RENHENG Enterprise Holdings Limited

仁恒實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3628)

2017 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms. Liu Li *(Chairman and Chief Executive Officer)*
Mr. Xu Jiagui

Independent Non-executive Directors
Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki
Mr. Wu Wei

AUDIT COMMITTEE
Mr. Wong Yiu Kit, Ernest *(Chairman)*
Mr. Kong Hing Ki
Mr. Wu Wei

REMUNERATION COMMITTEE
Mr. Kong Hing Ki *(Chairman)*
Mr. Wong Yiu Kit, Ernest
Mr. Wu Wei

NOMINATION COMMITTEE
Mr. Wu Wei *(Chairman)*
Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki

COMPANY SECRETARY
Ms. Law Wai Ting *(appointed on 4 September 2017)*

AUTHORISED REPRESENTATIVES
Ms. Liu Li
Ms. Law Wai Ting *(appointed on 4 September 2017)*

REGISTERED OFFICE
P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Room 3805, 38/F.
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

LEGAL ADVISERS
As to Hong Kong law
Louis K. Y. Pau & Co.

As to Cayman Islands law
Maples and Calder (Hong Kong) LLP

AUDITOR
Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
SMP Partners Company (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited, Baoying Sub-Branch
Industrial and Commercial Bank of China Limited,
Baoying Sub-Branch
China Construction Bank Corporation, Baoying Sub-Branch

STOCK CODE
3628

CORPORATE WEBSITE
www.renhengenterprise.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

It's my honour to report to you the results of RENHENG Enterprise Holdings Limited (the "Company") together with its subsidiaries (collectively the "Group") for the year ended 31 December 2017. I wish to express sincere appreciation on behalf of the Board of Directors (the "Board") to all shareholders and friends from all sectors of the society who concern for the development of the Group.

2017 was a year full of challenges for the Company, we have been transforming our strategies in products by focusing to the quality improvement and technology upgrade while continuing to maintain stable costs of production. Benefiting from these strategies, we have overcame various difficulties and attributed to the shareholders with remarkable improvement in the financial performance for the year.

The sale of catalogued special-purpose tobacco machinery products continued to contribute the majority of the revenue of the Group and as at 31 December 2017, there are around 35 ongoing sales contracts with a total contract sum of HK$129 million which are expected to complete in the coming two years. The global economy's cyclical upswing gathered steam in 2017, revealing cautious optimism towards 2018. However, lingering different uncertainties continue to pose a downside risk to the Group's growth prospects. We will continue to strive to maintain and reinforce our leading position in the industry by promoting high-quality machineries and the long standing relationships with customers.

On behalf of the Board, I would like to express heartfelt gratitude once again to all shareholders, directors, colleagues and business partners for their continuous support in the past year.

Liu Li
Chairman & Chief Executive Officer

20 March 2018

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Liu Li

Ms. Liu, aged 47, is an executive director of the Company and is responsible for overall business planning, strategic development, human resources and administration functions of our Group. In February 2007, she was appointed as a director of Yanlord Industry Investment Limited ("Yanlord Industry Investment") and has been responsible for overseeing the operation of Bao Ying Ren Heng Industrial Co., Ltd ("Baoying Renheng") thereafter since the completion of the transfer of equity interest in Baoying Renheng from Yanlord (Holdings) Industrial Limited ("Yanlord Industrial") to Yanlord Industry Investment in 2008. Ms. Liu is principally responsible for the treasury, human resources and administrative functions of the Company. She obtained a bachelor's degree in sport management from Beijing Sport University (formerly known as Beijing Institute of Physical Education) in July 1992. Ms. Liu was appointed as an executive director on 2 February 2011.

Mr. Xu Jiagui

Mr. Xu, aged 51, is the director and general manager of Baoying Renheng. He is primarily responsible for the strategic planning, business development as well as overseeing the daily operations of Baoying Renheng. Mr. Xu has over 15 years of experience in research and development, production and general management relating to the tobacco machinery manufacturing industry. He joined Baoying Renheng in January 2002. Mr. Xu was awarded by Baoying County top ten technological worker and advanced technological worker in March 2000 and April 2001 respectively. He graduated with a college diploma in mechanical design and manufacturing process from Jiangsu Radio and TV University in July 1991 and obtained a certificate of completion for Class for Advanced Studies of Postgraduate Curricula in management science and engineering from Southeast University in December 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Yiu Kit, Ernest

Mr. Wong, aged 50, is an independent non-executive director and the chairman of the audit committee, and a member of the remuneration committee and the nomination committee of the Company. Mr. Wong has over 25 years of experience in venture capital, corporate finance, business development, financial and general management. Currently he is the president and group chief financial officer of KVB Kunlun Holdings Limited ("KVB") which he joined in November 2011. He is now also the chief financial officer and company secretary of KVB's listed group company, KVB Kunlun Financial Group Limited (stock code: 6877), a company whose shares are listed on the GEM of The Stock Exchange of Hong Kong Limited and transferred to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 December 2017. KVB is an international financial services corporation providing forex, equities, commodities trading and asset management services with operations in Auckland, Sydney, Melbourne, Toronto, Hong Kong, Beijing and Tokyo. Currently, he is also an independent non-executive director of HongDa Financial Holding Limited (stock code: 1822), Legend Strategy International Holdings Group Company Limited (stock code: 1355), Progressive Path Group Holdings Limited (stock code: 1581), China Regenerative Medicine International Limited companies (stock code: 8158) and Common Splendor International Health Industry Limited (stock code: 286) whose shares are listed on the Stock Exchange. Besides, he has served as the board director of Adamas Finance Asia (previously known as China Private Equity Investment Holdings Limited ("CPE")) since April 2008. Adamas Finance Asia is a listed investment company in the Alternative Investment Market of the London Stock Exchange Plc. He also served as the chief financial officer of CPE from April 2008 to October 2011. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and Institute of Chartered Accountants in England and Wales. He obtained a Bachelor's Degree of Business Administration from the University of Hong Kong, a Master of Science Degree in Investment Management from the Hong Kong University of Science and Technology and a Master of Science Degree in Electronic Engineering from the Chinese University of Hong Kong. He is a charter-holder of Chartered Financial Analyst and a member of Hong Kong Securities Institute. He is also the president of Hong Kong University Graduates Association, the deputy chairman of the HKU Convocation, a court member of The University of Hong Kong, a committee member of Association of Chartered Certified Accountants Hong Kong. He was appointed as an independent non-executive director with effect from 20 October 2011.

Mr. Kong Hing Ki

Mr. Kong, aged 47, is an independent non-executive director and the chairman of the remuneration committee, and a member of the audit committee and the nomination committee of the Company. He has over 20 years' experience in accounting, auditing and finance, gained from accountancy and commercial firms. Currently, he is a financial controller of a company whose ultimate holding company is listed on the main board of the Singapore Exchange Securities Trading Limited, and is an independent non-executive director and the audit committee chairman of Hing Lee (HK) Holdings Limited (stock code: 396), a company whose shares are listed on the Stock Exchange, and also an independent non-executive director of KEE Holdings Company Limited (stock code: 2011) from 24 November 2010 to 17 February 2016, a company whose shares are listed on the Stock Exchange. Mr. Kong obtained a Bachelor's Degree in Commerce from The Australian National University and a Master of Business Administration Degree from Deakin University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He was appointed as an independent non-executive director with effect from 20 October 2011.

Mr. Wu Wei

Mr. Wu, aged 44, is an independent non-executive director and the chairman of the nomination committee, and a member of the audit committee and the remuneration committee of the Company. He holds a Bachelor's Degree of Arts from Columbia University. He has over 19 years experience in enterprise investment and investment banking. He is a partner of Maison Capital Co. Ltd., a private equity fund manager. Mr. Wu previously served as executive director of CITIC Securities International Company Limited where he was responsible for its private equity business. He also served in Deutsche Bank AG, Henderson Global Investors (Hong Kong) Limited and Lehman Brothers Asia Limited. He is now an independent non-executive director, the chairman of the nomination committee, member of the audit committee and the remuneration committee of AVIC International Holdings Limited (stock code: 161), a company whose shares are listed on the Stock Exchange. He was appointed as an independent non-executive director with effect from 31 October 2014.

SENIOR MANAGEMENT

Mr. Liu Yang

Mr. Liu is a director and vice general manager of Baoying Renheng. He is principally responsible for overseeing the sales and marketing activities of Baoying Renheng. Mr. Liu has over 21 years of experience in sales and marketing. He was the vice general manager for sales of Zhuhai Gang Zhuhai Ming An Enterprise Co. Ltd. between July 1994 to June 2002, and subsequently acquired knowledge and experience in the tobacco machinery industry after joining Baoying Renheng in June 2004. He graduated with a bachelor's degree in marketing from Changchun University of Science and Technology in July 1993. Mr. Liu is the brother of Ms. Liu.

Mr. An Zhanqi

Mr. An is the chief engineer of Baoying Renheng and is the head of the technical department, the production department as well as the procurement department of our Group. He has no less than 16 years of experience in the engineering field. Mr. An was the general manager of Yanlord Industrial (Shenzhen) Co., Ltd. from April 1995 to June 1996 and was appointed as the general manager of Zhuhai Special Economic Zone Ren Heng Electromechanical Company Limited from July 1996 to December 1997. He was the chief engineer of a company engaged in the provision of environmental technology consultancy services between 2001 and 2005 prior to joining our Group in January 2006. He graduated with a bachelor's degree in chemical engineering from Tsinghua University in November 1982.

Ms. Law Wai Ting

Ms. Law is the company secretary and financial controller of our Company. She joined our Group in September 2017 and is primary responsible for overall financial management and corporate governance of our Group. Ms. Law has over 11 years of experience in accounting and auditing profession. Prior to joining our Group, Ms. Law served in an international accounting firm. She is a member of the Hong Kong Institute of Certified Public Accountants.

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 People's Republic of China (the "PRC"). We have obtained the Tobacco Monopoly Production Enterprise Licence (煙草專賣生產企業許可證) issued by the State Tobacco Monopoly Administration of the PRC (中國國家煙草專賣局), under which we are permitted to manufacture, sell and provide maintenance, overhaul as well as modification services in respect of the aforesaid machinery products, and we are one of the thirty-five licenced manufacturers 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 system, pneumatic feeding system ("PF system") and pre-pressing packing machine.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group recorded a loss before taxation of HK$943,000, representing a remarkable decrease in loss of HK$12,223,000 or 92.8% when compared to loss before taxation of HK$13,166,000 for the year ended 31 December 2016. The loss for the year has also decreased by HK$9,757,000 or 75.1% from HK$12,987,000 in prior year to HK$3,230,000 in current year. The improvement in financial performance was mainly resulted from the combination effect of increase in gross profit and other gains together with the reduction of administrative expenses.

The revenue of the Group has increased by HK$3,561,000 or 8.9% from HK$40,110,000 for the year ended 31 December 2016 to HK$43,671,000 for the year ended 31 December 2017 which was mainly attributed to the increase in revenue recognised for the casing and flavouring system by HK$7,038,000 and the decrease in sales of the PF system and other products by HK$1,818,000 and HK$1,659,000, respectively in compare with prior year. Among the total revenue recognised for current year, revenue from construction contracts of casing and flavouring system contributed the substantial share on the total revenue by 67.6% (2016: 56.1%) while the sales of PF system shared 26.9% (2016: 33.8%). The increase in amount and proportion of revenue recognised for the construction contracts of casing and flavouring system was caused by the completion of a construction contract with contract sum amounted to HK$19,262,000 (net of sales tax) during the year under review. Despite the number of sales of PF system in the year ended 31 December 2017 was more than the year ended 31 December 2016, the average contract sum from the sales of PF system has been decreased from HK$2,262,000 in 2016 to HK$1,175,000 in 2017.

The gross profit margin of the Group was 42.0% and 27.5% for the year ended 31 December 2017 and 2016 respectively. The significant improvement in gross profit margin for the current year is mainly resulted from less cost having been incurred to manufacture the PF systems resulting from tight cost control and there were several PF system sales contracts with low gross profit margin in 2016 that led to a lower overall gross profit margin in the year ended 31 December 2016.

Other income and gains represented the unrealised gain on fair value changes of the Group's investment properties situated in the PRC for HK$923,000 in 2017 while it was a fair value loss of HK$116,000 (included in other losses) for prior year. In addition, the sales of scrap materials, parts and components recorded a net gain of HK$3,456,000 in the current year while it was HK$2,701,000 for the 2016.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK$23,678,000 (2016: HK$24,894,000), representing a decrease of HK$1,216,000 or 4.9%. The decrement was resulted from decrease in legal and professional fee and less staff costs were incurred for the year ended 31 December 2017.

For the year ended 31 December 2017, tax expense of HK$2,287,000 was recorded while it was tax credit of HK$179,000 for the prior year. Tax expense for the 2017 was resulted from an under-provision in PRC enterprise income tax of HK$498,000 in prior year and profit generated from the PRC subsidiary.

The Directors do not recommend the payment of dividend for the year ended 31 December 2017 (2016: Nil).

BUSINESS REVIEW AND PROSPECT

The sale of catalogued special-purpose tobacco machinery products continued to contribute the majority of the revenue of the Group, amounting to HK$42,062,000 or 96.3% of total revenue (2016: HK$36,200,000 or 90.3% of total revenue). During the year ended 31 December 2017, the Group concluded 18 construction contracts of casing and flavouring systems and delivered the machinery products to cigarette manufacturers. The Group also completed 10 contracts on the sale of PF system to tobacco redrying factories. Among the sales during the year under review, a construction contract of casing and flavouring systems signed with a cigarette manufacturer in Shanghai Province has contributed around 44.1% of the total sales. Other clients of the Group are clustered in different provinces of the PRC including Shandong, Shanxi, Sichuan and etc.

In 2017, we have been transforming our strategies in products by focusing on the quality improvement and technology upgrade while continuing to maintain stable costs of production. Our marketing personnel have been endeavouring great effort to promote our products and explore new opportunities. As at 31 December 2017, there are around 35 ongoing sales contracts with a total contract sum of HK$129 million which are expected to finish in the coming two years. Our Group is committed to completing the manufacturing process after the contracts are set. However the duration to complete the manufacturing and installation of the systems and machineries vary by the design and complexity of the products, as well as the supporting facilities owned by the cigarette manufacturers/tobacco redrying factories.

Under the "13th Five-Year Plan" of China, in which China began to implement the Proposal on Formulating the 13th Five Year Plan on National Economic and Social Development ("the Plan"). The Plan raises the five development concepts of "Innovation, Coordination, Environmental Protection, Open-mindedness and Sharing". Under this Plan, tobacco industry should constantly improve the level of scientific research and technology innovation to reduce the harm on tobacco intake and reduce the content of tar and other harmful ingredients in the cigarette. We, as the catalogued special-purpose tobacco machinery manufacturer, would cooperate with the cigarette manufacturers and tobacco redrying factories to provide custom-built machines and modification services to achieve this Plan.

Benefiting from favourable national policies and stable market demand, the Group has made solid achievements in the market and stood out from the keen market competition. We will continue to strive to maintain and reinforce our leading position in the industry by promoting high-quality machinery and fortifying the long-standing relationships with customers.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, there was no change in the capital structure of the Group. Bank balances and cash of the Group as at 31 December 2017 amounted to HK$16,836,000 (2016: HK$68,291,000), which were mainly denominated in Renminbi ("RMB") and Hong Kong dollars. As at 31 December 2017, the Group had no bank borrowings, mortgages or charges (2016: Nil) and its gearing ratio was nil (2016: Nil).

As at 31 December 2017, the Group's net current assets was HK$80,577,000 (2016: HK$78,278,000). Current ratio and quick ratio of the Group were 2.5 (2016: 3.0) and 2.1 (2016: 2.8), respectively.

Management Discussion and Analysis

CAPITAL EXPENDITURE

The Group purchased property, plant and equipment amounted to HK$746,000 for the year ended 31 December 2017 (2016: HK$952,000).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group did not have any material capital commitments.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in RMB and Hong Kong dollars. During the year, the Group did not have any material foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

Restricted bank deposits of HK$12,234,000 (2016: HK$8,367,000) were reserved in a bank for settlement of bills payable and to secure certain construction contracts.

SIGNIFICANT INVESTMENTS HELD

The Group's investing activities mainly include the payment for acquisition of financial assets designated as at fair value through profit or loss, placement and withdrawal of short term fixed deposits and purchase of property, plant and equipment.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had a total of 121 employees (2016: 149). Total staff costs (including directors' emoluments) were HK$12,233,000 for the year ended 31 December 2017 (2016: HK$15,018,000).

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May to 18 May 2018, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to be eligible for the attendance of the forthcoming annual general meeting of the Company, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 15 May 2018.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

RENHENG Enterprise Holdings Limited (the "Company") is a company incorporated in the Cayman Islands and domiciled in Hong Kong. Its registered office is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and principal place of business in Hong Kong is at Room 3805, 38/F., Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

Segment information about the business of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2017 is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the Group's business, a discussion and analysis of the Group's performance during the year and discussion of the principal risks and uncertainties the Group facing and an indication of likely future developments in the Group's business are set out in the Management Discussion and Analysis set out on pages 6 to 9 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 37 of this annual report.

The directors do not recommend the payment of dividend for the year ended 31 December 2017 (2016: Nil).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for each of the five years ended 31 December 2017 is set out on page 86 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 16 to the consolidated financial statements. The fair value of the investment properties as at 31 December 2017 was HK$19,693,000 and unrealised gain on fair value change of investment properties of HK$923,000 was resulted.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 25 to the consolidated financial statements.

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 39 of this report and in note 32 to the consolidated financial statements respectively.

At the end of the reporting date, the Company's reserve available for distribution amounted to HK$12,929,000 (2016: HK$18,671,000). Under the Company Law of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

BANK BORROWINGS

The Group did not have any bank borrowings during the year ended 31 December 2017.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, sales to the Group's five largest customers in aggregate accounted for approximately 84.6% (2016: 72.6%) of the total sales and sales to the largest customer accounted for approximately 44.1% (2016: 36.8%) of total sales. Purchases from the Group's five largest suppliers in aggregate accounted for approximately 38.4% (2016: 40.1%) of the total purchases and purchases from the largest supplier accounted for approximately 12.1% (2016: 11.6%) of total purchases.

None of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers during the year.

Directors' Report

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors
Ms. Liu Li
Mr. Xu Jiagui

Independent Non-executive Directors
Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki
Mr. Wu Wei

In accordance with Article 16 of the Company's Articles of Association, Ms. Liu Li and Mr. Kong Hing Ki will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details in respect of the Directors and senior management of the Group are set out in pages 4 to 5 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into service agreements with the Company for a period of three years and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

Other than those disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

During the year and up to the date of this report, pursuant to the Company's Articles of Association there was in force the permitted indemnity provisions which provided for in the Directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against the Directors.

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

As at 31 December 2017, the interests of the 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 of Hong Kong Limited (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 Directors as referred to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long positions

Ordinary shares of HK$0.0025 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
Directors				
Ms. Liu Li [1]	Interest of controlled corporations	600,000,000	–	74.6%
Mr. Xu Jiagui	Beneficial interest	800,000	–	0.1%

Note:

1. Open Venture Global Limited ("Open Venture), which is wholly owned by Ms. Liu Li, is interested in 240,000,000 shares of the Company while LinkBest Capital Limited ("LinkBest") was wholly owned by Mr. Wei Sheng Peng, the spouse of Ms. Liu Li who passed away in May 2016. Under the grant of probate, the entire issued share capital of LinkBest was transferred to Ms. Liu Li in July 2017. LinkBest is interested in 360,000,000 shares of the Company.

   The Company was advised by Ms. Liu Li that she has applied to the Securities and Futures Commission of Hong Kong ("SFC") for a waiver pursuant to Note 6(a) to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers and Share Buy-backs ("Takeovers Code") to dispense with the obligation to make a mandatory general offer for the shares of the company arising from the share transfer of LinkBest. The waiver had been granted by the SFC on 5 March 2018.

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 31 December 2017.

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. Up to 31 December 2017, no outstanding options were resulted.

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 31 December 2017, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

Details of the Share Option Scheme are set out in note 26 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

CONNECTED TRANSACTION

The Directors are not aware of any connected transactions of the Group that shall be disclosed in this annual report under the relevant Listing Rules.

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

As at 31 December 2017, 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$0.0025 each of the Company

Name of shareholders	Capacity/Nature of Interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
LinkBest [(1)]	Beneficial owner	360,000,000	44.8%
Open Venture [(2)]	Beneficial owner	240,000,000	29.8%
Ms. Liu Li	Interest of controlled corporations	600,000,000	74.6%

Notes:

1. LinkBest was wholly owned by Mr. Wei Sheng Peng, the spouse of Ms. Liu Li who passed away in May 2016. Under the grant of probate, the entire issued share capital of LinkBest was transferred to Ms. Liu Li in July 2017. A waiver pursuant to Note 6(a) to Rule 26.1 of the Takeover Codes had been granted by the SFC on 5 March 2018 to dispense with Ms. Liu Li's obligation to make a mandatory general offer of the shares of the Company arising from the share transfer of LinkBest.

2. Open Venture is wholly owned by Ms. Liu Li.

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 31 December 2017.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management. Having regard of the Group's operating results, individual performance and competence, our remuneration is comparable according to market practices.

The Company has adopted a Share Option Scheme as an incentive to directors and eligible employees, details of the Scheme is set out in note 26 to the consolidated financial statements.

Details of Directors' emoluments are set out in note 10 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETING INTERESTS

None of the Directors nor their respective associates (as defined under the 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 year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 18 to 24 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Detail information regarding the environmental, social and governance practices adopted by the Company is set out in the Environmental, Social and Governance Report on pages 25 to 31 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the year ended 31 December 2017 and as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant events that have taken place subsequent to 31 December 2017 and up to the date of approval of this report.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Liu Li
Chairman & Chief Executive Officer

Hong Kong, 20 March 2018

CORPORATE GOVERNANCE REPORT

The Board considers that maintaining high standard of corporate governance and business ethics will serve the long interest of the Company and of its shareholders. The principles adopted by the Board emphasise a quality board, sound internal control, accountability to shareholders and thus an ethical corporate culture established.

CORPORATE GOVERNANCE PRACTICES

Pursuant to the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules which sets out the principles of good corporate governance and the code provisions (the "Code Provisions"), the Company has applied all the Code Provisions as set out in the Code during the year ended 31 December 2017, save and except the Code Provision A.2.1 regarding segregation of roles of chairman and chief executive officer as explained below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has applied the principles of the required standard of securities transactions by our Directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company was confirmed that all Directors have complied with the required standards set out in the Model Code or they were not aware of any non-compliance with the required standard of dealings as set out in the Listing Rules during the year ended 31 December 2017.

BOARD OF DIRECTORS

Board composition

Up to the date of this annual report, the Board comprises five Directors, including two executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors
Ms. Liu Li *(Chairman & Chief Executive Officer)*
Mr. Xu Jiagui

Independent non-executive Directors
Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki
Mr. Wu Wei

The biographical details of Directors are set out on pages 4 to 5 of this annual report.

The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties to the significant issues of overall business planning, management and strategic development of the Group.

Neither Directors have relation to each other and business relation with the Group, nor the chairman and the chief executive officer have relation to each other.

Board and general meetings

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. During the year ended 31 December 2017 and up to the date of this annual report, there were five board meetings and one general meeting held.

The Directors can attend meetings in person or via telephone conference as permitted under the articles of association of the Company.

Details of individual attendance of all Directors at the board and committee meetings together with general meeting are as follows:

Name of Directors/Meetings	General meeting	Board	Audit committee	Nomination committee	Remuneration committee
Executive Directors					
Ms. Liu Li	1/1	5/5	–	–	–
Mr. Xu Jiagui	1/1	5/5	–	–	–
Independent non-executive Directors					
Mr. Wong Yiu Kit, Ernest	1/1	5/5	5/5	2/2	2/2
Mr. Kong Hing Ki	1/1	5/5	5/5	2/2	2/2
Mr. Wu Wei	1/1	5/5	5/5	2/2	2/2

Information of material issues, due notice of meeting and minutes of each directors' meeting have been sent to each of the Directors for their information, comment and review.

The Board is responsible to set strategic plans, formulates policies and provides effective oversight over the management on the operational affairs, and members of the Board are individually and collectively accountable to the shareholders of the Company. The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Independent non-executive Directors

Each Director is required to keep abreast of his responsibilities as a director of the Company and of the Company's conduct, business activities and development. Given the essential unitary nature of the Board, independent non-executive Director has the same duties of care and skill and fiduciary duties as executive Directors. Independent non-executive Director brings a wide range of business and financial expertise, experience and independent judgement to the Board. Functions of independent non-executive Director include but should not be limited to the following:

i. participating in Board meetings to bring independent judgement;

ii. taking the lead where potential conflict of interests may arise;

iii. serving on the audit, nomination and remuneration committees if invited; and

iv. scrutinizing the Group's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Pursuant to Rule 3.10(1) and 3.10A of the Listing Rules, the Board has appointed three independent non-executive Directors, representing half of the Board and all of them have appropriate professional accounting qualifications or related experiences on financial management which is in compliance with Rule 3.10(2) of the Listing Rules. Each of the independent non-executive Directors is appointed for a period of three years and none of each has served the Group for more than nine years.

All independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Listing Rules by providing an annual confirmation of their independence. The Board has assessed their independence and considers that all independent non-executive Directors are independent as required under the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Board was both performed by Ms. Liu Li. Ms. Liu Li will ensure that all the Board members keep abreast of the conduct, business activities and development of the Group and adequate, complete and reliable information is provided to Directors on issues to be considered by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered a service agreement for a term of three years, and each of the independent non-executive Directors has been appointed for a term of three years.

Pursuant to Article 16 of the Company's articles of association, one-third of the Directors are subject to retirement from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Ms. Liu Li and Mr. Kong Hing Ki will hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's business and the statutory and regulatory obligations of a director of a listed company.

During the year ended 31 December 2017, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Type of continuous professional development programmes (Notes)
Executive Directors	
Ms. Liu Li	1 & 2
Mr. Xu Jiagui	2
Independent non-executive Directors	
Mr. Wong Yiu Kit, Ernest	1 & 2
Mr. Kong Hing Ki	1 & 2
Mr. Wu Wei	1 & 2

Notes:

1. Attending seminars/courses for development of professional skills and knowledge.

2. Reading materials in relation to regular update to statutory requirements, listing rules and other relevant topics related to listed company.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit, Ernest. The rest of members are Mr. Kong Hing Ki and Mr. Wu Wei. At the discretion of the audit committee, executive Directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements, annual reports and interim reports, and to provide advice and comment thereon to the Board.

Up to the date of this annual report, the audit committee held five meetings to review the quarterly, interim and annual results during the year as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group.

Nomination committee

The nomination committee currently comprises three independent non-executive Directors and is chaired by Mr. Wu Wei. The rest of the members are Mr. Wong Yiu Kit, Ernest and Mr. Kong Hing Ki. The primary role and function of the nomination committee are to review and monitor the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to carry out the Company's corporate strategies; to assess the independence of independent non-executive Directors; to review the board diversity policy and make recommendation for revision to the Board; and to make recommendations to the Board succession planning.

Up to the date of this annual report, the nomination committee held two meetings to perform the aforesaid functions.

Remuneration committee

The remuneration committee currently comprises three independent non-executive Directors and is chaired by Mr. Kong Hing Ki. The rest of the members are Mr. Wong Yiu Kit, Ernest and Mr. Wu Wei. The primary role and function of the remuneration committee are to review and make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration; and to review and make recommendations to the Board the remuneration packages of all Directors and senior management.

Up to the date of this annual report, the remuneration committee held two meetings and has considered and reviewed the remuneration package of the Directors and senior management of the Group.

AUDITOR'S REMUNERATION

The remuneration of the audit service provided by the auditor to the Group for the year ended 31 December 2017 was mutually agreed in view of the scope of services, amounting to HK$750,000 (2016: HK$750,000).

No non-audit service has been provided by the auditor for the year ended 31 December 2016 and 2017.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities to prepare the consolidated financial statements of the Group for the year ended 31 December 2017, which give a true and fair view and in compliance with relevant laws and disclosure provisions of the Listing Rules. In preparing the consolidated financial statements for the year ended 31 December 2017, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the consolidated financial statements on a going concern basis. The auditor of the Company had made a statement about their reporting responsibilities in the independent Auditor's Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective risk management and internal control system to safeguard the Group's assets against unauthorised use or disposition, and to protect the interest of shareholders of Company. The Board has established effective risk management and internal control systems to provide reasonable but not absolute assurance against material misstatement or loss and to manage risks of failing to achieve business objectives The Board shall be responsible for the risk management and internal control systems and shall review at least annually the effectiveness of such systems for that relevant financial year. Audit committee assists the Board in monitoring the Group's all material controls, including financial, operational and compliance controls. During the year ended 31 December 2017, review of the effectiveness of the Group's risk management and internal control systems has been conducted and the result has been summarised and reported to the audit committee and the Board.

The Company identifies potential risks at all levels within the group companies. The Board of the Company then reviews the potential identified risks and evaluates the nature and impact of the potential identified risks, Afterward, the Board of the Company formulates the potential strategies addressing the potential identified risks. The Company also carried out annual internal control review to our business cycles, namely revenue, expenditure, human resources and payroll, inventory, fixed assets and treasury under a 3-years rotation plan. The Company also reviewed the financial organisation structure, accounting policies and financial reporting process. The main feature of the risk management processes and internal control systems to capture material risks that the Company will face in our risk management and internal controls, operational and financial aspects to resolve material internal control defects.

Regarding to the procedures and internal controls for the handling and dissemination of inside information, it is required to disclose inside information as soon as possible in accordance with the Securities and Futures Ordinance and the Listing Rules and ensure that appropriation of handling and dissemination of inside information.

COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company, has an understanding of the Company's day-to-day affairs, and shall be responsible to the Board. All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. The Company Secretary assists the Chairman to prepare agendas and Board papers for meetings and disseminates such documents to the Directors and board committees in a timely manner. The Company Secretary maintains formal minutes of the Board meetings and other Board committee meetings.

During the year ended 31 December 2017, the Company Secretary of the Company had confirmed that she had taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 12 of the articles of association of the Company (the "Articles of Association"), extraordinary general meeting ("EGM") may be convened by the Board on written requisition of any two or more shareholders of the Company holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists"). Such written requisition must specify the objects of the EGM and must be signed by the Requisitionists and deposited at the principal place of businss of the Company in Hong Kong or, in the event the Company ceases to have such principal office, the registered office of the Company. Shareholders should follow the requirements and procedures as set out in such article for convening an EGM.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong or by email to info@renhengenterprise.com and for the attention of the Company Secretary.

Procedures for putting forward proposals at shareholders' meetings

There is no provision for shareholders to propose resolutions at general meetings under the Cayman Islands Companies Law. However, shareholders can follow the above procedure and request to convene an EGM.

Pursuant to article 16 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the company secretary notice in writing by a shareholder of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Accordingly shareholders who wish to propose a person for election as a director of the Company shall file a notice in writing to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary and should follow the requirements and procedures as set out in such article.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publish and posting of notices, announcements and circulars on the Stock Exchange's website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as the general public. The Group cares about the impact of its daily operation on environment and society and strives to set a good example for the public. We make effort to meet the interests of all stakeholders, economy, environment, society and corporate governance and does our best to achieve a fine balance.

SCOPE

This environmental, social and governance report ("ESG Report") has been prepared in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 People's Republic of China (the "PRC") through its wholly owned subsidiary – Bao Ying Ren Heng Industrial Co. Limited ("Baoying Renheng"). This ESG Report covers environmental, social and governance matters of Baoying Renheng during the reporting period from 1 January 2017 to 31 December 2017.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects for the Group to report on for this ESG Report, key stakeholders have been involved in engagement sessions to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us at info@renhengenterprise.com such that we can keep stepping up our environmental, social and governance undertakings.

A. ENVIRONMENT

Owing to the industry nature, it is unavoidable for Baoying Renheng to produce industrial wastes during the operation. The Group is committed to protect the environment and maintain the sustainability in long-term. We have established procedures to ensure our operation and business are in compliance with the applicable safety and environmental regulations.

A1. Emissions

The Group is aware that there is greenhouse gas emission, wastewater discharge and solid waste generated from the operation of Baoying Renheng. We have tried our best to enhance the efficiency of the usage of energy, water and materials in order to reduce the green house gas emission and unfavourable impact of wastewater discharge. We had installed exhaust gas fans and filtering tanks in the production plant to eliminate the effect from hazardous gas emission and unfavourable element in the wastewater collected by the domestic sewage. Annual review on wastewater discharged by the production plant is also performed by the environmental authority in the PRC. Meanwhile, we noted that there was limited solid waste generated from the operation during the reporting period.

Scope of Greenhouse Gas Emission	Emission Sources	Emission (In tonnes of CO_2e)	Total Emission
Scope 1			
Direct Emission	Mobile Combustion Sources	177.0	53.7%
Scope 2			
Indirect Emission	Purchased Electricity	131.3	39.8%
Scope 3			
Other Indirect Emission	Raw Materials for Packaging of Products	17.7	6.5%
	Water	3.9	
Total		329.9	100%

There were 329.9 tonnes of carbon dioxide equivalent (CO_2e) greenhouse gases emitted from the operation of Baoying Renheng which mainly resulted from the transportation of tobacco machinery products to different provinces in the PRC and the electricity supply for production. The annual emission intensity was 0.014 tonnes of CO_2e per square metre, with our production plant of a total floor area coverage of 23,223 square metres.

No hazardous waste was generated in the production. During the reporting period, only limited non-hazardous waste was generated and a total amount of RMB10,000 was paid for the solid waste treatment during the year ended 31 December 2017. The non-hazardous waste is discharged to a site designated by the municipal government agency.

A2. Use of Resources

Baoying Renheng consumed 220,663 kWh of electricity during the reporting period, contributed to an emission of 131.3 tonnes of CO_2e. We required our employees to switch off office electronic facilities such as lighting, manufacturing and computer equipment during unattended hours in relevant office or working area and encouraged to have double-sided printing. We will consider purchase of energy saving office appliances, when applicable, in the future.

During the reporting period, Baoying Renheng consumed approximately 20,301 tonnes of water. Water saving practice is encouraged at the office. At the same time, the Group strives to minimise the impact to the environment, if any, and save material costs by continuously reviewing the design for product packaging, with the aim of reducing packaging size. Despite this, as the Group's products are mainly machinery products which are fragile, they must be protected by wooden box during the transportation. We have consumed approximately 10,348 kg wooden board for product packaging during the reporting period.

A3. The Environment and Natural Resources

The manufacturing facilities in Baoying Renheng are required to undergo stringent environment audit and continuous monitoring. During the reporting period, we have not been subjected to any claims in the form of any compensation or penalty levied for environmental disruption by the Group for business. In the future, the Group will spend more effort to allocate more resources to promote a wide range of environmental protection action plans.

B. SOCIAL

B1. Employment and Labour Practices

The Group believes that our business success relies on our experience talents employed. We promote equal opportunities to all our employees and are committed to fostering an equal employment environment for employees where treating employees differently on the ground of gender, ethnicity, age, marital status, family status, and religious beliefs among other factors is prohibited. We do strictly comply with all relevant laws and regulations in respect of employment and labour practices including the 中華人民共和國勞動法 (the PRC Labour Law) and the 中華人民共和國勞動合同法 (the PRC Labour Contract Law).

Our compensation and dismissal, recruitment and promotion, working hours and rest periods are determined by reference to our employees' respective experiences, responsibilities, qualifications, competence displayed and our operation results.

Based on our corporate responsibility, the Group do not allow any violations against employment regulations. During the reporting period, the Group did not discover any relevant cases.

Total Number of Employees	2017	Unit
By Gender		
Female	23	People
Male	92	People
By Employment Category		
Senior level	8	People
Middle level	6	People
Entry level	101	People
By Age Group		
Under 30 years old	5	People
30–50 years old	84	People
Over 50 years old	26	People
By Geographical Region		
Mainland China	115	People

Overall Employee Turnover Rate (note)	2017
By Gender	
Female	17.4%
Male	16.8%
By Age Group	
Under 30 years old	110.0%
30–50 years old	16.1%
Over 50 years old	1.9%
By Geographical Region	
Mainland China	16.8%

Note: Turnover rate is calculated based on the number of employees as at 31 December 2017.

B2. Health and Safety

Considering our employees as valuable assets for contributing to the Group's success and sustainability, their health and safety is the major concern the Group attends to. We did strictly comply with the PRC Production Safety Law by 國家安全生產監督管理總局 (the State Administration of Work Safety) which is in charge of the overall administration of production safety. We provide safe production conditions according to the law and provide education and training on occupational safety and health knowledge to our employees.

Number and Rate of Work-related Fatalities	2017	Unit
Number of work-related fatalities	0	People
Fatality rate per 1,000 employees	0	–

Lost Days Due to Work Injury	2017	Unit
Number of lost days	15	Days
Number of reported accidents (sick leave > 3 days)	1	Accident
Injury rate per 1,000 employees	9	–

B3. Development and Training

We strongly believe that nurturing and retaining talent is conductive to developing a more cohesive corporate culture, building a better corporate image, and generating more rewarding economic benefits. In addition to training on occupational safety and health knowledge, we provide on-the-job trainings which include product design, technical training on domestic and foreign tobacco machinery production as well as subsidise in attending external training sessions.

Employee Training	Headcount	Total training hours	Average training hours/person	Percentage of employees trained
By Gender				
Female	21	353	16.8	91.3%
Male	59	824	14.0	64.1%
By Employment Category				
Senior level	2	24	12.0	25.0%
Middle level	3	72	24.0	50.0%
Entry level	75	1,081	14.4	74.3%

B4. Labour Standards

Our Group fully recognises that child labour and forced labour violate fundamental human rights and international labour conventions and pose a threat to sustainable social and economic development. Therefore, the Group strictly abides by the PRC Labour Law. The Group prohibits child labour and carries out examination of applicants' actual age during the recruitment process, includes the checking and making records of the identity documents. The Group implements the requirements of standard labour contract and will not unfairly limit the employment relationship between employees and the Group in any way, such as detaining a deposit or proof of identity. Employees have the right to terminate labour contract as long as it is in compliance with laws and regulations. During the reporting period, the Group did not find case of child labour nor forced labour.

B5. Supply Chain Management

We procure based on the project implementation plan taking into account the raw materials, parts and components in stock. We enter into procurement arrangements with our suppliers to secure the necessary raw materials, parts and components required for individual project after we have entered into sales contracts with our customers with the production schedules. We maintain a list of approved suppliers and procure raw materials, parts and components from such suppliers. In the selection of our approved suppliers, we take into account different factors, including but not limited to, the pricing and quality of the raw materials, parts and components, stability of supply and delivery, the credit period offered by the suppliers as well as their reputation. We generally review the list of approved suppliers on an annual basis. As at 31 December 2017, the Group's five largest suppliers in aggregate accounted for approximately 38.4% of the total purchases and all the suppliers of the Group are situated in the PRC.

B6. Product Responsibility

Our product quality management is in compliance with 中華人民共和國民法通則 (the General Principles of the Civil Laws of the PRC), 中華人民共和國產品質量法 (the Product Quality Law of the PRC), 中華人民共和國消費者權益保護法 (the Law of the PRC on the Protection of the Rights and Interests of Consumers), 煙草行業產品質量監督檢驗網管理辦法 (the Administrative Measures on Supervision and Inspection of Product Quality in Tobacco Industry) and other related laws and regulations. During the reporting period, none of the sold or shipped products was subjected to recalls for safety and health reasons and no complaint on products has been received. We keep close communication with the customers and provide to them high quality products that are tailored to their needs.

We recognises that customers' privacy is an important issue and are dedicated to respecting the customers' privacy safeguarding by keeping the sensitive data separately which is only assessable by authorised personnel.

B7. Anti-corruption

The Group attaches great importance to corporate governance and anti-corruption. We require our employees to strictly follow the standards of business ethics and refuse to accept bribery. We believe that all of our staffs (including management) are honest and obeying the relevant laws and regulations in the jurisdiction. The staffs are encouraged to report to the senior management for any suspected or known fraud and during the reporting period, there is no corruption litigation case involving the Group and the employees.

B8. Community Investment

We treasure the importance of support from the social community on its business and its social responsibilities towards the community. During the reporting period, Baoying Renheng sponsored RMB100,000 to 揚州市慈善總會 (Yangzhou Charity Federation) for the purpose of arousing the interest in caring and concern on the minority.

Looking forward, we will continue to undertake corporate social responsibility, so as to give back and contribute to society.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF RENHENG ENTERPRISE HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of RENHENG Enterprise Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 85, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 year. 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Properties	
We identified the valuation of investment properties as a key audit matter due to the management's judgements associated with determining the fair value. The investment properties of the Group represented a factory building and land thereof located in the People's Republic of China (the "PRC") and carried at Hong Kong dollar ("HK$") 19,693,000 as at 31 December 2017, which represented approximately 11.6% of the Group's total assets. Change in fair value of investment properties of HK$923,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended. All of the Group's investment properties are stated at fair value determined by the management of the Company based on a valuation performed by an independent qualified professional valuer which is not connected with the Group (the "Valuer"). Details of the valuation technique and significant unobservable inputs used in the valuation are disclosed in Note 16 in the consolidated financial statements. The valuations of the investment properties are dependent on certain significant unobservable inputs, which involves the management's judgements, including a significant input of "price per square metre".	Our procedures in relation to assessing the appropriateness of the valuation of the investment properties included: • Evaluating the Valuer's competence, capabilities and objectivity; • Obtaining an understanding from the management and the Valuer about the valuation technique and reasonableness of the significant unobservable inputs used in the valuation; • Assessing the integrity of information provided by the Valuer by comparing details of "price per square metre" to the respective comparable properties; and • Conducting independent comparison to comparable market transaction in respect of "price per square metre".

Key audit matter	How our audit addressed the key audit matter
Valuation of Trade Receivables	
We identified the valuation of trade receivables as a key audit matter due to judgement required in determining the impairment on doubtful trade receivables. As at 31 December 2017, the amount of the Group's trade receivables which are past due after allowance for doubtful debts is approximately HK$9,452,000 as disclosed in Note 18 to the consolidated financial statements. In determining the allowance for doubtful debts, the management considers the aged analysis, historical collection trends, and the likelihood of collection from debtors after taking periodic follow-up actions, as stated in Note 4 to the consolidated financial statements.	Our procedures in relation to the valuation of trade receivables included: • Discussing with the management and understanding the management's basis of estimation of allowance for doubtful debts; • Understanding the management's process over the regular assessment of impairment on trade receivables; • Assessing the accuracy of the management's estimate of the likelihood of debts collection based on historic collection records; • Understanding and evaluating the management's process relating to the preparation of aged analysis of trade receivables; • Testing the accuracy of the aged analysis of trade receivables as at 31 December 2017, on a sample basis, to source documents including invoices and clients' acknowledgement; • Testing the collection of trade receivables subsequent to the year-end, on a sample basis, to source documents including cash or bank-in receipt; and • Evaluating the reasonableness of allowance for doubtful debts with reference to the management's assessment of likelihood of collection from debtors, historical collection records, aged analysis and subsequent settlements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 THOSE CHARGED WITH GOVERNANCE 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 HKFRSs issued by the HKICPA 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.

Those charged with governance are 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, we exercise professional judgment and maintain professional skepticism 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.

- 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 those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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 the independent auditor's report is Zhu Chen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	6	**43,671**	40,110
Cost of sales		**(25,343)**	(29,061)
Gross profit		**18,328**	11,049
Other income and gains	7	**6,741**	4,603
Other losses	8	**(482)**	(1,207)
Selling and distribution costs		**(9,853)**	(8,005)
Administrative expenses		**(13,825)**	(16,889)
Research and development costs		**(1,852)**	(2,717)
Loss before taxation	9	**(943)**	(13,166)
Taxation	11	**(2,287)**	179
Loss for the year		**(3,230)**	(12,987)
Other comprehensive income (expense) for the year:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		**6,581**	(6,513)
Total comprehensive income (expense) for the year		**3,351**	(19,500)
		HK cents	HK cents
Loss per share	13		
– Basic		**(0.4)**	(1.6)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**10,679**	10,799
Prepaid lease payment	15	**2,558**	2,476
Investment properties	16	**19,693**	17,631
Other receivables	18	**299**	–
		33,229	30,906
Current assets			
Inventories	17	**18,171**	7,767
Prepaid lease payment	15	**72**	68
Trade and other receivables	18	**46,221**	30,261
Amounts due from customers for contract works	19	**8,671**	2,139
Amount due from a related company	20	**–**	410
Financial assets designated as at fair value through profit or loss	21	**33,622**	–
Restricted bank deposits	22	**12,234**	8,367
Bank balances and cash	22	**16,836**	68,291
		135,827	117,303
Current liabilities			
Trade and other payables	23	**50,199**	34,146
Tax payable		**5,051**	4,879
		55,250	39,025
Net current assets		**80,577**	78,278
Total assets less current liabilities		**113,806**	109,184
Non-current liabilities			
Deferred tax liabilities	24	**1,349**	78
		112,457	109,106
Capital and reserves			
Share capital	25	**2,010**	2,010
Share premium		**41,818**	41,818
Reserves		**86,084**	79,366
Accumulated losses		**(17,455)**	(14,088)
Total equity		**112,457**	109,106

The consolidated financial statements on pages 37 to 85 were approved and authorised for issue by the Board of Directors on 20 March 2018 and are signed on its behalf by:

LIU LI
DIRECTOR

XU JIAGUI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note a)	Discretionary surplus reserve HK$'000 (Note b)	Statutory surplus reserve HK$'000 (Note b)	Capital reserve HK$'000 (Note c)	Property revaluation reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	2,010	41,818	49,091	3,338	21,055	999	2,775	7,520	–	128,606
Loss for the year	–	–	–	–	–	–	–	–	(12,987)	(12,987)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	(6,513)	–	(6,513)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(6,513)	(12,987)	(19,500)
Transfer	–	–	–	–	1,101	–	–	–	(1,101)	–
At 31 December 2016	2,010	41,818	49,091	3,338	22,156	999	2,775	1,007	(14,088)	109,106
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,230)**	**(3,230)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,581**	**–**	**6,581**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,581**	**(3,230)**	**3,351**
Transfer	**–**	**–**	**–**	**–**	**137**	**–**	**–**	**–**	**(137)**	**–**
At 31 December 2017	**2,010**	**41,818**	**49,091**	**3,338**	**22,293**	**999**	**2,775**	**7,588**	**(17,455)**	**112,457**

Notes:

(a) The merger reserve represented the aggregate amount of paid-in capital of Bao Ying Ren Heng Industrial Co. Limited ("Baoying Renheng") and share capital of RENHENG Global Limited ("RENHENG Global"), subsidiaries of the Company, acquired pursuant to group reorganisation.

(b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), Baoying Renheng is required to maintain two reserves, being a statutory surplus reserve and a discretionary surplus reserve which are non-distributable. Appropriations to such reserves are made out of profit after taxation of Baoying Renheng based on the relevant accounting principles and financial regulations applicable to the PRC enterprises while the amount and allocation basis are decided by its board of directors annually. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve and the discretionary surplus reserve can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

(c) The capital reserve represented waiver of an amount due to a former shareholder of a subsidiary of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Loss before taxation	**(943)**	(13,166)
Adjustments for:		
Depreciation of property, plant and equipment	**1,499**	1,798
Gain on disposal of property, plant and equipment	**(4)**	–
(Gain) loss on fair value change of investment properties	**(923)**	116
Release of prepaid lease payment	**70**	70
Allowance for doubtful debts	**340**	527
Forfeiture on receipt in advance	**(708)**	–
Write-off of amount due from a related company	**–**	336
Interest income	**(1,164)**	(684)
Operating cash flows before movements in working capital	**(1,833)**	(11,003)
(Increase) decrease in inventories	**(9,530)**	7,714
(Increase) decrease in trade and other receivables	**(14,146)**	17,807
Increase in amounts due from customers for contract works	**(6,148)**	(1,319)
Decrease in amount due from a related company	**410**	1,557
Increase in trade and other payables	**14,083**	4,614
Cash (used in) generated from operations	**(17,164)**	19,370
PRC Enterprise Income Tax ("EIT") paid	**(1,198)**	(1,609)
Net cash (used in) from operating activities	**(18,362)**	17,761
Investing activities		
Release of restricted bank deposits	**9,021**	1,615
Interest received	**1,164**	684
Placement of restricted bank deposits	**(12,234)**	(8,367)
Proceeds on disposal of property, plant and equipment	**14**	–
Payment for acquisition financial assets designated as at fair value through profit or loss	**(33,622)**	–
Purchase of property, plant and equipment	**(746)**	(952)
Net cash used in investing activities	**(36,403)**	(7,020)
Net (decrease) increase in cash and cash equivalents	**(54,765)**	10,741
Cash and cash equivalents at beginning of the year	**68,291**	60,919
Effect of foreign exchange rate changes	**3,310**	(3,369)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**16,836**	68,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

RENHENG Enterprise Holdings Limited (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. Its shares were listed on the GEM of The Stock Exchange of Hong Kong Limited since 18 November 2011. On 25 November 2013, the listing of the shares of the Company has been transferred from GEM to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company is jointly controlled by LinkBest Capital Group Limited and Open Venture Global Limited.

The Company acts as an investment holding company while its subsidiaries (collectively referred to as "Group"), are principally engaged in the manufacture and sale of tobacco machinery products. The address of the registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of the principal place of business of the Company is Room 3805, 38/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The functional currency of the Company is Renminbi ("RMB") as it is the currency in which the majority of the Group's transactions are denominated. The consolidated financial statements of the Group are presented in Hong Kong dollars ("HK$") as the management considers this presentation to be more useful for its current and potential investors.

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

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

The Group has not early applied the following new and revised HKFRSs and Hong Kong Accounting Standards ("HKASs") and the new interpretations that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKAS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except as described below, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs, HKASs and new interpretations is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in future.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 *Financial Instruments* (continued)

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 *Financial Instrument: Recognition and Measurement*. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Classification and measurement

Financial assets carried at amortised costs as disclosed in Notes 18 and 22 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

Financial assets designated as at fair value through profit or loss ("FVTPL") as disclosed in Note 21 will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In the opinion of the directors of the Company, based on the historical experience of the Group, the historical default rate in outstanding balances from financial assets measured at amortised cost as disclosed above is low. Hence, the directors of the Company anticipate that the application of HKFRS 9 would not have material impact on the Group's future consolidated financial statements. The above assessments were made based on an analysis of the Group's financial assets as at 31 December 2017 on the basis of the facts and circumstances that existed at that date. It is also expected that the adoption of HKFRS 9 may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2017.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 *Revenue from contracts with customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, amendments to HKFRS 15 were issued to add clarifications in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Revenue from sales of goods

For the sales of goods, revenue is currently recognised following the guidance of HKAS 18, i.e. when the customers acknowledged the receipt of goods, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under HKFRS 15, revenue will be recognised when a customer obtains control of the goods. Sales of goods will continue to be measured on the same bases as are currently measured under HKAS 18.

Revenue from construction of casing and flavouring system

Contract revenue currently includes the initial amount agreed in the contract plus any variations in contract work and claims, to the extent that it is probable that they will result in revenue and can be measured reliably. Contract revenue is recognised by reference to the stage of completion of the contract using output method as more detailed in the accounting policy on "construction contracts").

Under HKFRS 15, revenue is recognised over time if the entity is transferring control of a good or service over time when certain criteria is satisfied.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 *Revenue from contracts with customers* (continued)

Revenue from construction of casing and flavouring system (continued)

For the contracts in connection with construction of casing and flavouring system, not until a customer certifies the entire project being completed at the customer's premise the Group does not has an enforceable right to payment for contract completed at any point of time. Accordingly, the revenue may be recognised at a point in time for such contracts upon application of HKFRS 15.

The estimated impact of accumulated losses at 1 January 2018 as a result of changes in accounting for contracts that have not been completed at that date is insignificant. The impact of these changes on other items in the consolidated statement of financial position is a decrease in trade and other receivables, a decrease in amounts due from customers of contract works and an increase in inventories.

Other than the above, the directors of the Company anticipate that the application of HKFRS 15 may also result in more disclosures.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned. In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

The total operating lease commitments of the Group in respect of leased premises as at 31 December 2017 are set out in Note 27.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 16 *Leases* (continued)

In addition, the Group currently considers refundable rental deposits paid of HK$44,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

The management of the Group expects that the adoption of HKFRS 16 is unlikely to result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated financial statements as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial assets designated as at FVTPL that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consolidation given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when a company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
- the amount of revenue can be measured reliably.

Revenue from construction contracts for casing and flavouring system is recognised by reference to the stage of completion of the contract (see below accounting policy on "construction contracts").

The Group's accounting policy for recognition of revenue from construction contracts is described in the accounting policy for construction contracts below.

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of property, plant and equipment less their residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by progress verification certificate issued by customers. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and as a reduction of rental expense over the lease term on a straight line basis.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the relevant lease term.

Prepaid lease payments

Prepaid lease payments represent payments for obtaining land use right and is amortised to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use right certificate granted for usage by the Group in the PRC. Prepaid lease payments which is to be amortised to profit or loss in the next twelve months is classified as current assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets at FVTPL are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

The Group's financial assets comprise loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related company, restricted bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis.

Financial assets at FVTPL

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss on the financial assets is included in the "other income and gains" line item. Fair value is determined in the manner described in Note 30.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised where there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

At the end of the reporting period, the management of the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair values less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deducible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated from the functional currency of the respective companies into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund ("MPF") Scheme, which are defined contribution schemes, are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Fair value measurements and valuation of investment properties

The Group's investment properties are measured at fair value for financial reporting purposes. The board of directors of the Company has engaged a qualified external valuer to assist in determining the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. At the end of each reporting period, the management of the Group works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of directors of the Company. Information about the valuation techniques and inputs used in determining the fair value of the Group's investment properties are disclosed in Note 16.

At 31 December 2017, the carrying amount of investment properties is HK$19,963,000 (2016: HK$17,631,000).

Allowance for doubtful debts

The Group makes allowance for doubtful debts, including trade and bills receivables and other receivables based on an assessment of the recoverability of relevant debts. Allowances are made on trade and bills receivables and other receivables whenever there is any objective evidence that the balances may not be collectible. The Group makes judgment in assessing the collectability based on aged analysis and other observable data including historical collection trends, and the likelihood of collection from debtors after taking periodic follow-up actions. When objective evidence for allowance exists, the amount of allowance is determined at the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the original effective interest rate. The process of assessment involves material estimate made by the management. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of trade and bills receivables and other receivables and expenses arising from allowance for doubtful debts in the period in which such estimate has been changed.

At 31 December 2017, the carrying amounts of trade and bills receivables and other receivables, net of allowance, is HK$32,690,000 (2016: HK$17,783,000) and HK$3,023,000 (2016: HK$2,756,000), respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Construction contracts

The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period.

Recognised amounts of construction contract revenue and related receivables reflect management's best estimate of each contract's outcome and stage of completion, which are determined on the basis of a number of estimates. This includes the assessment of the profitability of on-going construction contracts and budget costs. The actual outcomes in terms of total cost over revenue may be higher or lower than estimated at the end of each of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

As at 31 December 2017, the carrying amounts due from (to) the customers for contract works are HK$8,671,000 and nil (2016: HK$2,139,000 and nil), respectively.

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31 December 2017, the carrying amounts of inventories is HK$18,171,000 (2016: HK$7,767,000), after netting of allowance of HK$3,440,000 (2016: HK$3,238,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital.

6. REVENUE AND SEGMENT INFORMATION

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

	2017	2016
	HK$'000	HK$'000
Sales of goods	**14,135**	17,612
Revenue from construction contracts of casing and flavouring system	**29,536**	22,498
	43,671	40,110

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief executive officer of the Company, being the chief operating decision maker ("CODM") of the Company. The CODM regularly reviews revenue analysis by products, including casing and flavouring system, pneumatic feeding system, pre-pressing packing machine and other products. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products. The CODM reviews the revenue and the loss for the year of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM. Accordingly, no segment information is presented.

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Entity-wide information

An analysis of the Group's revenue by products is as follows:

	2017 HK$'000	2016 HK$'000
Revenue from construction contracts of casing and flavouring system	**29,536**	22,498
Sales of		
– pneumatic feeding system	**11,752**	13,570
– pre-pressing packing machine	**774**	132
– other products	**1,609**	3,910
	43,671	40,110

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 HK$'000	2016 HK$'000
Customer A[1]	**9,609**	14,762
Customer B[1]	**4,586**	5,148
Customer C[2]	**19,262**	N/A*
Customer D[1]	**N/A***	4,248

1 Revenue from sales of all products.
2 Revenue from construction contracts of casing and flavouring system.
* The revenue contributed did not exceed 10% of the total sale of the Group during the respective year.

All of the Group's revenue are derived in the PRC, which are determined by the location where the systems or products being installed or delivered. The Group's non-current assets are all located in the PRC (excluding Hong Kong).

7. OTHER INCOME AND GAINS

	2017 HK$'000	2016 HK$'000
Subsidy income (note a)	**438**	613
Rental income from investment properties	**48**	410
Bank interest income	**1,164**	684
Other income	**1,650**	1,707
Sales of scrap materials, parts and components, net gain	**3,456**	2,701
Gain on disposal of property, plant and equipment, net	**4**	–
Gain on fair value change of investment properties, unrealised	**923**	–
Forfeiture on receipt in advance (note b)	**708**	–
Others	**–**	195
Other gains	**5,091**	2,896
	6,741	4,603

Notes:

a. These government grants are for immediate and unconditional financial support with no future related costs nor related to any assets, therefore, the Group recognised the income upon receipts.

b. During the year ended 31 December 2017, the Group recognised the income for advance payment from a customer following its deregistration.

8. OTHER LOSSES

	2017 HK$'000	2016 HK$'000
Loss on fair value change of investment properties, unrealised	**–**	116
Allowance for doubtful debts	**340**	527
Write-off of amount due from a related company	**–**	336
Exchange loss, net	**–**	228
Others	**142**	–
	482	1,207

9. LOSS BEFORE TAXATION

	2017 HK$'000	2016 HK$'000
Loss before taxation has been arriving at after charging:		
Directors' emoluments (Note 10)	**1,869**	1,830
Other staff costs:		
Salaries, bonuses and allowances	**9,288**	12,086
Retirement benefits scheme contributions	**1,076**	1,102
Total staff costs	**12,233**	15,018
Auditor's remuneration	**750**	750
Construction contract costs recognised as an expense	**18,756**	18,479
Cost of inventories recognised as an expense	**6,587**	10,582
Depreciation of property, plant and equipment	**1,499**	1,798
Operating lease rentals in respect of office premise	**264**	264
Release of prepaid lease payment	**70**	70

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2017				
Executive directors:				
Ms. Liu Li	**–**	**1,216**	**18**	**1,234**
Mr. Xu Jiagui	**–**	**261**	**14**	**275**
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	**120**	**–**	**–**	**120**
Mr. Kong Hing Ki	**120**	**–**	**–**	**120**
Mr. Wu Wei	**120**	**–**	**–**	**120**
	360	**1,477**	**32**	**1,869**
2016				
Executive directors:				
Mr. Wei Sheng Peng (note)	–	165	5	170
Ms. Liu Li	–	960	18	978
Mr. Xu Jiagui	–	309	13	322
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	120	–	–	120
Mr. Kong Hing Ki	120	–	–	120
Mr. Wu Wei	120	–	–	120
	360	1,434	36	1,830

Note: The director passed away on 3 May 2016. Ms. Liu Li was appointed as the chief executive of the Company on 4 May 2016.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

No performance related incentive payments were paid to the directors of the Company for both years.

The emoluments of executive directors shown above were paid for their services in connection with the management of the affairs of the Company and the Group and for serving as directors of the Company or its subsidiaries and those paid to independent non-executive directors were for serving as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

The five highest paid individuals of the Group include two (2016: three) executive directors, details of whose emoluments are set out above. The emoluments of the three (2016: two) highest paid employees of the Group other than directors of the Company are as follows:

	2017	2016
	HK$'000	HK$'000
Employees		
– salaries and allowances	**2,612**	785
– performance related bonuses (note)	**–**	37
– retirement benefits scheme contributions	**50**	18
	2,662	840

Note: The performance related bonuses were determined with reference to the individual performance for both years.

The emoluments of each of the five highest paid individuals who are not directors of the Company during both years are below HK$1,000,000.

During the years, no remuneration was paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. TAXATION

	2017 HK$'000	2016 HK$'000
The charge (credit) comprises:		
Current tax		
PRC EIT	**572**	–
PRC withholding tax	**–**	388
	572	388
Under-provision in prior year		
PRC EIT	**498**	389
	1,070	777
Deferred taxation (Note 24)	**1,217**	(956)
	2,287	(179)

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

The provision for withholding tax is arisen from its PRC subsidiary at a tax rate of 5% under tax treaty between the PRC and Hong Kong. According to Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income, dividend might be subject to 5% withholding EIT where the recipient of the dividend is the beneficial owner of the dividend, and the immediate holding company of the PRC subsidiary is a Hong Kong tax resident and is a company that holds directly at least 25% of the capital of the distributing company for continuing 12-month period before the dividend distribution.

11. TAXATION (CONTINUED)

The tax charge (credit) for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income (expenses) as follows:

	2017 HK$'000	2016 HK$'000
Loss before taxation	**(943)**	(13,166)
Tax at the applicable tax rate of 25% (2016: 25%)	**(236)**	(3,292)
Tax effect of expenses not deductible for tax purposes	**1,677**	1,750
Effect of change in tax rate	**–**	339
Effect of different tax rates of subsidiaries in other jurisdictions	**391**	532
PRC withholding tax on undistributed profit of PRC subsidiary	**(43)**	103
Under-provision in prior year	**498**	389
Tax charge (credit) for the year	**2,287**	(179)

12. DIVIDENDS

No dividends was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2017 (2016: nil), nor was any dividend been proposed by the Company since the end of the reporting period.

13. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company for both years is based on the following data:

	2017 HK$'000	2016 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic loss per share	**(3,230)**	(12,987)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	**804,000,000**	804,000,000

No diluted loss per share is presented for both year as there was no potential ordinary share in issue for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and office equipment	Computer equipment	Motor vehicles	Plant and machinery	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2016	16,390	857	441	1,855	7,925	27,468
Currency realignment	(867)	(46)	(22)	(98)	(443)	(1,476)
Additions	–	41	–	–	911	952
At 31 December 2016	15,523	852	419	1,757	8,393	26,944
Currency realignment	969	55	25	110	549	1,708
Additions	–	90	–	–	656	746
Disposals	–	(54)	–	–	(48)	(102)
At 31 December 2017	**16,492**	**943**	**444**	**1,867**	**9,550**	**29,296**
DEPRECIATION						
At 1 January 2016	7,886	715	361	1,116	5,119	15,197
Currency realignment	(437)	(39)	(19)	(64)	(291)	(850)
Provided for the year	755	57	13	162	811	1,798
At 31 December 2016	8,204	733	355	1,214	5,639	16,145
Currency realignment	543	48	22	81	371	1,065
Provided for the year	750	57	7	80	605	1,499
Eliminated on disposals	–	(48)	–	–	(44)	(92)
At 31 December 2017	**9,497**	**790**	**384**	**1,375**	**6,571**	**18,617**
CARRYING VALUES						
At 31 December 2017	**6,995**	**153**	**60**	**492**	**2,979**	**10,679**
At 31 December 2016	7,319	119	64	543	2,754	10,799

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated at the following rates, after taking into account of their estimated residual values, on a straight line basis:

Buildings	5%
Furniture, fixtures and office equipment	20%–33%
Computer equipment	33%
Motor vehicles	10%–20%
Plant and machinery	20%

The Group's buildings are held under medium-term leases and are situated in the PRC.

15. PREPAID LEASE PAYMENT

	2017 **HK$'000**	2016 HK$'000
CARRYING AMOUNT		
At beginning of the year	**2,544**	2,758
Currency realignment	**156**	(144)
Charge to profit or loss during the year	**(70)**	(70)
At end of the year	**2,630**	2,544
Analysed for reporting purpose as:		
Non-current asset	**2,558**	2,476
Current asset	**72**	68
	2,630	2,544

The Group's leasehold interest in land is held under medium-term leases and are situated in the PRC.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2016	18,735
Currency realignment	(988)
Decrease in fair value recognised in profit or loss (Note 8)	(116)
At 31 December 2016	17,631
Currency realignment	1,139
Increase in fair value recognised in profit or loss (Note 7)	923
At 31 December 2017	**19,693**

The Group's investment properties are held under medium-term leases to earn rentals and are situated in the PRC.

The investment properties are measured using the fair value model at the end of the reporting period by reference to a valuation carried out on that date by Greater China Appraisal Limited ("Greater China Appraisal"), an independent qualified professional property valuer not connected to the Group.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of the Group's investment properties situated in the PRC at 31 December 2017 and 31 December 2016 carried out by Greater China Appraisal, were determined based on direct comparison method assuming sales of each property interests in their existing state and making references to comparable market observable transactions of similar properties in the similar locations and conditions as available in the relevant market.

16. INVESTMENT PROPERTIES (CONTINUED)

The following table gives information about how the fair values of the investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Carrying value of investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Sensitivity
At 31 December 2017					
Commercial properties HK$19,693,000 (a factory building and land thereof located at No. 18 North Suzhong Road, Baoying County, Yongzhou, Jiangsu Province, the PRC)	Level 3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject properties. The key input is "price per square metre" with professional judgments.	Price per square metre of comparable properties taking into account of time, location and other individual factors such as road frontage, size of properties and facilities, of HK$1,379/square metre.	The higher the price per square metre, the higher the fair value.	If the price per square metre underlying the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the properties would increase by approximately HK$985,000 and decrease by approximately HK$985,000 respectively.
At 31 December 2016					
Commercial properties HK$17,631,000 (a factory building and land thereof located at No. 18 North Suzhong Road, Baoying County, Yongzhou, Jiangsu Province, the PRC)	Level 3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject properties. The key input is "price per square metre" with professional judgments.	Price per square metre of comparable properties taking into account of time, location and other individual factors such as road frontage, size of properties and facilities, of HK$1,235/square metre.	The higher the price per square metre, the higher the fair value.	If the price per square metre underlying the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the properties would increase by approximately HK$882,000 and decrease by approximately HK$882,000 respectively.

There were no transfers into or out of Level 3 during the year.

17. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**13,946**	6,052
Work in progress	**4,225**	1,715
	18,171	7,767

18. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade and bills receivables	**35,902**	20,422
Less: allowance for doubtful debts	**(3,212)**	(2,639)
	32,690	17,783
Retention money receivables	**6,445**	8,635
Prepayments and deposits	**4,362**	1,087
Other receivables	**3,526**	3,294
Less: allowance for doubtful debts	**(503)**	(538)
	13,830	12,478
	46,520	30,261
Analysed for reporting purpose as:		
Current assets	**46,221**	30,261
Non-current assets	**299**	–
	46,520	30,261

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.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Retention money receivables refer to the sum retained by customers after the delivery and completion of the contracts (including construction contracts of casing and flavouring system, and sales of pneumatic feeding system and other products) but before the expiry of the warranty period given by the Group, which in general, a period of 12 months. Included in retention money receivables with carrying amount of HK$101,000 (2016: HK$550,000) which is 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 amount is considered recoverable.

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

	2017	2016
	HK$'000	HK$'000
0–90 days	**23,238**	8,328
91–365 days	**8,192**	1,966
1–2 years	**60**	4,372
Over 2 years	**1,200**	3,117
	32,690	17,783

The following is an aged analysis of trade and bills 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.

	2017	2016
	HK$'000	HK$'000
91–365 days	**8,192**	1,966
1–2 years	**60**	4,372
Over 2 years	**1,200**	3,117
	9,452	9,455

The Group's management closely monitors the credit quality of receivables and considers those receivables that are neither past due nor impaired to be of a good credit quality.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful debts:

	2017 HK$'000	2016 HK$'000
At beginning of the year	**3,177**	2,798
Currency realignment	**198**	(148)
Provided during the year	**340**	527
At end of the year	**3,715**	3,177

The allowance for doubtful debts represented individually impaired trade and other receivables assessed by the management that the relevant receivables are not expected to be recoverable. The judgement made by the management in assessing the collectability of the trade and other receivables are disclosed in Note 4. The Group does not hold any collateral over these balances.

19. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

	2017 HK$'000	2016 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**8,671**	2,139
Less: progress billings	**–**	–
	8,671	2,139
Analysed for reporting purposes as:		
Amounts due from customers for contract works	**8,671**	2,139
Amounts due to customers for contract works	**–**	–
	8,671	2,139

Retentions held by the customers for contract works, included in Note 18, amounted to HK$3,232,000 (2016: HK$4,291,000), and advances received from customers for contract works, included in Note 23, amounted to HK$11,120,000 (2016: HK$15,921,000).

20. AMOUNT DUE FROM A RELATED COMPANY

As at 31 December 2016, the balance of HK$410,000 represented amount due from Yangzhou Jinchuang Curtain Wall Engineering Company Limited (揚州金窗幕牆工程有限公司) ("Yangzhou Jinchuang"), a company controlled by the ultimate controlling shareholder of the Company for rental services. The Group did not hold any collateral over the balance. The amount was allowed for a credit period of three months, unsecured and interest-free. The balance has been fully settled during the year ended 31 December 2017. The maximum amount outstanding during the year ended 31 December 2017 was amounted to HK$410,000 (the year ended 31 December 2016: HK$410,000).

21. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended 31 December 2017, the Group entered into a contract of structured deposit with a bank in the PRC. The structured deposit contains embedded derivatives which were not closely related to the host contract. The entire combined contract has been designated as at financial assets at FVTPL on initial recognition. The principal of HK$33,622,000 was not guaranteed by the relevant bank in which the return of the structured deposit was determined by reference to the performance of the underlying debt instruments and trust funds and the expected return rate stated in the contract range from 2.40% to 3.55% per annum.

In the opinion of the directors of the Company, the fair value of the structured deposit at 31 December 2017 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. The structured deposits has been matured on 5 January 2018 with a gain recognised.

22. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

As at 31 December 2017, the restricted bank deposits carry effective interest rate of 1.45% (2016: 1.52%) per annum, representing amounts withheld in a bank for settlement of bills payables and to secure certain construction contracts.

Bank balances comprising cash and short-term deposits with an original maturity of three months or less carried at prevailing market deposit rate. The effective interest rate of these deposits ranged from 0.001% to 3.50% (2016: 0.001% to 2.10%) per annum.

23. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**17,783**	6,915
Bills payables	**8,661**	4,243
	26,444	11,158
Advances from customers	**13,931**	17,529
Accrued welfare expenses	**1,723**	1,622
Valued added tax payable	**3,971**	1,115
Other payables	**4,101**	2,600
Other tax payables	**29**	122
	50,199	34,146

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

	2017 HK$'000	2016 HK$'000
0–90 days	**21,573**	8,961
91–365 days	**4,415**	1,625
1–2 years	**49**	202
Over 2 years	**407**	370
	26,444	11,158

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

24. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current or prior year:

	Provision for trade and other receivables	Provision for inventories	Revaluation of investment properties	Withholding tax on undistributed profit	Tax losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	454	469	(1,570)	(417)	–	(1,064)
Currency realignment	(35)	(35)	113	15	(28)	30
Credit (charge) to profit or loss for the year	69	70	(16)	(233)	1,017	907
Reallocated to current tax	–	–	–	388	–	388
Effect of change in tax rate	326	305	(1,100)	130	–	(339)
At 31 December 2016	814	809	(2,573)	(117)	989	(78)
Currency realignment	56	51	(176)	(5)	20	(54)
Credit (charge) to profit or loss for the year	116	–	(367)	43	(1,009)	(1,217)
At 31 December 2017	**986**	**860**	**(3,116)**	**(79)**	**–**	**(1,349)**

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. Baoying Renheng had been recognised and approved as a HNTE since 2011 and renewed its status in 2013, and is therefore entitled to a reduced tax rate at 15% for the three years ended at 31 December 2015. Baoying Renheng did not renew its HNTE status in 2016 and is subject to the tax rate at 25% on estimated taxable income starting from 1 January 2016 pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

At 31 December 2017 and 2016, the Group has no other material unrecognised deductible temporary differences.

25. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.0025 each at 1 January 2016, 31 December 2016 and 31 December 2017	**4,000,000,000**	**10,000**
Issued and fully paid:		
Ordinary shares of HK$0.0025 each at 1 January 2016, 31 December 2016 and 31 December 2017	**804,000,000**	**2,010**

26. SHARE OPTION SCHEMES

(a) Share option scheme

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on 20 October 2011 (the "Share Option Scheme"), the Company may grant options to eligible directors of the Company, eligible employees of the Group and other selected participants, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$10 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

(i) the closing price of the Company's shares on the Stock Exchange on the date of grant;

(ii) the average of closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and

(iii) the nominal value of the Company's shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of Company.

Up to the date of issuance of the consolidated financial statements, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

26. SHARE OPTION SCHEMES (CONTINUED)

(b) Pre-IPO share option scheme

The principal terms of the Pre-IPO share option scheme, approved by a written resolution of the shareholders of the Company dated 20 October 2011, are substantially the same as the terms of the Share Option Scheme except that:

(i) the exercise price of the share option is 80% of HK$1.20; and

(ii) the option shall only be exercisable on or after 1 January 2013 and expire not later than 10 years from the date of grant.

During the year ended 31 December 2017 and 2016, no share options has been granted nor exercised and there is no outstanding share options of the Company as at 31 December 2017 and 2016.

27. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under an non-cancellable operating lease for its office premise which fall due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**264**	–

Leases are negotiated for terms of 1 to 2 years with fixed rental provision included in the contracts.

The Group as lessor

At the end of the reporting period, the Group had contracted with a tenant for the investment properties for the following future minimum lease payments:

	2017 **HK$'000**	2016 HK$'000
Within one year	**42**	–

28. RETIREMENT BENEFITS SCHEME

The Group participates in the MPF Scheme registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs with a cap of monthly contributions of HK$1,500 for each employee to the MPF Scheme, which contribution is matched by employee.

28. RETIREMENT BENEFITS SCHEME (CONTINUED)

The employees of the Group's PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of its payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The amounts incurred for retirement benefit scheme contributions are disclosed in Notes 9 and 10. According to the respective schemes, those contributions are not refundable nor forfeitable.

29. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related companies disclosed in the respective notes, the Group entered into the following transactions with related companies which are controlled by the directors and controlling shareholders of the Company.

Nature of transactions

	2017 **HK$'000**	2016 HK$'000
Rental income	**–**	410
Purchases of goods	**–**	802

Compensation of key management personnel

Details of the remuneration of key management personnel, which are the directors and five highest paid employees, during the year, were set out in Note 10.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)*	**71,228**	106,242
Financial assets designated as at fair value through profit or loss	**33,622**	–
	104,850	106,242
Financial liabilities		
Amortised cost**	**30,545**	13,758

* Prepayments and deposits are excluded

** Advances from customers, accrued welfare expenses, valued added tax payable and other tax payables are excluded

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, amount due from a related company, financial assets designated as at FVTPL, restricted bank deposits, bank balances, and trade and other payables.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk from prior year.

Currency risk

The carrying amounts of the foreign currencies (other than the functional currency) denominated monetary assets of the Group, representing bank balances and cash, at the end of reporting period are as follows:

	2017	2016
	HK$'000	HK$'000
HK$	**911**	5,522
United States dollars ("US$")	**101**	101

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a 5% increase and decrease in its functional currency against the relevant foreign currencies. 5% is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary item and adjusts its translation at the year end for a 5% change in foreign currency rates.

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Currency risk (continued)

A negative number indicates an increase in loss for the year when its functional currency strengthens 5% against the relevant foreign currencies. For a 5% weakening of its functional currency against the relevant currencies, there would be an equal but opposite impact on the loss for the year.

	HK$		US$	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loss for the year	**(34)**	(207)	**(4)**	(4)

In the management's opinion, the sensitivity analysis above is unrepresentative for the foreign exchange risk as the exposure at the end of reporting period does not reflect the exposure during the year.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank deposits and bank balances (see Note 22 for details of these deposits) at the end of the reporting period. The management considers the Group's exposure of the short-term bank deposits and balances to interest rate risk is not significant and no sensitivity analysis is presented.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good credit standing.

The Group has concentration of credit risk as 63% and 64% (2016: 18% and 44%) of the aggregated amount of trade receivables and retention money receivables was due from the Group's largest customer and five largest customers, respectively, which operate in the tobacco industry in the PRC. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

30. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 31 December 2017, the Group has concentration of credit risk on its structured deposit designated as at FVTPL. The credit risk on structured deposit designated as at FVTPL is limited by the underlying assets invested by the structured deposit and the counterparty who issued this structured deposit is a bank with good reputations.

Other price risk

The Group is exposed to other price risk through its investment in structured deposit classified as financial assets designated as at FVTPL. As the structured deposit has short maturity therefore no sensitivity analysis on such risk has been prepared.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table represented principal cash flows since the balances are non-interest bearing.

	Repayable on demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Undiscounted cash flows HK$'000	Carrying amounts HK$'000
2017				
Trade and other payables	**8,972**	**21,573**	**30,545**	**30,545**
2016				
Trade and other payables	4,797	8,961	13,758	13,758

30. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis

The fair values of financial assets other than financial assets designated at FVTPL and financial liabilities are determined in accordance with general accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets other than financial assets designated at FVTPL and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Fair value of the Group's financial assets designated as at FVTPL

Financial assets	Fair value as at 31 December 2017	2016	Fair value hierarchy	Valuation technique and key inputs
Financial assets designated as at FVTPL	Structured deposits in the PRC with non-closely related embedded derivatives: HK$33,622,000	N/A	Level 3	Discounted cash flows Key unobservable inputs: (1) expected yields of debt instruments invested by bank (2) a discount rate that reflects the credit risk of the bank (Note)

There were no transfers between the different levels of the fair value hierarchy for the year.

Note: The directors of the Company consider that the impact of the fluctuation in expected yields of the underlying instruments to the fair value of the structured deposits was insignificant as the deposits have short maturity, and therefore no sensitivity analysis is presented.

No gains or losses are recognised in profit or loss relating to the change in fair value of structured deposits classified as Level 3 in the current year as the amount involved is insignificant, and therefore no reconciliation of Level 3 fair value measurements is presented.

31. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital 2017	2016	Attributable equity interest of the Group 2017	2016	Principal activities
Directly owned subsidiary:						
RENHENG Global	British Virgin Islands	**US$50,000**	US$50,000	**100%**	100%	Investment holding
Indirectly owned subsidiaries:						
RENHENG Tech Limited	Hong Kong	**HK$1**	HK$1	**100%**	100%	Investment holding
Baoying Renheng*	PRC	**RMB73,857,143**	RMB73,857,143	**100%**	100%	Manufacture and sale of tobacco machinery products

* The subsidiary is wholly foreign-owned enterprise.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current asset		
Investment in a subsidiary	**378**	378
Amount due from a subsidiary (note)	**12,924**	–
	13,302	378
Current assets		
Other receivables	**3**	36
Prepayment and deposits	**60**	–
Amount due from a subsidiary (note)	**2,500**	21,355
Bank balances and cash	**590**	398
	3,153	21,789
Current liability		
Other payables	**1,138**	1,108
Net current assets	**2,015**	20,681
Net assets	**15,317**	21,059
Capital and reserves		
Share capital	**2,010**	2,010
Reserves	**13,307**	19,049
Total equity	**15,317**	21,059

Note: The amounts are unsecured, interest-free and repayable on demand. At 31 December 2017, the advance which are not expected to be settled within one year from the end of the year is classified under non-current assets.

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in Company's reserves is set out below:

	Share premium HK$'000 (Note a)	Other reserve HK$'000 (Note b)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	41,818	378	(18,963)	23,233
Loss and total comprehensive expenses for the year	–	–	(4,184)	(4,184)
At 31 December 2016	41,818	378	(23,147)	19,049
Loss and total comprehensive expenses for the year	–	–	(5,742)	(5,742)
At 31 December 2017	**41,818**	**378**	**(28,889)**	**13,307**

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to HK$12,929,000 (2016: HK$18,671,000).

(b) Other reserve represented the share capital of RENHENG Global which was acquired by the Company at nil consideration pursuant to the group reorganisation underwent in prior years.

FINANCIAL SUMMARY

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	133,872	97,473	69,383	40,110	**43,671**
(Loss) profit before taxation	34,750	22,351	4,960	(13,166)	**(943)**
Taxation	(6,819)	(11,743)	(3,780)	179	**(2,287)**
(Loss) profit for the year	27,931	10,608	1,180	(12,987)	**(3,230)**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings (loss) per share (note)					
– Basic	3.5	1.3	0.1	(1.6)	**(0.4)**
– Diluted	3.5	1.3	N/A	N/A	**N/A**

	As at 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	301,541	310,594	166,928	148,209	**169,056**
Total liabilities	(55,672)	(56,529)	(38,322)	(39,103)	**(56,599)**
Net assets	245,869	254,065	128,606	109,106	**112,457**

Note: Earnings (loss) per share information for all periods presented has been computed in accordance with the provisions of HKAS 33 *Earnings Per Share*. Earnings per share for the year ended 31 December 2013 and 2014 have been adjusted for the share split made during the year ended 31 December 2015.