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## **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)

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019**

#### **HIGHLIGHTS**

- Revenue for the six months ended 30 June 2019 was HK\$41,162,000, representing a decrease of 31.7% as compared with the corresponding period in 2018;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2019 was HK\$1,571,000 while it was HK\$3,111,000 for the six months ended 30 June 2018; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019.

The board (the “Board”) of directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 together with the unaudited comparative figures for the corresponding year in 2018 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

		<b>For the six months ended 30 June</b>	
		<b>2019</b>	2018
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>41,162</b>	60,305
Cost of sales		<u>(25,999)</u>	<u>(38,518)</u>
<b>Gross profit</b>		<b>15,163</b>	21,787
Other income and gains	4	<b>2,806</b>	1,483
Selling and distribution costs		<b>(5,886)</b>	(7,917)
Administrative expenses		<u>(8,447)</u>	<u>(9,328)</u>
<b>Profit before taxation</b>	5	<b>3,636</b>	6,025
Taxation	6	<u>(2,065)</u>	<u>(2,914)</u>
<b>Profit for the period</b>		<b>1,571</b>	3,111
Other comprehensive expense for the period:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		<u>(1,750)</u>	<u>(1,628)</u>
Total comprehensive (expense) income for the period		<u>(179)</u>	<u>1,483</u>
<b>Earnings per share</b>	7	<b>HK cents</b>	HK cents
- Basic		<u>0.2</u>	<u>0.4</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		8,152	9,215
Prepaid lease payment		-	2,357
Right-of-use assets		2,962	-
Investment properties		19,791	19,811
		<b>30,905</b>	<b>31,383</b>
<b>Current assets</b>			
Inventories		37,638	42,727
Prepaid lease payment		-	68
Trade and other receivables	9	53,132	43,752
Restricted bank deposits		850	9,265
Bank balances and cash		51,808	61,104
		<b>143,428</b>	<b>156,916</b>
<b>Current liabilities</b>			
Trade and other payables	10	32,656	39,768
Lease liabilities		364	-
Contract liabilities		17,761	25,599
Tax payable		5,575	5,283
		<b>56,356</b>	<b>70,650</b>
<b>Net current assets</b>		<b>87,072</b>	<b>86,266</b>
<b>Total assets less current liabilities</b>		<b>117,977</b>	<b>117,649</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		2,650	2,362
Lease liabilities		219	-
		<b>2,869</b>	<b>2,362</b>
		<b>115,108</b>	<b>115,287</b>
<b>Capital and reserves</b>			
Share capital		2,010	2,010
Share premium		41,818	41,818
Reserves		79,359	81,109
Accumulated losses		(8,079)	(9,650)
<b>Total equity</b>		<b>115,108</b>	<b>115,287</b>

## NOTES:

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2019 were unaudited but have been reviewed by the audit committee of the Company. The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values at the end of the reporting period.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

#### *Application of new and amendments to HKFRSs*

In the current interim period, the Group has applied, for the first time, a number of new and amendments to HKFRSs and Hong Kong Accounting Standards (“HKASs”) issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements.

Except for HKFRS 16 *Leases* as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/ or on the disclosures set out in these condensed consolidated financial statements.

#### *2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### 2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

Summary of effects arising from initial application of HKFRS 16

#### As a lessee

The Group has applied the short-term lease recognition exemption to lease of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

All the lease liabilities relating to operating leases recognised upon application of HKFRS 16 had a maturity of less than 12 months from 1 January 2019 and the Group has applied the short-term lease recognition exemption to these leases at the date of initial application. Therefore no adjustment to the opening balance of equity at 1 January 2019 was made.

Upfront payment for leasehold land was classified as prepaid lease payment as at 31 December 2018. Upon application of HKFRS 16, the non-current and current portion of prepaid lease payment amounting to HK\$2,357,000 and HK\$68,000 respectively was reclassified to right-of-use assets at 1 January 2019.

## 3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers and segment information

	<b>For the six months ended 30 June 2019</b>		
<b>Type of products</b>	<b>Construction contracts of casing and flavouring system HK\$'000 (Unaudited)</b>	<b>Sales of goods HK\$'000 (Unaudited)</b>	<b>Total HK\$'000 (Unaudited)</b>
Construction works	<u>33,215</u>	<u>-</u>	<u>33,215</u>
Sales of goods			
- pneumatic feeding system	-	449	449
- others	-	7,498	7,498
	<u>-</u>	<u>7,947</u>	<u>7,947</u>
	<u>33,215</u>	<u>7,947</u>	<u>41,162</u>

### 3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June 2018		
	Construction contracts of casing and flavouring system HK\$'000 (Unaudited)	Sales of goods HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Type of products</b>			
Construction works	47,933	-	47,933
Sales of goods			
- pneumatic feeding system	-	7,884	7,884
- pre-pressing packing machine	-	3,251	3,251
- others	-	1,237	1,237
	-	12,372	12,372
	47,933	12,372	60,305

The revenue from construction contracts of casing and flavouring system and sales of goods are recognised at point in time.

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products.

No other discrete financial information, analysis of segment assets or segment liabilities is presented as they are not regularly provided to the chief executive officer of the Company, being the chief operating decision maker of the Company, for the purposes of resources allocation and assessment. Accordingly, no segment information, other than the Group's results and financial position as a whole, is presented. All of the Group's revenue are derived in the People's Republic of China (the "PRC") and majority of the Group's non-current assets are located in the PRC (excluding Hong Kong).

#### 4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Subsidy income ( <i>note</i> )	983	-
Rental income from investment properties	165	62
Bank interest income	641	728
	<hr/>	<hr/>
Other income	1,789	790
	<hr/>	<hr/>
Sales of scrap materials, parts and components, net gain	941	693
Gain on disposal of property, plant and equipment, net	76	-
	<hr/>	<hr/>
Other gains	1,017	693
	<hr/>	<hr/>
	<b>2,806</b>	<b>1,483</b>

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

#### 5. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Profit before taxation has been arriving at after charging:		
Directors' emoluments	907	810
Other staff costs:		
Salaries, bonus and allowances	5,979	5,936
Retirement benefits scheme contributions	381	379
	<hr/>	<hr/>
Total staff costs	7,267	7,125
	<hr/>	<hr/>
Auditor's remuneration	450	450
Research and development cost recognised as an expense (included in administrative expenses)	1,893	1,266
Depreciation of property, plant and equipment	956	835
Depreciation of right-of-use assets	190	-
Release of prepaid lease payment	-	37
	<hr/>	<hr/>

## 6. TAXATION

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC Enterprise Income Tax – current period	1,770	2,666
Deferred taxation	<u>295</u>	<u>248</u>
	<u>2,065</u>	<u>2,914</u>

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2019 and 2018 as the Group has no assessable profit arisen in, or was derived from Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 25% for both periods pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

## 7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>Profit</b>		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share	<u>1,571</u>	<u>3,111</u>
<b>Number of shares</b>		
Number of ordinary shares for the purposes of calculating basic earnings per share	<u>804,000,000</u>	<u>804,000,000</u>

No diluted earnings per share were presented for both periods as there were no potential ordinary shares in issue for both periods.

## 8. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.



## 9. TRADE AND OTHER RECEIVABLES

	<b>As at 30 June 2019 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2018 HK\$'000 (Audited)</b>
Trade and bills receivables	<b>31,458</b>	27,160
Less: impairment allowance	<b>(3,043)</b>	(3,046)
	<b><u>28,415</u></b>	<u>24,114</u>
Retention money receivables	<b>17,579</b>	15,737
Prepayments and deposits	<b>3,000</b>	788
Other receivables	<b>4,614</b>	3,590
Less: impairment allowance	<b>(476)</b>	(477)
	<b><u>53,132</u></b>	<u>43,752</u>

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

	<b>As at 30 June 2019 HK\$'000 (Unaudited)</b>	<b>As at 31 December 2018 HK\$'000 (Audited)</b>
0 – 90 days	<b>10,117</b>	10,029
91 – 365 days	<b>16,407</b>	11,472
1 – 2 years	<b>1,891</b>	2,613
	<b><u>28,415</u></b>	<u>24,114</u>

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

## 10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade payables	18,954	17,984
Bills payables	230	9,005
	<u>19,184</u>	<u>26,989</u>
Amounts due to a director ( <i>note</i> )	4,200	4,200
Accrued welfare expense	2,079	1,634
Value added tax payable	1,004	894
Other payables	5,865	5,871
Other tax payables	324	180
	<u>32,656</u>	<u>39,768</u>

*Note:* The amounts due to a director represented an advance from a director of the Company who is also the ultimate controlling shareholder of the Company. The amount is non-trade in nature, unsecured, non-interest bearing and repayable in one year term.

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

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
0 – 90 days	9,536	20,098
91 – 365 days	9,035	6,367
1 – 2 years	474	128
Over 2 years	139	396
	<u>19,184</u>	<u>26,989</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

## FINANCIAL REVIEW

The first half-year of 2019 has been a challenging period for our Group; our revenue was down by 31.7% from HK\$60,305,000 for the six months ended 30 June 2018 to HK\$41,162,000 for the current period under review. Revenue from construction works attributed outperform other type of products and attributed to 80.7% of the total revenue recognised for the six months ended 30 June 2019. Sales of pneumatic feeding system and pre-pressing packing machine have recorded the sharpest decrease from HK\$11,135,000 during the six months ended 30 June 2018 to HK\$449,000 in the same period in 2019. The duration to complete the manufacturing and installation of the systems and machines vary by the design and complexity of the products, as well as the supporting facilities owned by the cigarette manufacturers and tobacco redrying factories. The sales of other goods which mainly include water treatment system and retooling and repair services have a sharpest improvement with a 5 times increase in revenue from HK\$1,237,000 to HK\$7,498,000 for the current period in comparison with prior period.

Gross profit margin was up modestly by 0.7% to 36.8% for the six months ended 30 June 2019 (six months ended 30 June 2018: 36.1%) and was mainly contributed by a higher gross profit margin from the retooling and repair services.

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK\$14,333,000 and HK\$17,245,000 for the six months ended 30 June 2019 and 2018 respectively. We have implemented cost control measures to counteract the softer first half of 2019 in addition to undertaking new marketing initiatives to drive business.

Other income and gains was nearly doubled from HK\$1,483,000 for the six months ended 30 June 2018 to HK\$2,806,000 in the current period fueled in part by HK\$983,000 subsidy income from the PRC government and increase in sales of scrap materials, parts and components (net gain) by HK\$248,000.

Tax expense of HK\$2,065,000 was incurred for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$2,914,000). Tax expense was resulted from the profit earned by the PRC subsidiary and deferred taxation on the withholding tax on undistributed profit.

The net profit for the six months ended 30 June 2019 was HK\$1,571,000 (six months ended 30 June 2018: HK\$3,111,000). Exchange loss arising on translation of foreign operations amounted to HK\$1,750,000 was resulted from the depreciation of Renminbi to Hong Kong dollars and led to a total comprehensive expense of HK\$179,000 for the six months ended 30 June 2019.

As at 30 June 2019, the Group had a stable capital structure with net current assets of HK\$87,072,000 (31 December 2018: HK\$86,266,000). Bank balances and cash of the Group as at 30 June 2019 amounted to HK\$51,808,000 (31 December 2018: HK\$61,104,000), which were mainly denominated in Renminbi and Hong Kong dollars. Other than the amounts due to a director of the Company who is also the ultimate controlling shareholder of the Company amounted to HK\$4,200,000, there were no other borrowings, mortgages or charges as at 30 June 2019 and 30 June 2018.

## **BUSINESS REVIEW**

During challenging times such as the present, we maintain a constant focus on building a long-term sustainable business and quality control. We retain a conservative capital structure to help insulate our business against volatility. We continue to invest in research and development and developing our people with training, learning and development opportunities, as well as enhancing marketing efforts.

Benefiting from operating leverage, we are able to have slight improvement in our gross profit margin but revenue has remained a continuing challenge for the Company. The sale of catalogued special-purpose tobacco machinery products amounted to HK\$33,664,000 or 81.8% of the total sales for the six months ended 30 June 2019. The duration to complete the manufacturing and installation of the systems and machineries vary by the design and complexity of the products. During the period, the outcome from manufacturing of water treatment system and retooling and repair services starts to gain more weight among the revenue yet these new businesses are still in an initial stage and we anticipated that these new businesses will only be predominated gradually.

Looking ahead, our industry is anticipating strong headwinds due to the trade tensions and economic uncertainties. With the backlog we have on hand, we anticipate the Group to have continuous revenue generation and we are implementing cost efficiency measures and controlling expenses where possible in our operations and head office. Our sales and marketing personnel will continue to strive to seek new opportunities and expand to other segment.

## **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 30 June 2019, 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 30 June 2019, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

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

As at 30 June 2019, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange 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 Listing Rules, were as follows:

### Long positions

*Ordinary shares of HK\$0.0025 each of the Company*

<b>Name</b>	<b>Capacity/ Nature of Interest</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
<b>Directors</b>			
Ms. Liu Li <sup>(1)</sup>	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") and LinkBest Capital Limited ("LinkBest"), which are both wholly owned by Ms. Liu Li, are interested in 240,000,000 shares and 360,000,000 shares of the Company, respectively.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2019.

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

As at 30 June 2019, 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*

<b>Name of shareholders</b>	<b>Capacity/ Nature of Interest</b>	<b>Number of issued ordinary shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
LinkBest	Beneficial owner	360,000,000	44.8%
Open Venture	Beneficial owner	240,000,000	29.8%

*Note:* LinkBest and Open Venture are both 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 30 June 2019.

### **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 six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### **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 CG Code during the six months ended 30 June 2019, save and except the Code Provision A.2.1 of the CG Code as follows:

The roles of chairman and chief executive officer of the Company are performed by the same individual - 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.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 20 October 2011, currently comprising three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit, Ernest. The rest of the members are Mr. Kong Hing Ki and Mr. Wu Wei. The interim results for the six months ended 30 June 2019 have been reviewed by the audit committee in accordance with Listing Rules. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

By order of the Board  
**RENHENG Enterprise Holdings Limited**  
**Liu Li**  
*Chairman & Chief Executive Officer*

Hong Kong, 22 August 2019

*As at the date of this announcement, the executive Directors are Ms. Liu Li and Mr. Xu Jiagui and the independent non-executive Directors are Mr. Wong Yiu Kit, Ernest, Mr. Kong Hing Ki and Mr. Wu Wei.*