing and flavouring systems. An analysis of the Group's revenue is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Audited)
Sales of goods	5,573	4,960	18,502	7,277
Revenue from construction contracts of casing and flavouring systems	30,858	36,458	34,406	57,374
	<b>36,431</b>	<b>41,418</b>	<b>52,908</b>	<b>64,651</b>

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products. An analysis of the Group's turnover by products is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Audited)
Sales of				
– casing and flavouring systems	30,858	36,458	34,406	57,374
– pneumatic feeding systems	2,425	1,644	5,215	2,476
– pre-pressing packing machines	–	273	644	273
– other products ( <i>Note</i> )	3,148	3,043	12,643	4,528
	<b>36,431</b>	<b>41,418</b>	<b>52,908</b>	<b>64,651</b>

*Note:* Sale of other products for the six months ended 30 June 2012 included sale of dedusting systems, which was a non-catalogued ancillary tobacco machinery product.

## 5. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Audited)
Sales of materials, parts and components, net of costs	554	300	811	446
Rental income	218	213	436	422
Interest income	187	67	238	157
Others	–	13	–	13
	<u>959</u>	<u>593</u>	<u>1,485</u>	<u>1,038</u>

## 6. OTHER GAINS AND LOSSES

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Audited)
Gain on fair value changes of investment properties	–	274	–	274
Allowance for doubtful debts	(36)	(288)	(36)	(288)
Loss on disposal of property, plant and equipment	(6)	–	(6)	–
	<u>(42)</u>	<u>(14)</u>	<u>(42)</u>	<u>(14)</u>

## 7. PROFIT BEFORE TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Audited)
Profit before taxation has been arriving at after charging:				
Directors' emoluments	303	–	618	–
Other staff costs:				
Salaries, bonus and allowances	3,709	1,736	5,716	4,709
Retirement benefits scheme contributions	238	24	378	181
Share-based payment expense	131	–	262	–
Total staff costs	<u>4,381</u>	<u>1,760</u>	<u>6,974</u>	<u>4,890</u>
Depreciation of property, plant and equipment	351	340	705	655
Auditor's remuneration	175	132	350	263
Cost of inventories recognized as an expense	6,065	2,793	13,713	3,745
Operating lease rentals in respect of land use rights rental premise	18	18	37	36
	<u>39</u>	<u>39</u>	<u>79</u>	<u>72</u>

## 8. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Audited)
The charge comprises:				
PRC Enterprise Income Tax	1,775	1,941	2,187	3,041
Withholding tax on distributed profit	–	657	–	657
Deferred taxation	–	(590)	–	(590)
	<u>1,775</u>	<u>2,008</u>	<u>2,187</u>	<u>3,108</u>

No provision for Hong Kong Profits Tax has been made in the unaudited consolidated financial statements as the Group has no assessable profit arisen in, or was derived from Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 15% (six months ended 30 June 2011: 25%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the following periods is based on the following data:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Audited)
<b>Earnings</b>				
Profit for the period attributable to shareholders of the Company for the purposes of basic and diluted earnings per share (2011: for basic earnings per share only)	<u>4,660</u>	<u>2,578</u>	<u>5,187</u>	<u>3,618</u>
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share (2011: for basic earnings per share only)	<u>200,000,000</u>	<u>150,000,000</u>	<u>200,000,000</u>	<u>150,000,000</u>

The computation of diluted earnings per share for the three months and the six months ended 30 June 2012 has not assumed the exercise of the Company's share options because the adjusted exercise price of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the three months and the six months ended 30 June 2012.

No diluted earnings per share was presented as there was no potential ordinary share during the three months and the six months ended 30 June 2011.

**10. DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

**11. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with an aggregate amount of approximately HK\$110,000 (six months ended 30 June 2011: approximately HK\$851,000).

**12. INVENTORIES**

	As at <b>30 June</b> <b>2012</b> <i>HK\$'000</i> (Unaudited)	As at 31 December 2011 <i>HK\$'000</i> (Audited)
Raw materials	<b>16,433</b>	13,884
Work in progress	<b>874</b>	4,354
	<u><b>17,307</b></u>	<u>18,238</u>

**13. TRADE AND OTHER RECEIVABLES**

	As at <b>30 June</b> <b>2012</b> <i>HK\$'000</i> (Unaudited)	As at 31 December 2011 <i>HK\$'000</i> (Audited)
Trade receivables	<b>51,101</b>	50,852
Less: Allowance for doubtful debts	<b>(2,358)</b>	(2,365)
	<u><b>48,743</b></u>	<u>48,487</u>
Retention money receivables	<b>21,255</b>	19,088
Prepayments and deposits	<b>4,340</b>	8,202
Sundry receivables	<b>4,308</b>	4,945
Less: Allowance for doubtful debts	<b>(526)</b>	(492)
	<u><b>29,377</b></u>	<u>31,742</u>
	<u><b>78,120</b></u>	<u>80,230</u>

The Group normally allows a credit period of three months to its trade customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period.

	<b>As at 30 June 2012 <i>HK\$'000</i> (Unaudited)</b>	As at 31 December 2011 <i>HK\$'000</i> (Audited)
0 – 90 days	<b>13,811</b>	14,484
91 – 365 days	<b>33,753</b>	32,291
1 – 2 years	<b>1,167</b>	1,687
Over 2 years	<b>12</b>	25
	<b><u>48,743</u></b>	<b><u>48,487</u></b>

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period which are past due but not impaired as the management of the Group considers that there has not been a significant change in credit quality and the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	<b>As at 30 June 2012 <i>HK\$'000</i> (Unaudited)</b>	As at 31 December 2011 <i>HK\$'000</i> (Audited)
91 – 365 days	<b>33,753</b>	32,291
1 – 2 years	<b>1,167</b>	1,687
Over 2 years	<b>12</b>	25
	<b><u>34,932</u></b>	<b><u>34,003</u></b>

#### 14. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances comprise short-term bank deposits carried at prevailing market deposit rate. The effective interest rate of these deposits ranged from 0.45% to 1.35% (2011: 0.50% to 1.50%) per annum.

As at 31 December 2011, restricted bank deposits represent deposits of approximately HK\$265,000 with effective interest rate of 0.5% per annum pledged to a bank to secure certain construction contracts.

#### 15. TRADE AND OTHER PAYABLES

	As at 30 June 2012 <i>HK\$'000</i> (Unaudited)	As at 31 December 2011 <i>HK\$'000</i> (Audited)
Trade payables	40,156	40,472
Advances from customers	3,947	4,020
Accrued welfare expense	1,765	1,770
Valued added tax payables	1,162	1,205
Other payables	1,615	3,301
	<u>48,645</u>	<u>50,768</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	As at 30 June 2012 <i>HK\$'000</i> (Unaudited)	As at 31 December 2011 <i>HK\$'000</i> (Audited)
0 – 90 days	38,152	35,812
91 – 365 days	1,934	3,685
1 – 2 years	–	660
2 – 3 years	70	315
	<u>40,156</u>	<u>40,472</u>

The average credit period on purchase of goods is 90 days.



## 16. SHARE CAPITAL

	As at 30 June 2012		As at 31 December 2011	
	Number of share (Unaudited)	Amount HK\$'000 (Unaudited)	Number of share (Audited)	Amount HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each				
<b>Authorized:</b>				
At the beginning of period/On 2 February 2011 (date of incorporation)	1,000,000,000	10,000	38,750,000	388
Increase in authorized share capital	-	-	961,250,000	9,612
At the end of period/year	<u>1,000,000,000</u>	<u>10,000</u>	<u>1,000,000,000</u>	<u>10,000</u>
<b>Issued and fully paid:</b>				
At the beginning of period/Issued of shares upon the group reorganization on 2 February 2011 (date of incorporation)	200,000,000	2,000	100	-
Capitalization issue	-	-	149,999,900	1,500
Placing of shares	-	-	50,000,000	500
At the end of period/year	<u>200,000,000</u>	<u>2,000</u>	<u>200,000,000</u>	<u>2,000</u>

The Company was incorporated on 2 February 2011 with an authorized share capital of HK\$387,500 divided into 38,750,000 ordinary shares of HK\$0.01 each. Pursuant to a share swap agreement dated 2 February 2011, the Company acquired the entire issued share capital of RENHENG Global Limited, and in consideration thereof, a total of 100 shares of the Company were issued and allotted to LinkBest Capital Group Limited and Open Venture Global Limited, which are wholly owned by Mr. Wei Sheng Peng and Ms. Liu Li, respectively.

Pursuant to the shareholders' resolutions which were passed to approve the matters set out in the paragraph headed "Written resolutions of all shareholders" in Appendix V to the Company's prospectus dated 28 October 2011 (the "Prospectus"):

- (i) The authorised share capital of the Company was increased from HK\$387,500 to HK\$10,000,000 by the creation of an additional 961,250,000 ordinary shares each ranking pari passu in all respects; and
- (ii) The Directors were hereby authorized to capitalise HK\$1,499,999 standing to credit of the share premium account of the Company, as a result of the placing of shares, and to apply such sum in paying up in full at par 149,999,900 ordinary shares of HK\$0.01 each for allotment and issue to holders of shares whose names appeared on the register of members of the Company at the close of business on 20 October 2011 in proportion.

On 17 November 2011, 50,000,000 ordinary shares of HK\$0.01 each of the Company were issued at HK\$1.20 per share by way of placing (the "Placing"). On 18 November 2011, the Company's shares were listed on the GEM.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the manufacture, sale and provision of maintenance, overhaul and modification services in respect of tobacco machinery products in the PRC. We generate our turnover primarily from projects related to three types of catalogued special-purpose tobacco machinery products, namely the casing and flavouring systems, pneumatic feeding systems and pre-pressing packing machines (the "PP system").

## FINANCIAL REVIEW

For the six months ended 30 June 2012, turnover amounted to approximately HK\$52,908,000 (six months ended 30 June 2011: approximately HK\$64,651,000), representing a drop of approximately 18.2% as compared to the corresponding period last year. The degree of decrement in turnover was improved from 29.1% in the first quarter of 2012 to that of 18.2% for the six months ended 30 June 2012. Such improvement was resulted from the recognition of several casing and flavouring system contracts in Guangxi, Hunan and Liaoning provinces during the three months ended 30 June 2012 with contract value ranged between RMB5 million to RMB22 million. Moreover, the Group has recorded an improved gross profit margin during the six months ended 30 June 2012. The gross profit margin for the six months ended 30 June 2012 was 41.7% as compared to 32.3% in the corresponding period in 2011, and a gross profit of approximately HK\$22,052,000 was recorded (six months ended 30 June 2011: approximately HK\$20,875,000).

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK\$11,950,000 (six months ended 30 June 2011: approximately HK\$12,231,000), representing a drop of approximately 2.3% as compared with that for the corresponding period in 2011. The savings were mainly attributable to our continuous stringent cost management conducted by our subsidiary in the PRC, while offset by the increased operating and compliance expenditure resulted from the full operation in Hong Kong after listing for the six months ended 30 June 2012 when compared to that of the corresponding period in 2011. Net profit attributable to shareholders for the six months ended 30 June 2012 increased to approximately HK\$5,187,000 (six months ended 30 June 2011: approximately HK\$3,618,000), representing an increase of approximately 43.4% as compared with that for the corresponding period in 2011.

## **BUSINESS REVIEW**

During the six months ended 30 June 2012, the overall tobacco machinery industry in the PRC remained competitive. To meet the challenge, the Group has planned and pursued its focuses on (i) system customization to customers with high product quality; (ii) product development and innovation; and (iii) increasing market penetration so as to gain the leading role status in the tobacco machinery industry in the PRC.

Backed by our experienced and robust technical personnel, our sales and marketing team continued to interact with our customers in the PRC, comprising the cigarette manufacturers and tobacco redrying factories, and identify potential projects. At the same time, our team members devoted their utmost effort to respective on-going projects in delivering casing and flavouring systems to our customers in Chongqing, Hunan and Guangxi provinces, all valuing over RMB10 million individually in their contract sum. During the second quarter, we underwent both the product manufacture and technical modification as requested by customers. Following our current agreed schedule, these projects are anticipated to be completed within this year.

New product design has been progressing satisfactorily. During the six months ended 30 June 2012, the Group has further devoted time and effort on the development of two new products, namely the new casing and flavouring system and the new PP system. The progress of product development of the new casing and flavouring system is prevailing according to the current tobacco market situation in the PRC. We strived to develop extended range of special-purpose tobacco machinery products other than those currently under progress to our customers in coming future, with a view to uplift our revenue and return to our shareholders.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Group did not have any borrowings, mortgages or charges as at 30 June 2012 (as at 31 December 2011: Nil). As at 30 June 2012, we had bank balances and cash of approximately HK\$103,916,000 (as at 31 December 2011: approximately HK\$103,353,000). As at 30 June 2012, we had net current assets of approximately HK\$147,882,000 (as at 31 December 2011: approximately HK\$142,414,000). Current ratio as at 30 June 2012 was approximately 3.3 (as at 31 December 2011: approximately 3.3).

Our operations are financed principally by revenues generated from business operations, available bank balances and the net proceeds from the Placing.

### **CAPITAL EXPENDITURE**

The Group purchased property, plant and equipment amounting to approximately HK\$110,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: approximately HK\$851,000).

### **CAPITAL COMMITMENTS**

The Group did not have any significant capital commitments as at 30 June 2012 (as at 31 December 2011: Nil).

### **GEARING RATIO**

Our gearing ratio, defined as the ratio between total bank borrowing and shareholders' equity, is zero since the Group did not have any bank borrowings.

### **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE**

The fluctuation of Renminbi against Hong Kong Dollars is moderate and we consider that potential foreign exchange exposure is limited.

### **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 30 June 2012 (as at 31 December 2011: Nil).

### **PLEDGE OF ASSETS**

As at 30 June 2012, the Group did not have any restricted bank deposits.

As at 31 December 2011, restricted bank deposits represented deposits of approximately HK\$265,000 with effective interest rate of 0.5% per annum pledged to a bank to secure certain construction contracts.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2012, the Group had a total of 141 employees (as at 31 December 2011: 141). Total staff costs (including directors' remuneration) were approximately HK\$6,974,000 for the six months ended 30 June 2012 as compared to approximately HK\$4,890,000 for the six months ended 30 June 2011.

Remuneration in the form of salaries and bonus is determined by reference to our employees' respective experience, responsibilities, qualifications and competence displayed and our operation results. Our employees also receive reimbursements for expenses which are necessarily and reasonably incurred for providing services to our Group or executing their functions in relation to our operations. Our Directors and employees may also receive options granted under the Share Option Scheme after listing.

## **SIGNIFICANT INVESTMENTS HELD**

There were no significant investments held by the Group at 30 June 2012 (as at 31 December 2011: Nil).

## **MATERIAL ACQUISITION AND DISPOSAL**

The Group had no material acquisition and disposal of subsidiaries for six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

## **SEGMENT INFORMATION**

The operating activities of the Group are attributable to a single operating segment focusing on manufacturing and sale of tobacco machinery products. The chief executive officer, who is the chief operating decision maker of the Group, regularly reviews revenue analysis by projects related to three types of catalogued special-purpose tobacco machinery products mentioned above.

Segment information about the business of the Group for the six months ended 30 June 2012 is set out in note 4 to the unaudited consolidated financial statements.

## PRE-IPO SHARE OPTION SCHEME

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011. The purpose of the Pre-IPO Share Option Scheme is to grant options to the participants as incentive or rewards for their contributions to the Group.

Options to subscribe for an aggregate of 1,300,000 shares at an exercise price of HK\$0.96 were granted to 10 participants including one executive Director, four members of the senior management of the Group and five employees of the Group, each at a consideration of HK\$10.00 under the Pre-IPO Share Option Scheme on 20 October 2011.

As at 30 June 2012, details of the options granted under the Pre-IPO Share Option Scheme were as follows:

Name of grantee	Date of grant (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per share (HK\$)	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2012	Approximate percentage of issued share capital of the Company
<b>Director</b>									
Sun Zhaohui	20/10/2011	01/01/2013 – 19/10/2021	0.96	200,000	-	-	-	200,000	0.10%
Senior management and employees of the Group	20/10/2011	01/01/2013 – 19/10/2021	0.96	1,100,000	-	-	-	1,100,000	0.55%
				<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>	<u>0.65%</u>

## SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group. Up to 30 June 2012, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

### Long positions

*Ordinary shares of HK\$0.01 each of the Company*

Name	Capacity/ Nature of interest	Number of issued ordinary shares held	Number of underlying shares subject to the Pre-IPO Share Option Scheme	Approximate percentage of the issued share capital of the Company*
<b>Directors</b>				
Mr. Wei Sheng Peng <sup>(1)</sup>	Interest of a controlled corporation and family interest	150,000,000	–	75%
Ms. Liu Li <sup>(2)</sup>	Interest of a controlled corporation and family interest	150,000,000	–	75%
Mr. Sun Zhaohui	Personal interest	–	200,000	0.10%

\* The percentage represents the number of shares/underlying shares interested divided by the number of the Company's issued share as at 30 June 2012.



*Notes:*

1. LinkBest Capital Group Limited ("LinkBest"), which is wholly owned by Mr. Wei Sheng Peng, is interested in 90,000,000 shares of the Company. Mr. Wei Sheng Peng is also the spouse of Ms. Liu Li, so he is deemed to be interested in 60,000,000 shares held by Open Venture Global Limited ("Open Venture"), being a corporation wholly owned by Ms. Liu Li.
2. Open Venture, which is wholly owned by Ms. Liu Li, is interested in 60,000,000 shares of the Company. Ms. Liu Li is also the spouse of Mr. Wei Sheng Peng, so she is deemed to be interested in 90,000,000 shares held by LinkBest, being a corporation wholly owned by Mr. Wei Sheng Peng.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2012.

#### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2012, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and the Stock Exchange, as follows:

#### **Long positions**

*Ordinary shares of HK\$0.01 each of the Company*

<b>Name of shareholders</b>	<b>Capacity/ Nature of interest</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
LinkBest <sup>(1)</sup>	Beneficial owner	90,000,000	45%
Open Venture <sup>(2)</sup>	Beneficial owner	60,000,000	30%
Mr. Wei Sheng Peng <sup>(3)</sup>	Interest of a controlled corporation and family interest	150,000,000	75%
Ms. Liu Li <sup>(4)</sup>	Interest of a controlled corporation and family interest	150,000,000	75%

*Notes:*

1. LinkBest is wholly owned by Mr. Wei Sheng Peng.
2. Open Venture is wholly owned by Ms. Liu Li.
3. Mr. Wei Sheng Peng is the sole shareholder of LinkBest which is interested in 90,000,000 shares and as the spouse of Ms. Liu Li, he is deemed to be interested in 60,000,000 shares held by Open Venture, being a corporation wholly owned by Ms. Liu Li.
4. Ms. Liu Li is the sole shareholder of Open Venture which is interested in 60,000,000 shares and as the spouse of Mr. Wei Sheng Peng, she is deemed to be interested in 90,000,000 shares held by LinkBest, being a corporation wholly owned by Mr. Wei Sheng Peng.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2012.

### **COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS**

An analysis comparing the section headed “Future plans and prospects” as set out in the Prospectus with our actual business progress for the period from 24 October 2011, being the latest practicable date as defined in the Prospectus, to 30 June 2012 (the “Relevant Period”) is set out below:

	<b>Future plans and prospects</b>	<b>Actual business progress during the Relevant Period</b>
Continuous product development and innovation	Design and develop new set of PP system	Commenced and continuously developed a new set of PP system
	Design and develop new set of spraying device	Continued the technical feasibility study of new type of spraying device

	<b>Future plans and prospects</b>	<b>Actual business progress during the Relevant Period</b>
	Design and develop new casing and flavouring system	Commenced and continuously developed a new set of casing and flavouring system
	Design and develop tobacco bale slicers	Commenced the technical feasibility study of tobacco bale slicers
	Recruit technical personnel	Recruited six technical personnel
Enhancing corporate profile and increasing market penetration	Post advertisement in tobacco magazines	Posted advertisement in local publications
	Design and distribute corporate and product brochures as well as video compact disc	Commenced the sourcing of service provider to design corporate and product brochures
	Participate in trade exhibitions	Explored the opportunity of any trade exhibitions in the PRC
Enhancing production processing capabilities	Purchase machinery and equipment	Purchased one Computerized Numerical Control ("CNC") press brake and one CNC shearing machine
Strengthening management information system	Evaluate, acquire and implement management information system	Commenced installation and upgrade of management information system by service provider

**USE OF PROCEEDS**

The net proceeds from the Placing were approximately HK\$45.7 million, which is approximately HK\$1.6 million lower than that was anticipated in the Prospectus due to the underestimated listing expenses and related disbursements. During the Relevant Period, the net proceeds from the Placing had been applied as follows:

	<b>Planned use of proceeds as stated in the Prospectus during the Relevant Period (HK\$'000)</b>	<b>Actual use of proceeds during the Relevant Period (HK\$'000)</b>
Continuous product development and innovation ( <i>Note 1</i> )	7,058	5,289
Enhancing corporate profile and increasing market penetration ( <i>Note 2</i> )	174	2
Enhancing production processing capabilities ( <i>Note 3</i> )	1,440	626
Strengthening management information system ( <i>Note 4</i> )	480	192
	<hr/>	<hr/>
Total	<u>9,152</u>	<u>6,109</u>

*Notes:*

1. Approximately HK\$893,000 and HK\$4,269,000 were used for the design and development of a new set of PP system employing two compressors and a new casing and flavouring system equipping the operating features of movable tanks and automated storage, retrieval and feeding devices respectively during the Relevant Period. The feasibility studies of new type of spraying device and tobacco bale slicers were carried on during the Relevant Period.

Remaining balance was used to employ technical personnel and recruitment is still continuous during the Relevant Period.

2. The Group is finalizing a marketing and promotion plan including the posting of advertisement in tobacco magazines and is exploring the opportunity of any trade exhibitions in the PRC.
3. CNC shearing machine and CNC press brake were purchased during the Relevant Period as planned, but the purchase of CNC lathes is deferred due to our production plan.
4. The plan for upgrading management information system was confirmed and installation was commenced during the Relevant Period. The upgrade is expected to be completed by the end of 2012.

The remaining net proceeds as at 30 June 2012 were placed on short-term interest bearing deposits with licensed banks in the PRC and Hong Kong.

**COMPETING INTERESTS**

None of the Directors or controlling shareholders of the Company nor their respective associates (as defined under the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

## **CORPORATE GOVERNANCE PRACTICES**

Pursuant to the Corporate Governance Code (the “Code”) contained in Appendix 15 to the GEM Listing Rules which sets out corporate governance principles and the Code Provisions, the Company has applied all the Code Provisions and certain recommended best practices as set out in the Code during the six months ended 30 June 2012.

## **CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding the directors’ securities transactions in securities of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard of dealings as set out in the adopted code of conduct regarding directors’ securities transactions.

## **INTERESTS OF THE COMPLIANCE ADVISER**

As notified by Shenyin Wanguo Capital (H.K.) Limited (“Shenyin Wanguo”), the compliance adviser of the Company, neither Shenyin Wanguo nor its directors or employees or associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 30 June 2012.

Pursuant to the agreement dated 27 October 2011 entered into between Shenyin Wanguo and the Company, Shenyin Wanguo received and will receive fees for acting as the compliance adviser of the Company.

## AUDIT COMMITTEE

The Company has established an audit committee on 20 October 2011, currently comprising three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit. The rest of members are Mr. Tam Yuk Sang, Sammy and Mr. Kong Hing Ki. The unaudited consolidated financial statements and results announcement for the six months ended 30 June 2012 have been reviewed by the audit committee in accordance with GEM Listing Rules and which was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

By order of the Board  
**RENHENG Enterprise Holdings Limited**  
**Wei Sheng Peng**  
*Chairman*

Hong Kong, 9 August 2012

*As at the date of this report, the executive Directors are Mr. Wei Sheng Peng, Ms. Liu Li and Mr. Sun Zhaohui and the independent non-executive Directors are Mr. Tam Yuk Sang, Sammy, Mr. Wong Yiu Kit and Mr. Kong Hing Ki.*