



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)

# 2019 ANNUAL REPORT



# CONTENTS

Corporate Information	2
Chairman’s Statement	3
Biographical Details in Respect of Directors and Senior Management	4
Management Discussion and Analysis	7
Report of Directors	11
Corporate Governance Report	19
Environmental, Social and Governance Report	27
Independent Auditor’s Report	35
Consolidated Statement of Profit or Loss and Other Comprehensive Income	41
Consolidated Statement of Financial Position	42
Consolidated Statement of Changes in Equity	44
Consolidated Statement of Cash Flows	45
Notes to the Consolidated Financial Statements	47
Financial Summary	100

# 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

## AUTHORISED REPRESENTATIVES

Ms. Liu Li  
Ms. Law Wai Ting

## REGISTERED OFFICE

P.O. Box 309, Uglund 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 54, 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](http://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 2019. 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.

We had a challenging year in 2019, the macro issues as well as slower growth of the People's Republic of China (the "PRC")'s GDP together with the outbreak of Novel Coronavirus led to the backdrop of economic. Despite the outcome from the new businesses – manufacturing of water treatment systems and retooling and repair services are gaining more weight, the overall performance of the Group has been deteriorated in compare with the results in 2018.

Recently, a number of local governments in the PRC have introduced relaxation policies to support the manufacturing market in an effort to stabilise the future development of the PRC's manufacturing industry. The Group remains confident about the future development of its business, and firmly believes that we will succeed in combating the epidemic with our concerted efforts. In the meantime, the Group will continue to strive to maintain and reinforce our competing power, so as to achieve high-quality, sustainable and healthy development.

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*

30 March 2020

# BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Ms. Liu Li

Ms. Liu, aged 49, 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 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 in July 1992. Ms. Liu was appointed as an executive director on 2 February 2011.

### Mr. Xu Jiagui

Mr. Xu, aged 53, 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 17 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 52, 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 27 years of experience in venture capital, corporate finance, business development, financial and general management.

Mr. Wong is the president and group chief financial officer of KVB Kunlun Holdings Limited.

Currently, he is also an independent non-executive director of HongDa Financial Holding Limited (stock code: 1822), Progressive Path Group Holdings Limited (stock code: 1581) and Aidigong Maternal & Child Health Limited (previously known as Common Splendor International Health Industry Limited) (stock code: 286), whose shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). He was the chief financial officer and company secretary of CLSA Premium Limited (“CLSA”) (previously known as KVB Kunlun Financial Group Limited) (stock code: 6877) and has been appointed as the executive director of CLSA on 21 May 2018 (resigned in August 2019). He was also an independent non-executive director of China Regenerative Medicine International Limited companies (stock code: 8158) (resigned on 21 August 2019). Besides, he has served as the board director of Adamas Finance Asia since April 2008 which Adamas Finance Asia is a listed investment company in the Alternative Investment Market of the London Stock Exchange Plc.

# BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

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, a Master of Science Degree in Electronic Engineering from the Chinese University of Hong Kong and a master's degree of science from Saïd Business School of University of Oxford in 2019. He is a charter-holder of Chartered Financial Analyst and a member of Hong Kong Securities Institute. He is the vice-chairman of Association of Chartered Certified Accountants Hong Kong and is also the former president of Hong Kong University Graduates Association, the deputy chairman of the HKU Convocation and a court member of The University of Hong Kong. He was appointed as an independent non-executive director with effect from 20 October 2011.

## **Mr. Kong Hing Ki**

Mr. Kong, aged 49, 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 22 years' experience in accounting, auditing and finance, gained from international 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. 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 46, 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 21 years experience in enterprise investment and investment banking. He is a senior partner of Maison Capital Co. Ltd., a private equity fund manager. Mr. Wu previously served as managing 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, a 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.

# BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

## 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 23 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 18 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 primarily responsible for overall financial management and corporate governance of our Group. Ms. Law has over 13 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 and pre-pressing packing machine.

## FINANCIAL REVIEW

For the year ended 31 December 2019, the Group recorded a profit for the year of HK\$703,000, representing a drastic decrement by HK\$8,520,000, or 92.4% in comparison to HK\$9,223,000 for the year ended 31 December 2018. In both years, upset by the depreciation of Renminbi ("RMB") to Hong Kong dollars ("HK\$"), an exchange loss of HK\$2,871,000 (2018: HK\$6,393,000) was arose on translation of foreign operations and a total comprehensive expense of HK\$2,168,000 was resulted for the current year while it was a total comprehensive income of HK\$2,830,000 in prior year.

Looking at the Group's results for the full year, the revenue was down by HK\$29,536,000 or 29.2% from HK\$101,043,000 for the year ended 31 December 2018 to HK\$71,507,000 for the year ended 31 December 2019. Revenue from construction contracts of casing and flavouring systems were continued to found to have outperformed other type of products and goods, of which it contributed HK\$62,139,000 or 86.9% of the total revenue in current year (2018: HK\$88,815,000 or 87.9%). Sales of pneumatic feeding system and pre-pressing systems took a heavy beating; the sales plunged from HK\$10,434,000 in the year ended 31 December 2018 to HK\$806,000 in the current year. The sales of other goods which mainly include water treatment system, retooling and repair system and other products have a sharpest improvement with nearly 5 times increase in revenue from HK\$1,794,000 to HK\$8,562,000 for the current year in comparison with prior year.

Despite the revenue has been decreased by more than a quarter, the gross profit margin of the current year was in its highest peak in the past 3 years. The gross profit margin was 46.7% for the year ended 31 December 2019 (2018: 36.9%). During the year, the number of construction contracts on casing and flavouring systems completed was more than prior year but the average contract sum has been decreased from HK\$6,344,000 to HK\$2,263,000. The revenue from the 3 largest construction contracts on casing and flavouring systems completed during the current year was HK\$31,898,000 while it was HK\$54,619,000 for the preceding year. The design and complexity of the products varies by customers and therefore there is a wide range of contract prices. The gross profit margins of smaller scale contracts are traditionally in higher.

Other income and gains amounted to HK\$6,155,000 (2018: HK\$6,078,000) in aggregate for the current year, which was in line with last year. During the current year, government grants of HK\$989,000 were received while no subsidy income was received in prior year. The gain on fair value change of investment properties (unrealised) have been decreased by HK\$732,000 from HK\$1,186,000 in the year ended 31 December 2018 to HK\$454,000 in the current year.

Allowance for inventories amounted to HK\$2,275,000 have been recognised during the year ended 31 December 2019 while no such allowance loss was made in the prior year.

# MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounting to HK\$32,834,000 (2018:HK\$27,020,000), representing an increase of HK\$5,814,000 or 21.5%. The deep increment in operating expenditure was mainly resulted from an increase in staff costs, research and development costs and other costs to undertaking new marketing initiatives to drive business and exploration of new business segment.

For the year ended 31 December 2019, tax expense of HK\$3,676,000 was recorded and it was HK\$7,104,000 for the prior year. The significant decrease in tax expense was resulted from decrease in profit generation and provision of PRC withholding tax on undistributed profit from the PRC subsidiary.

The directors do not recommend the payment of dividend for the year ended 31 December 2019 (2018: Nil).

## BUSINESS REVIEW AND PROSPECT

During challenging times like what we are facing today, 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, along with developing our people with training, learning and development opportunities, as well as enhancing marketing efforts.

Benefiting from operating leverage, we are able to have significant 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 continued to contribute the majority of the revenue of the Group, amounting to HK\$62,945,000 or 88.0% of total revenue for the current year (2018: HK\$99,249,000 or 98.2% of total revenue).

During the reporting period, the outcome from manufacturing of water treatment system and retooling and repair services (included in sales of other goods) starts to gain more weight among the revenue yet these new businesses are still in a growing stage and we anticipated that these new business will only be predominated gradually. The Group regards this as a positive step forward as it will help enhance our product diversity, as well as widen our customer bases.

As at year end of 2019, the Group was working on a few construction contracts of casing and flavouring systems and pre-pressing packing machines which are expected to deliver to the customers during the first half in 2020. 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 and tobacco redrying factories. As at 31 December 2019, the Group has over HK\$80 million committed sales contacts and expected to finish in the coming two years.

The strategy on focusing quality control and cost effective measure has been reinforced during the 2019 National Tobacco Work Conference (2019年全國煙草工作會議) and the cigarette manufacturers and tobacco redrying factories would constantly improve the level of scientific research and technology innovation. Meanwhile, keen competition among the cigarette manufacturers and tobacco redrying factories are expected. The market participants are expected to decrease and the financial performance and budget available would be adversely affected by the new tobacco policy. Under the "Healthy China 2030 Plan" (健康中國2030規劃), the government has clearly puts forward specific development goals in terms of smoking bans and tobacco control which requires that by year 2030, the current 27% of smokers in China has to be reduced to 20%. This will have a long-term impact on the development of China's tobacco industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

Heat-not-burn tobacco products, which use the system where tobacco leaves are not being burnt but instead tobacco constituents are heated and aerosolized, are gaining popularity among smokers in recent years. In November 2019, the State Tobacco Monopoly Administration of the PRC has announced that in order to protect the youngsters, it is forbidden to sell and promote heat-not-burn tobacco products to people under 18 years old.

Since the 2019 Novel Coronavirus outbreak, authorities in the PRC have taken emergency public health measures including extending Chinese New Year holidays, and imposing travel and other work-related restrictions. Since mid of February 2020, a majority of the Group's manufacturing facilities have obtained government approvals and gradually resumed operation. The economic performance of the PRC may be impacted in the short run but we expect that the virus will not affect the trend of economic stability and transformation of the PRC in the long run.

The Group will continue to strive to maintain and reinforce our competing power by promoting high-quality machinery and fortifying the long-standing relationship 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 2019 amounted to HK\$70,207,000 (2018: HK\$61,104,000), which were mainly denominated in RMB and HK\$.

As at 31 December 2019, other than an advance of HK\$4,200,000 (2018: HK\$4,200,000) from a director of the Company who is also the ultimate controlling shareholder of the company, the Group had no bank borrowings, mortgages or charges and its gearing ratio was Nil (2018: Nil).

As at 31 December 2019, the Group's net current assets was HK\$84,709,000 (2018: HK\$86,266,000). Current ratio and quick ratio of the Group were 2.1 (2018: 2.2) and 1.6 (2018: 1.6), respectively.

## CAPITAL EXPENDITURE

The Group purchased property, plant and equipment amounted to HK\$315,000 for the year ended 31 December 2019 (2018: HK\$686,000).

## CAPITAL COMMITMENTS

As at 31 December 2019, the Group did not have any material capital commitments.

## FOREIGN EXCHANGE EXPOSURE

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

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PLEDGE OF ASSETS

The Group did not have any pledge of assets as at 31 December 2019. Restricted bank deposits of HK\$8,457,000 (2018: HK\$9,265,000) 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 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 2019.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had a total of 133 employees (2018: 129). Total staff costs (including directors' emoluments) were HK\$19,648,000 for the year ended 31 December 2019 (2018: HK\$15,283,000).

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 June to 18 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on 15 June 2020.

# REPORT OF DIRECTORS

The board (the “Board”) of the directors (“Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively as the “Group”) for the year ended 31 December 2019.

## PRINCIPAL PLACE OF BUSINESS

The Company was 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 32 to the consolidated financial statements.

Segment information about the business of the Group for the year ended 31 December 2019 is set out in Note 5 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 7 to 10 of this annual report.

## RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 41 of this annual report.

The Board did not recommend the payment of dividend for the year ended 31 December 2019 (2018: 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 2019 is set out on page 100 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 2019 are set out in Note 13 to the consolidated financial statements.

# REPORT OF DIRECTORS

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in Note 15 to the consolidated financial statements. The fair value of the investment properties as at 31 December 2019 was HK\$19,871,000 and unrealised gain on fair value change of investment properties of HK\$454,000 was resulted.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in Note 23 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 2019 are set out in the consolidated statement of changes in equity on page 44 of this report and in Note 34 to the consolidated financial statements respectively.

At the end of the reporting date, the Company's reserve available for distribution amounted to HK\$8,136,000 (2018: HK\$11,056,000). 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, 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 2019.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, sales to the Group's five largest customers in aggregate accounted for approximately 80.8% (2018: 94.8%) of the total sales and sales to the largest customer accounted for approximately 63.6% (2018: 82.3%) of total sales. Purchases from the Group's five largest suppliers in aggregate accounted for approximately 55.6% (2018: 52.6%) of the total purchases and purchases from the largest supplier accounted for approximately 15.6% (2018: 12.4%) 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.

# REPORT OF DIRECTORS

## DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report were as follows:

### 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. Wu Wei 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 6 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.

Save as aforesaid, 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 them.

# REPORT OF DIRECTORS

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

As at 31 December 2019, 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	Approximate percentage of the issued share capital of the Company
<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 Group Limited ("LinkBest"), which is wholly owned by Ms. Liu Li, is 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 31 December 2019.

# REPORT OF DIRECTORS

## 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 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 31 December 2019, 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 24 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.

# REPORT OF DIRECTORS

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

As at 31 December 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

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

Note:

1. LinkBest and Open Venture are 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 2019.

## 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 24 to the consolidated financial statements.

Details of Directors' emoluments are set out in Note 9 to the consolidated financial statements.

# REPORT OF DIRECTORS

## 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 2019, 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 19 to 26 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 27 to 34 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules during the year ended 31 December 2019.

## EVENTS AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group's operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since mid of February 2020 and is already at full capacity as at the date hereof.

The Directors are not aware of any other significant events that have taken place subsequent to 31 December 2019 and up to the date of approval of this report.

# REPORT OF DIRECTORS

## AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the annual general meeting to re-appoint Deloitte as auditor of the Company.

On behalf of the Board

**Liu Li**

*Chairman & Chief Executive Officer*

Hong Kong, 30 March 2020

# 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 CG Code during the year ended 31 December 2019, 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 2019.

## 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 6 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.

# CORPORATE GOVERNANCE REPORT

## 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 2019 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
<b>Executive Directors</b>					
Ms. Liu Li	1/1	5/5	–	–	–
Mr. Xu Jiagui	1/1	5/5	–	–	–
<b>Independent non-executive Directors</b>					
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.

# CORPORATE GOVERNANCE REPORT

## 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.

# CORPORATE GOVERNANCE REPORT

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. Wu Wei 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 2019, 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:

<b>Name of Directors</b>	<b>Type of continuous professional development programmes (Note)</b>
<b>Executive Directors</b>	
Ms. Liu Li	2
Mr. Xu Jiagui	2
<b>Independent non-executive Directors</b>	
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.

# CORPORATE GOVERNANCE REPORT

## 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 2019 was mutually agreed in view of the scope of services, amounting to HK\$1,000,000 (2018: HK\$820,000).

No non-audit service has been provided by the auditor for the years ended 31 December 2018 and 2019.

# CORPORATE GOVERNANCE REPORT

## 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 2019, 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 2019, 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 2019, 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.

# CORPORATE GOVERNANCE REPORT

## 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 2019, 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 business 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](mailto: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.

# CORPORATE GOVERNANCE REPORT

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 ("ESG 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 2019 to 31 December 2019 ("FY 2019").

## STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We believe that the opinions of our stakeholders can contribute to the sustainable development of the Group. Therefore, we appropriately communicate with our stakeholders and promote the participation of stakeholders through different forms and channels of communication. The following are the main categories of stakeholders and communication channels:

Stakeholder	Communication Channel
Shareholder	<ul style="list-style-type: none"><li>• Company website</li><li>• Interim and annual reports</li><li>• Announcements</li><li>• General meetings</li></ul>
Employee	<ul style="list-style-type: none"><li>• Employees' activities</li><li>• Staff communication</li><li>• Regular meetings/training courses</li></ul>
Client	<ul style="list-style-type: none"><li>• Daily operation/communication</li><li>• Regular meetings and visits</li></ul>
Supplier	<ul style="list-style-type: none"><li>• Procurement process</li><li>• Daily operation/communication</li><li>• Regular review and evaluation</li></ul>
Government and regulatory authorities	<ul style="list-style-type: none"><li>• Regular performance reports</li><li>• Letter and phone contact</li><li>• Occasional face-to-face meetings and visits</li></ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group determines the scope of its environmental, social and governance disclosures in accordance with the requirements of the ESG Guide. The management identified and assessed major issues after considering the Group's business operations and the standards adopted by the industry. The impact of these material issues is assessed on the basis of their importance to the sustainable development of the Group and its stakeholders. The relevant assessment is related to the current development stage of the Group or may change in the future.

The list of important environmental and social issues that the Group has identified is as follows:

Aspect	Issue
Environmental	<ul style="list-style-type: none"><li>• Emissions</li><li>• Use of Resources</li><li>• The environment and Natural Resources</li></ul>
Social	<ul style="list-style-type: none"><li>• Employment and Labour Practices</li><li>• Health and Safety</li><li>• Development and Training</li><li>• Labour Standards</li><li>• Supply Chain Management</li><li>• Product Responsibility</li><li>• Anti-corruption</li></ul>
Community	<ul style="list-style-type: none"><li>• Community Investment</li></ul>

## 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@renhengerprise.com](mailto:info@renhengerprise.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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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	FY 2019		FY 2018*	
		Emission (In tonnes of CO <sub>2</sub> e)	Total Emission	Emission (In tonnes of CO <sub>2</sub> e)	Total Emission
<b>Scope 1</b>					
Direct emission	Mobile combustion sources	162.1	45.4%	262.0	54.1%
<b>Scope 2</b>					
Indirect emission	Purchased electricity	131.3	36.8%	132.3	27.3%
<b>Scope 3</b>					
Other indirect emission	Raw materials for packaging of products	59.6	17.8%	85.7	18.6%
	Water	3.9		4.0	
Total		356.9	100%	484.0	100%

\* FY 2018 represented the reporting period from 1 January 2018 to 31 December 2018.

There were 356.9 and 484.0 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) greenhouse gases emitted from the operation of Baoying Renheng in FY 2019 and FY 2018, respectively, which mainly resulted from the transportation of tobacco machinery products to different provinces in the PRC and the electricity supply for production. The decrease in emission of CO<sub>2</sub>e is directly related to the decrease in sales during the year by 29.2%. Less products are shipped to the customers' factories by trucks and packaging materials were used during the shipping. The annual emission intensity was 0.015 tonnes (FY 2018: 0.021 tonnes) of CO<sub>2</sub>e 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 2019 (FY 2018: RMB10,000). The non-hazardous waste is discharged to a site designated by the municipal government agency.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A2. Use of Resources

Baoying Renheng consumed 220,600 kWh (FY 2018: 222,237 kWh) of electricity during the reporting period, contributed to an emission of 131.3 tonnes (FY 2018: 132.9 tonnes) of CO<sub>2</sub>e. 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 20,117 tonnes of water as compared to 20,451 tonnes of water consumption in FY2018. 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 34,895 kg wooden board for product packaging during the reporting period with a drastic decrease of usage in compare to FY 2018 by 15,233 kg resulted from decrease in sales and smaller scale of tobacco machineries were shipped.

## 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. In FY 2019, all of Baoying Renheng's employees were full time employees working in the PRC. 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.

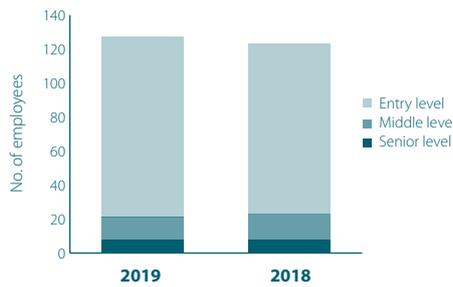
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In FY 2019 and FY 2018, the total workforce by gender, employment category and age group are as shown.

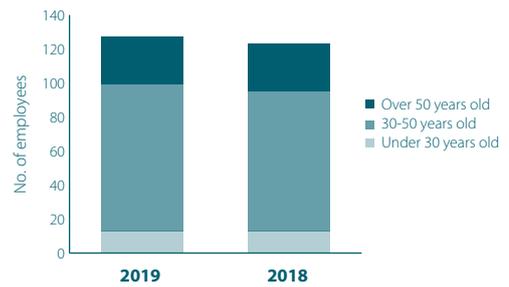
## Average number of employees (By Gender)



## Average number of employees (By Employment Category)

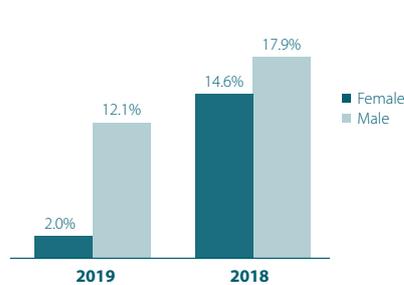


## Average number of employees (By Age Group)

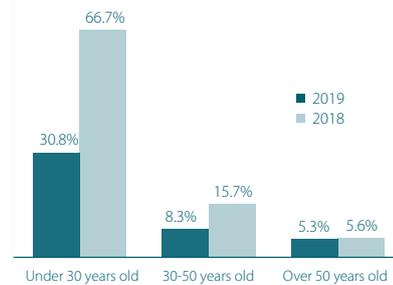


In FY 2019 and FY 2018, the employee turnover rate is 10.0% and 17.2%, respectively. The employee turnover rate by gender and age group are as shown.

## Overall employee turnover rate (By Gender)



## Overall employee turnover rate (By Age Group)



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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	FY 2019	FY 2018	Unit
Number of work-related fatalities	-	-	People
Fatality rate per 100 employees	-	-	-

Lost Days Due to Work Injury	2019	2018	Unit
Number of lost days	-	-	Days
Number of reported accidents (sick leave > 3 days)	-	-	Accident
Injury rate per 100 employees	-	-	-

## B3. Development and Training

We strongly believe that nurturing and retaining talent is conducive 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	Average training hours/person		Percentage of employees trained	
	FY 2019	FY 2018	FY 2019	FY 2018
<b>By Gender</b>				
Female	<b>3.7</b>	4.4	<b>34.6%</b>	20.0%
Male	<b>12.5</b>	13.3	<b>19.8%</b>	22.4%
<b>By Employment Category</b>				
Senior level	<b>3.5</b>	3.0	<b>50.0%</b>	37.5%
Middle level	<b>4.3</b>	5.4	<b>61.5%</b>	60.0%
Entry level	<b>13.6</b>	17.1	<b>16.0%</b>	15.0%

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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. For FY 2019, the Group's five largest suppliers in aggregate accounted for approximately 55.6% (FY 2018: 52.6%) 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **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.

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 41 to 99, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 ("CO").

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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\$") 19,871,000 as at 31 December 2019, which represented approximately 10.5% of the Group's total assets. During the current year, HK\$454,000 gain in fair value change of investment properties was recognised in the consolidated statement of profit or loss and other comprehensive income.

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 15 to the consolidated financial statements. The valuation of the investment properties are dependent on certain unobservable inputs, which involves the management's judgements, including "market rents" and "capitalisation rate".

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 assessing the reasonableness of key inputs used in the valuations by comparing to relevant market information on market rents achieved and capitalisation rates adopted in other comparable properties in the neighbourhood;
- Checking the accuracy of the rental data provided by management of the Company to the valuer by agreeing them to the Group's records;
- Evaluating the reasonableness of methodology and assumptions applied in the valuation by comparing with industry norms; and
- Involving internal specialist in assessing the key assumptions to the extend necessary.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Key audit matter

### How our audit addressed the key audit matter

#### ***Impairment assessment on Trade and Bills Receivables and Retention Money Receivables ("Trade-related Receivables")***

We identified impairment assessment on Trade-related Receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of Trade-related Receivables at the end of the reporting period.

At 31 December 2019, the carrying amounts of Trade-related Receivables are HK\$37,086,000, which represented approximately 19.6% of total assets of the Group.

As disclosed in Note 4 to the consolidated financial statements, the Group estimates the amount of lifetime ECL of Trade-related Receivables based on assessment through considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective Trade-related Receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. The assessment of ECL involves a high degree of uncertainties.

As disclosed in Note 18 to the consolidated financial statements, a net reversal of impairment of HK\$38,000 was recognised for Trade-related Receivables for the year and the Group's lifetime ECL on Trade-related Receivables as at 31 December 2019 was amounted to HK\$2,948,000.

Our procedures in relation to impairment assessment on Trade-related Receivables included:

- Understanding of key controls of the Group over the estimation of ECL of trade debtors;
- Testing the integrity of information used by management to develop the assessment, including Trade-related Receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales orders, sales invoices and other supporting document;
- Assessing the accuracy of the management's basis and judgement in determining the ECL based on historical credit loss records and with reference to other factors that have been taken into consideration by the management;
- Assessing the reasonableness of the basis of estimated loss rate applied with reference to historical default rates and forward-looking information;
- Evaluating the disclosures regarding the impairment assessment of Trade-related Receivables in Note 18 to the consolidated financial statements; and
- Performing retrospective review of the management's estimation by comparing the expected losses provided at 31 December 2018 to actual losses incurred during the year ended 31 December 2019.

# INDEPENDENT AUDITOR'S REPORT

## 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 CO, 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 contents 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.

# INDEPENDENT AUDITOR'S REPORT

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

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.

# INDEPENDENT AUDITOR'S REPORT

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

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

30 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
Revenue	5	71,507	101,043
Cost of sales		(38,104)	(63,774)
Gross profit		33,403	37,269
Other income and gains	6	6,155	6,078
Other losses	7	(2,345)	–
Selling and distribution costs		(11,663)	(9,623)
Administrative expenses		(21,171)	(17,397)
Profit before taxation	8	4,379	16,327
Taxation	10	(3,676)	(7,104)
Profit for the year		703	9,223
<b>Other comprehensive expense for the year:</b>			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		(2,871)	(6,393)
Total comprehensive (expense) income for the year		(2,168)	2,830
		<b>HK cents</b>	<b>HK cents</b>
Earnings per share	12		
– Basic		0.09	1.15

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	7,772	9,215
Prepaid lease payment	14	–	2,357
Investment properties	15	19,871	19,811
Right-of-use assets	16	2,700	–
		<b>30,343</b>	31,383
<b>Current assets</b>			
Inventories	17	39,549	42,727
Prepaid lease payment	14	–	68
Trade and other receivables	18	40,677	43,752
Restricted bank deposits	19	8,457	9,265
Bank balances and cash	19	70,207	61,104
		<b>158,890</b>	156,916
<b>Current liabilities</b>			
Trade and other payables	20	35,008	39,768
Lease liabilities	16	368	–
Contract liabilities	21	33,064	25,599
Tax payable		5,741	5,283
		<b>74,181</b>	70,650
<b>Net current assets</b>			
		<b>84,709</b>	86,266
<b>Total assets less current liabilities</b>			
		<b>115,052</b>	117,649
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	1,901	2,362
Lease liabilities	16	32	–
		<b>1,933</b>	2,362
		<b>113,119</b>	115,287

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK\$'000	2018 HK\$'000
<b>Capital and reserves</b>			
Share capital	23	2,010	2,010
Share premium		41,818	41,818
Reserves		78,871	81,109
Accumulated losses		(9,580)	(9,650)
<b>Total equity</b>		<b>113,119</b>	115,287

The consolidated financial statements on pages 41 to 99 were approved and authorised for issue by the Board of Directors on 30 March 2020 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 2019

	Share capital	Share premium	Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	2,010	41,818	49,091	3,338	22,293	999	2,775	7,588	(17,455)	112,457
Profit for the year	-	-	-	-	-	-	-	-	9,223	9,223
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(6,393)	-	(6,393)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	(6,393)	9,223	2,830
Transfer	-	-	-	-	1,418	-	-	-	(1,418)	-
At 31 December 2018	2,010	41,818	49,091	3,338	23,711	999	2,775	1,195	(9,650)	115,287
Profit for the year	-	-	-	-	-	-	-	-	703	703
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	(2,871)	-	(2,871)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	(2,871)	703	(2,168)
Transfer	-	-	-	-	633	-	-	-	(633)	-
At 31 December 2019	2,010	41,818	49,091	3,338	24,344	999	2,775	(1,676)	(9,580)	113,119

## Notes:

- 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 in prior years.
- 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.
- The capital reserve represented waiver of an amount due to a former shareholder of a subsidiary of the Company in prior years.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Operating activities		
Profit before taxation	<b>4,379</b>	16,327
Adjustments for:		
Depreciation of property, plant and equipment	<b>1,424</b>	1,635
Deprecation of right-of-use assets	<b>402</b>	–
Gain on disposal of property, plant and equipment, net	<b>(52)</b>	–
Gain on fair value change of investment properties, unrealised	<b>(454)</b>	(1,186)
Allowances for inventories	<b>2,275</b>	–
Release of prepaid lease payment	–	72
Reversal of impairment loss on financial assets under expected credit loss model	<b>(38)</b>	–
Interest income	<b>(1,327)</b>	(1,578)
Operating cash flows before movements in working capital	<b>6,609</b>	15,270
Decrease (increase) in inventories	<b>109</b>	(26,559)
Decrease in trade and other receivables	<b>2,297</b>	373
Decrease in amounts due from customers for contract works	–	8,671
Decrease in trade and other payables	<b>(4,136)</b>	(12,531)
Increase in contract liabilities	<b>8,103</b>	25,599
Cash generated from operations	<b>12,982</b>	10,823
PRC Enterprise Income Tax (“EIT”) paid	<b>(3,527)</b>	(5,461)
Net cash from operating activities	<b>9,455</b>	5,362
Investing activities		
Release of restricted bank deposits	<b>9,095</b>	11,697
Release of financial assets at fair value through profit or loss (“FVTPL”)	–	33,622
Interest received	<b>1,327</b>	1,578
Placement of restricted bank deposits	<b>(8,457)</b>	(9,265)
Proceeds on disposal of property, plant and equipment	<b>205</b>	–
Purchase of property, plant and equipment	<b>(315)</b>	(686)
Net cash generated from investing activities	<b>1,855</b>	36,946

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
Financing activities		
Advance from a director	–	4,200
Repayments of lease liabilities	<b>(346)</b>	–
Net cash (used in) from financing activities	<b>(346)</b>	4,200
Net increase in cash and cash equivalents	<b>10,964</b>	46,508
Cash and cash equivalents at beginning of the year	<b>61,104</b>	16,836
Effect of foreign exchange rate changes	<b>(1,861)</b>	(2,240)
Cash and cash equivalents at end of the year, represented by bank balances and cash	<b>70,207</b>	61,104

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. GENERAL

RENHENG Enterprise Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on 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 ultimate controlling shareholder is Ms. Liu Li, who is also the chairman and chief executive officer of the Company.

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 and the address of the principal place of business of the Company is disclosed in corporate information section of the annual report.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### **New, Amendments to HKFRSs and new interpretation that are mandatorily effective for the current year**

The Group has applied the following new, amendments to HKFRSs and new interpretation issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new, amendments to HKFRSs and new interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### 2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

#### **Definition of a lease**

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

#### **As a lessee**

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, i.e. 1 January 2019. Any difference at the date of initial application is recognised in the opening balance of equity and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

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 in the PRC for own used properties 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 were reclassified to right-of-use assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### 2.1 HKFRS 16 Leases (Continued)

#### *As a lessor*

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group’s consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

#### **New and amendments to HKFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>4</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

- 1 Effective for annual periods beginning on or after 1 January 2021
- 2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
- 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 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs and the Amendments to References to the Conceptual Framework in HKFRS Standards mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### **New and amendments to HKFRSs in issue but not yet effective** (Continued)

#### ***Amendments to HKAS 1 and HKAS 8 Definition of Material***

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

#### ***Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards***

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### **New and amendments to HKFRSs in issue but not yet effective** (Continued)

#### **Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards** (Continued)

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

## 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 that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration 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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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*.

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.

For 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 at initial recognition the results of the valuation technique equals the transaction price.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract and accounted for and presented on a net basis.

Where a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties), which is consistent with its previous treatment.

### Leases

#### **Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 2)**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### **The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2)**

##### *Short-term leases*

The Group applies the short-term lease recognition exemption to leases 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 or another systematic basis over the lease term.

##### *Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

##### **Refundable rental deposits**

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

##### **Lease liabilities**

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### **Lease liabilities** (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

#### **The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in Note 2)**

##### *Refundable rental deposits*

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

##### **The Group as lessee (prior to 1 January 2019)**

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.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis .

##### **The Group as a lessor**

###### *Classification and measurement of leases*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 loss, if any.

#### *Ownership interests in leasehold land and building*

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” (upon application of HKFRS 16) or “prepaid lease payments” (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

If a property 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 (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) 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 property, the relevant revaluation reserve will be transferred directly to accumulated losses.

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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 fair values, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties 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 property (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 property is derecognised.

### Prepaid lease payment

Prepaid lease payment represents 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 payment 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. Costs of inventories are determined on a 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. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities 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 or financial liabilities at FVTPL are recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Financial assets

#### *Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor in contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Classification and subsequent measurement of financial assets (Continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gains" or "other losses" line items.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, restricted bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade-related receivables, comprising trade and bills receivables and retention money receivables ("Trade-related Receivables"). The ECL on Trade-related Receivables are assessed individually.

For all other financial assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of Trade-related Receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

##### Derecognition of financial assets

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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### **Financial liabilities and equity instruments**

##### *Classification as debt or equity instruments*

Debt and equity instruments are classified as either financial liabilities or as equity instruments 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 an entity after deducting all of its liabilities. Equity instruments issued by the company 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.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities 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.

#### **Impairment on property, plant and equipment and right-of-use assets**

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these 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.

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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 value 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment an property, plant and equipment and right-of-use assets (Continued)

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group cash-generating units. 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 or the group cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-operating units) 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 (or cash-generating unit or a group of cash-operating units). 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 profit before taxation 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 deductible 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 recognised 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 retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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's operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

### 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 and annual leave) after deducting any amount already paid.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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. CRITICAL ACCOUNTING JUDGEMENTS AND 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements include the revenue recognition from construction contracts of casing and flavouring system at a point in time.

Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators such as the payment schedule indicates the Group will have unconditional right to payment only at an agreed-upon milestone and the Group would not have an enforceable right to demand payment for performance completed to date if the contract were to be terminated before completion for reasons other than the Group's failure to perform as promised. Accordingly, the sales of products with no alternative use are considered to be performance obligation satisfied at a point in time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The following are 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.

### Fair value measurement 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 measurement.

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 measurement. 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 15.

At 31 December 2019, the carrying amount of investment properties is HK\$19,871,000 (2018: HK\$19,811,000).

### Provision of ECL for Trade-related Receivables

The Group recognises lifetime ECL for Trade-related Receivables based on assessment through considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective Trade-related Receivables. The estimation on lifetime ECL is required in assessing probability-weighted estimate of the credit loss which is based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's Trade-related Receivables are disclosed in Note 29.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 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 2019, the carrying amounts of inventories is HK\$39,549,000 (2018: HK\$42,727,000), after netting of allowance of HK\$5,434,000 (2018: HK\$3,262,000). During the year ended 31 December 2019, HK\$2,275,000 allowance for inventories is recognised (2018: Nil).

## 5. REVENUE AND SEGMENT INFORMATION

### (i) Disaggregation of revenue from contracts with customers and segment information

	2019		
	Construction contracts of casing and flavouring system HK\$'000	Sales of goods HK\$'000	Total HK\$'000
<b>Type of products</b>			
Construction works	62,139	–	62,139
	62,139	–	62,139
Sales of goods			
– pneumatic feeding system	–	806	806
– water treatment system	–	2,329	2,329
– others	–	6,233	6,233
	–	9,368	9,368
	62,139	9,368	71,507

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (i) Disaggregation of revenue from contracts with customers and segment information (Continued)

	2018		
	Construction contracts of casing and flavouring system HK\$'000	Sales of goods HK\$'000	Total HK\$'000
<b>Type of products</b>			
Construction works	88,815	–	88,815
	88,815	–	88,815
Sales of goods			
– pneumatic feeding system	–	10,125	10,125
– pre-pressing packing machine	–	309	309
– others	–	1,794	1,794
	–	12,228	12,228
	88,815	12,228	101,043

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (ii) Performance obligations for contracts with customers

#### **Construction contracts of casing and flavouring system**

The Group provides construction services of casing and flavouring system to its customers which are cigarette manufacturers in the PRC. For the contracts entered into with customers, the contract prices are fixed and the relevant casing and flavouring system specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant casing and flavouring system to customers. Revenue from construction contracts of casing and flavouring system is therefore recognised at a point in time when the completed casing and flavouring system is transferred to customers, being at the point that the customer obtains the control of the completed casing and flavouring system and the Group has unconditional right to payment and collection of the consideration is probable.

The Group receives 10% to 30% of the contract value as deposits from customers when they sign the construction agreement. Such advance payment schemes result in contract liabilities being recognised throughout the construction period for the full amount of the contract price.

The defect liability period, ranging from one to two years from the date of the practical completion of the construction, serves as an assurance that the construction services performed comply with agreed upon specifications and such assurance cannot be purchased separately.

#### **Sales of goods**

The Group sells pneumatic feeding system, pre-pressing packing machine, water treatment system and other products directly to the customers which are cigarette manufacturers and tobacco redrying factories in the PRC. For the sales of goods to the customers, revenue is recognised when control of the goods has transferred, being the point the goods has delivered to the customers. The normal credit term is 90 days upon delivery.

### (iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 31 December 2018 and the expected timing of recognising revenue are as follows:

	2019 HK\$'000	2018 HK\$'000
Construction contracts of casing and flavouring system		
– Within one year	52,277	35,798
– More than one year but not more than two years	27,531	21,321
	<b>79,808</b>	<b>57,119</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### (iii) Transaction price allocated to the remaining performance obligation for contracts with customers (Continued)

For sales of goods, the performance obligation are expected to fulfill in one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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, water treatment system 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 profit 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, only entity-wide disclosures, major customers and geographic information are presented.

### Entity-wide information

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

	<b>2019</b> <b>HK\$'000</b>	2018 <i>HK\$'000</i>
Revenue from construction contracts of casing and flavouring system	<b>62,139</b>	88,815
Sales of		
– pneumatic feeding system	<b>806</b>	10,125
– pre-pressing packing machine	–	309
– water treatment system	<b>2,329</b>	1,386
– other products	<b>6,233</b>	408
	<b>71,507</b>	101,043

During the years ended 31 December 2019 and 2018, there was one customer contributing over 10% of the total sales of the Group and HK\$45,499,000 and HK\$83,192,000 revenue had been recognised, respectively. The revenue from this customer included both sales of products and construction contracts of casing and flavouring system.

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 ("HK")).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. OTHER INCOME AND GAINS

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Subsidy income (note a)	<b>989</b>	–
Rental income from investment properties (note b)	<b>257</b>	176
Bank interest income	<b>1,327</b>	1,578
Other income	<b>2,573</b>	1,754
Sales of scrap materials, parts and components, net gain	<b>3,038</b>	3,138
Gain on fair value change of investment properties, unrealised	<b>454</b>	1,186
Gain on disposal of property, plant and equipment, net	<b>52</b>	–
Reversal of impairment losses on Trade-related Receivables	<b>38</b>	–
Other gains	<b>3,582</b>	4,324
	<b>6,155</b>	6,078

*Notes:*

- a. 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.
- b. During the year ended 31 December 2019, there is no (2018: Nil) direct operating expenses incurred for the investment properties that generated rental income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 7. OTHER LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Allowance for inventories	2,275	–
Impairment loss recognised on prepayments and deposits	70	–
	<b>2,345</b>	–

## 8. PROFIT BEFORE TAXATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit before taxation has been arriving at after charging:		
Directors' emoluments (Note 9)	2,063	1,878
Other staff costs:		
Salaries, bonuses and allowances	16,180	12,008
Retirement benefits scheme contributions	1,405	1,397
Total staff costs	<b>19,648</b>	15,283
Auditor's remuneration	1,000	820
Research and development cost recognised as an expense (included in administrative expenses)	3,660	3,341
Depreciation of property, plant and equipment	1,424	1,635
Depreciation of right-of-use assets	402	–
Release of prepaid lease payment	–	72
Cost of inventories recognised as an expense	<b>28,532</b>	48,688

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
<b>2019</b>				
Executive directors:				
Ms. Liu Li (Chief Executive)	–	1,215	18	1,233
Mr. Xu Jiagui	–	458	12	470
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	120	–	–	120
Mr. Kong Hing Ki	120	–	–	120
Mr. Wu Wei	120	–	–	120
	<b>360</b>	<b>1,673</b>	<b>30</b>	<b>2,063</b>

2018

Executive directors:

Ms. Liu Li	–	1,215	18	1,233
Mr. Xu Jiagui	–	271	14	285

Independent non-executive directors:

Mr. Wong Yiu Kit, Ernest	120	–	–	120
Mr. Kong Hing Ki	120	–	–	120
Mr. Wu Wei	120	–	–	120

	360	1,486	32	1,878
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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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid employees of the Group included two (2018: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2018: three) highest paid employees of the Group are as follows:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Employees		
– salaries and allowances	<b>1,772</b>	1,495
– retirement benefits scheme contributions	<b>33</b>	32
	<b>1,805</b>	1,527

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.

## 10. TAXATION

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
The charge comprises:		
Current tax		
PRC EIT	<b>4,097</b>	5,977
PRC withholding tax (Note 22)	<b>(710)</b>	–
	<b>3,387</b>	5,977
Deferred taxation (Note 22)	<b>289</b>	1,127
	<b>3,676</b>	7,104

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Baoying Renheng, a PRC subsidiary is 25% for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 10. TAXATION (Continued)

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit before taxation	<b>4,379</b>	16,327
Tax at the applicable tax rate of 25% (2018: 25%)	<b>1,095</b>	4,082
Tax effect of expenses not deductible for tax purposes	<b>1,487</b>	1,909
Effect of different tax rates of a subsidiary in other jurisdiction	<b>479</b>	421
PRC withholding tax (reclassify of PRC withholding tax) on undistributed profit of a PRC subsidiary	<b>615</b>	692
Tax charge for the year	<b>3,676</b>	7,104

## 11. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during the year ended 31 December 2019 (2018: Nil), nor was any dividend been proposed by the Company since the end of the reporting period.

## 12. EARNINGS PER SHARE

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit		
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	<b>703</b>	9,223
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>804,000,000</b>	804,000,000

No diluted earnings per share is presented for the years ended 31 December 2019 and 2018 as there was no potential ordinary share in issue for both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>						
At 1 January 2018	16,492	943	444	1,867	9,550	29,296
Currency realignment	(854)	(56)	(22)	(98)	(513)	(1,543)
Additions	–	157	–	–	529	686
At 31 December 2018	15,638	1,044	422	1,769	9,566	28,439
Currency realignment	<b>(306)</b>	<b>(20)</b>	<b>(8)</b>	<b>(35)</b>	<b>(187)</b>	<b>(556)</b>
Additions	–	–	<b>25</b>	–	<b>290</b>	<b>315</b>
Disposals	–	–	<b>(7)</b>	–	<b>(1,094)</b>	<b>(1,101)</b>
At 31 December 2019	<b>15,332</b>	<b>1,024</b>	<b>432</b>	<b>1,734</b>	<b>8,575</b>	<b>27,097</b>
<b>DEPRECIATION</b>						
At 1 January 2018	9,497	790	384	1,375	6,571	18,617
Currency realignment	(522)	(44)	(21)	(77)	(364)	(1,028)
Provided for the year	771	67	7	82	708	1,635
At 31 December 2018	9,746	813	370	1,380	6,915	19,224
Currency realignment	<b>(190)</b>	<b>(16)</b>	<b>(7)</b>	<b>(27)</b>	<b>(135)</b>	<b>(375)</b>
Provided for the year	<b>690</b>	<b>77</b>	<b>12</b>	<b>59</b>	<b>586</b>	<b>1,424</b>
Eliminated on disposals	–	–	<b>(6)</b>	–	<b>(942)</b>	<b>(948)</b>
At 31 December 2019	<b>10,246</b>	<b>874</b>	<b>369</b>	<b>1,412</b>	<b>6,424</b>	<b>19,325</b>
<b>CARRYING VALUES</b>						
At 31 December 2019	<b>5,086</b>	<b>150</b>	<b>63</b>	<b>322</b>	<b>2,151</b>	<b>7,772</b>
At 31 December 2018	5,892	231	52	389	2,651	9,215

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 13. 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%

## 14. PREPAID LEASE PAYMENT

	2018 HK\$'000
<hr/>	
CARRYING AMOUNT	
At beginning of the year	2,630
Currency realignment	(133)
Charge to profit or loss during the year	<u>(72)</u>
At end of the year	<u>2,425</u>
Analysed for reporting purpose as:	
Non-current asset	2,357
Current asset	<u>68</u>
	<u>2,425</u>

At 1 January 2019, the carrying amount of HK\$2,425,000 was reclassified to right-of-use assets (Note 16) upon application of HKFRS 16 (Note 2).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 15. INVESTMENT PROPERTIES

The Group leases out various warehouses under operating leases with rentals payable monthly. The leases typically run for an initial period of one to two years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	<i>HK\$'000</i>
<b>FAIR VALUE</b>	
At 1 January 2018	19,693
Currency realignment	(1,068)
Increase in fair value recognised in profit or loss (Note 6)	<u>1,186</u>
At 31 December 2018	19,811
Currency realignment	<b>(394)</b>
Increase in fair value recognised in profit or loss (Note 6)	<b><u>454</u></b>
At 31 December 2019	<b><u>19,871</u></b>

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 2019 carried out by Greater China Appraisal, were arrived at with adoption of the investment method by capitalising the rental income of the property derived from the existing tenancy with due allowance for the reversionary income potential of the property after expiry of the tenancy. As at 31 December 2018, the fair value of the investment properties were determined based on direct comparison method assuming sales of each property interests in their existing state and making reference to comparable market observable transactions of similar properties in the similar locations and conditions as available in the relevant market.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 15. 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
<b>At 31 December 2019</b>					
Commercial properties HK\$19,871,000 (a factory building and land thereof located at No. 18 North Suzhong Road, Baoying County, Yongzhou, Jiangsu Province, the PRC)	Level 3	Investment method based on the capitalisation rates and market rents of similar properties and adjust to reflect the conditions and locations of the subject properties.	The capitalisation rate of 5.5% for term period and 6.0% for reversionary period taking into account of the capitalisation of rental income potential, rate of the property, prevailing market condition.	The higher the capitalisation rate, the lower the fair value.	If the capitalisation rate in underlying the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the properties would decrease by approximately HK\$600,000 and increase by approximately HK\$600,000 respectively.
		The key inputs are "market rents" and "capitalisation rate".	Market rent taking into account of time, location and individual factors such as size of property and facilities, of HK\$156,000 per annum.	The higher the market rent, the higher the fair value.	If the market rents in 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\$900,000 and decrease by approximately HK\$900,000 respectively.

At 31 December 2018

Commercial properties HK\$19,811,000 (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.	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\$1,387/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\$991,000 and decrease by approximately HK\$991,000 respectively.
		The key input is "price per square metre" with professional judgements.			

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 16. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

### 16a. Right-of-use assets

	Leasehold lands <i>HK\$'000</i>	Leased properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>			
Upon application of HKFRS 16 at 1 January 2019	<b>2,425</b>	–	<b>2,425</b>
Currency realignment	<b>(50)</b>	–	<b>(50)</b>
Addition	–	<b>727</b>	<b>727</b>
At 31 December 2019	<b>2,375</b>	<b>727</b>	<b>3,102</b>
<b>DEPRECIATION</b>			
At 1 January 2019	–	–	–
Charge to profit or loss during the year	<b>68</b>	<b>334</b>	<b>402</b>
At 31 December 2019	<b>68</b>	<b>334</b>	<b>402</b>
<b>CARRYING AMOUNT</b>			
At 31 December 2019	<b>2,307</b>	<b>393</b>	<b>2,700</b>
At 1 January 2019	2,425	–	2,425
Expense relating to short-term leases with lease terms end within 12 months from the date of initial application of HKFRS 16			43
Total cash outflow for leases			346
Additions to right-of-use assets			<u>727</u>

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of one to two years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 16. RIGHT-OF-USE ASSETS/LEASE LIABILITIES (Continued)

### 16b. Lease Liabilities

	2019 HK\$'000
Lease liabilities payables:	
Within one year	368
Within a period of more than one year but not more than two years	32
	<b>400</b>
Less: Amount due for settlement with 12 months shown under current liabilities	<b>(368)</b>
	<b>32</b>

## 17. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	7,354	10,094
Work in progress	32,195	32,633
	<b>39,549</b>	42,727

## 18. TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade and bills receivables	28,587	27,160
Less: allowance for credit losses	<b>(2,948)</b>	(3,046)
	<b>25,639</b>	24,114
Retention money receivables	11,447	15,737
Prepayments and deposits (Note i)	1,345	788
Other receivables	2,714	3,590
Less: allowance for credit losses (Note ii)	<b>(468)</b>	(477)
	<b>40,677</b>	43,752

Notes:

- i. An additional impairment loss of HK\$70,000 (2018:Nil) (Note 7) was recognised for prepayment and deposits and the accumulated impairment loss on prepayment and deposits amounted to HK\$276,000 (2018: HK\$217,000) as at 31 December 2019.
- ii. No addition or reversal of impairment loss was recognised on other receivables during the years ended 31 December 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 18. TRADE AND OTHER RECEIVABLES (Continued)

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.

At 1 January 2018, trade and bills receivables and retention money receivables from contracts with customers amounted to HK\$32,690,000 and HK\$6,445,000, respectively.

The movement in the impairment loss in respect of Trade-related Receivables during the years ended 31 December 2019 and 2018 was as follows:

	<b>Impairment loss</b>
At 1 January 2018	3,212
Currency realignment	(166)
At 31 December 2018	<u>3,046</u>
Currency realignment	(60)
Impairment loss reversed	(270)
Impairment loss recognised	<u>232</u>
At 31 December 2019	<u>2,948</u>

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

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
0–90 days	<b>10,164</b>	10,029
91–365 days	<b>8,598</b>	11,472
1–2 years	<b>6,877</b>	2,613
	<b>25,639</b>	24,114

As at 31 December 2019, included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of HK\$15,475,000 (2018: HK\$14,085,000) which are past due as at the reporting date. The past due balances are not considered as in default as the Group considered such balances could be recovered based on historical experience. Moreover, the management of the Group did not aware of any significant change in credit quality of the trade and bills receivables and the expected credit losses are insignificant. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in Note 29 (b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 one to two years and presented as current assets as the receivables are within the normal operating cycle. Included in retention money receivables with carrying amount of HK\$555,000 (2018: HK\$388,000) which is past due but not credit impaired and the management of the Group considers that there has not been a significant change in credit quality so the expected loss on the retention money receivables outstanding is insignificant. The Group has not hold any collateral over these balances.

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

As at 31 December 2019, the restricted bank deposits carry effective interest rate of 2.85% (2018: 2.85%) 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% (2018: 0.001% to 3.45%) per annum.

Details of impairment assessment of restricted bank deposits and bank balances for the year ended 31 December 2019 are set out in Note 29 (b).

## 20. TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	14,631	17,984
Bills payables	6,652	9,005
	<b>21,283</b>	26,989
Amount due to a director ( <i>note</i> )	4,200	4,200
Accrued welfare expenses	1,602	1,634
Valued added tax payable	885	894
Other payables	6,870	5,871
Other tax payables	168	180
	<b>35,008</b>	39,768

*Note:* The amount due to a director represented 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 on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 20. TRADE AND OTHER PAYABLES (Continued)

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

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0-90 days	<b>13,967</b>	20,098
91-365 days	<b>6,195</b>	6,367
1-2 years	<b>704</b>	128
Over 2 years	<b>417</b>	396
	<b>21,283</b>	26,989

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

## 21. CONTRACT LIABILITIES

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Construction contracts of casing and flavouring system	<b>18,644</b>	22,026
Sales of goods	<b>14,420</b>	3,573
	<b>33,064</b>	25,599

As at 1 January 2018, contract liabilities amounted to HK\$13,931,000.

For the revenue recognised during the year ended 31 December 2019, HK\$7,264,000 and HK\$2,728,000 (2018: HK\$2,496,000 and HK\$2,225,000) were included in the contract liability balance at the beginning of the year for the construction contracts of casing and flavouring system and sales of goods, respectively. There is no revenue recognised during the year which related to performance obligation that has satisfied in prior periods.

The Group receives 10% to 30% of the contract value as deposits from customers when they sign the sale and purchase agreement, this will give rise to contract liabilities at the start of a contract. The deposits result in contract liabilities being recognised throughout the construction period until the performance obligation has been satisfied.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 22. 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 and prior years:

	Provision for trade and other receivables <i>HK\$'000</i>	Provision for inventories <i>HK\$'000</i>	Revaluation of investment properties <i>HK\$'000</i>	Withholding tax on undistributed profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	986	860	(3,116)	(79)	(1,349)
Currency realignment	(51)	(44)	178	31	114
Charge to profit or loss for the year	-	-	(435)	(692)	(1,127)
At 31 December 2018	935	816	(3,373)	(740)	(2,362)
Currency realignment	<b>(17)</b>	<b>(26)</b>	<b>70</b>	<b>13</b>	<b>40</b>
Credit (charge) to profit or loss for the year	<b>5</b>	<b>569</b>	<b>(248)</b>	<b>(615)</b>	<b>(289)</b>
Reallocated to current tax	-	-	-	<b>710</b>	<b>710</b>
At 31 December 2019	<b>923</b>	<b>1,359</b>	<b>(3,551)</b>	<b>(632)</b>	<b>(1,901)</b>

At 31 December 2019 and 2018, the Group has no other material unrecognised deductible temporary differences.

## 23. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.0025 each at 1 January 2018, 31 December 2018 and 31 December 2019	4,000,000,000	10,000
Issued and fully paid:		
Ordinary shares of HK\$0.0025 each at 1 January 2018, 31 December 2018 and 31 December 2019	804,000,000	2,010

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 24. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 24. 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 years ended 31 December 2019 and 2018, no share options has been granted nor exercised and there is no outstanding share options of the Company as at 31 December 2019 and 2018.

## 25. OPERATING LEASES

### 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:

	2018 HK\$'000
Within one year	43

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

### The Group as lessor

The investment properties held for rental purposes have committed lessess for the next year and the minimum lease payments receivable as at 31 December 2019 was amounted to HK\$128,000:

As at 31 December 2018, the Group had contracted with a tenant for future minimum lease payments of HK\$228,000 and due within one year.

There is no contingent rent entered by the Group as lessee nor as lessor.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 26. RETIREMENT BENEFITS SCHEME

The Group participates in the MPF Scheme registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Schemes 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.

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 benefits scheme contributions are disclosed in Notes 8 and 9. According to the respective schemes, those contributions are not refundable nor forfeitable.

## 27. RELATED PARTY TRANSACTIONS

Apart from the balance and advance from a director at 31 December 2019 and 2018 and during the year ended 31 December 2019 and 2018 as disclosed in Note 20, the Group has not entered into other transactions with related companies which are controlled by the directors and controlling shareholders of the Company.

### 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 9.

## 28. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>Financial assets</b>		
At amortised cost*	<b>116,648</b>	111,457
<b>Financial liabilities</b>		
Amortised cost**	<b>32,353</b>	37,060

\* Prepayments and loan to staffs are excluded

\*\* Accrued welfare expenses, valued added tax payable and other tax payables are excluded

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

The Group's major financial instruments include trade and other receivables, restricted bank deposits, bank balances and cash and trade and other payables.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and lease liabilities include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
HK\$	<b>11,039</b>	151
United States dollars ("US\$")	<b>101</b>	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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Currency risk** (Continued)

The Group's sensitivity to a 5% increase in its functional currency against HK\$ will lead to a decrease in profit for the year of HK\$414,000 (2018: decrease in profit for the year of HK\$6,000). For a 5% weakening of its functional currency against HK\$, there would be an equal but opposite impact on the profit for the year. The management considers the Group's exposure for US\$ is not significant and no sensitivity analysis on US\$ is presented.

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 rate.

In the management's opinion, the sensitivity analysis 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 is exposed to fair value increase rate risk in relation to fixed-rate lease liabilities (see Note 16 for details). 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 19 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 and impairment assessment**

Credit risk refers to the risk the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk is primarily attributable to Trade-related Receivables, other receivables, restricted bank deposits and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

#### *Trade-related Receivables arising from contracts with customers*

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued or guaranteed by reputable PRC banks and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2019, the Group has concentration of credit risk as 14% and 63% (2018: 33% and 64%) of the aggregated amount of Trade-related 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. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group had concentration of credit risk by geographical location as Trade-related Receivables comprise various debtors which are all located in the PRC during the years ended 31 December 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Credit risk and impairment assessment** (Continued)

##### *Trade-related Receivables arising from contracts with customers (Continued)*

In addition, the Group performs impairment assessment under ECL model on trade related balances individually. Impairment loss reversed on Trade-related Receivables (net) amounted to HK\$38,000 was recognised during the year (2018:Nil). Details of the quantitative disclosures are set out below in this note.

##### *Restricted bank deposits/bank balances*

Credit risk on restricted bank deposits/bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for restricted bank deposits/bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on restricted bank deposits/bank balances is considered to be insignificant.

##### *Other receivables*

For other receivables, the directors of the Company makes periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experiences and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Credit risk and impairment assessment** (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade-related Receivables	Other financial assets/other items
Low risk	The counterparty controlled by a large state-owned enterprise with good credit standing, have very strong solvency and has a low risk of default.	Lifetime ECL – not credit-impaired	12mECL
Watch list	Debtor has strong solvency and may repay after due but usually settle in full.	Lifetime ECL – not credit-impaired	12mECL
Doubtful	Debtor has poor solvency with long aging, and have a high risk of default.	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired and the Group has no realistic prospect of recovery.	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired

The following table provides information about the exposure to credit risk and ECL for Trade-related Receivables:

As at 31 December 2019:

	Average loss rate	Gross carrying amount <i>HK\$'000</i>	Impaired loss allowance <i>HK\$'000</i>
Internal credit rating			
Low risk	0.07%	30,164	20
Watch list	2.68%	6,763	181
Doubtful	12.83%	413	53
Loss	100.00%	2,694	2,694
		<b>40,034</b>	<b>2,948</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

As at 31 December 2018:

	Average loss rate	Gross carrying amount HK\$'000	Impaired loss allowance HK\$'000
Internal credit rating			
Low risk	0.04%	37,414	14
Watch list	5.90%	2,593	153
Doubtful	98.29%	644	633
Loss	100.00%	2,246	2,246
		42,897	3,046

#### 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 and lease 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.

	Weighted average interest rate	Repayable			Undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
		on demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000		
<b>2019</b>						
Trade and other payables	N/A	20,313	10,918	1,122	32,353	32,353
Lease liabilities	2.75%-4.75%	94	283	32	409	400
<b>2018</b>						
Trade and other payables	N/A	32,860	4,200	–	37,060	37,060

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. 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 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 at FVTPL and financial liabilities recognised in the consolidated financial statements approximate their fair values.

No gains or losses are recognised in profit or loss relating to the change in fair value of structured deposit 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.

## 30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities <i>HK\$000</i>	Advance from a director <i>HK\$000</i>	Total <i>HK\$000</i>
At 1 January 2018	–	–	–
Financing cash flow	–	4,200	4,200
At 31 December 2018	–	4,200	4,200
New leases entered	<b>727</b>	–	<b>727</b>
Financing cash flow	<b>(346)</b>	–	<b>(346)</b>
Exchange adjustment	<b>19</b>	–	<b>19</b>
At 31 December 2019	<b>400</b>	<b>4,200</b>	<b>4,600</b>

## 31. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties for two years. On the lease commencement, the Group recognised HK\$727,000 of right-of-use assets and HK\$727,000 lease liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 32. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital		Attributable equity interest of the Group		Principal activities
		2019	2018	2019	2018	
<i>Directly owned subsidiary:</i>						
RENHENG Global	British Virgin Islands ("BVI")	<b>US\$50,000</b>	US\$50,000	<b>100%</b>	100%	Investment holding
RENHENG Future Holdings Limited	BVI	<b>US\$100</b>	N/A	<b>100%</b>	N/A	Investment holding
<i>Indirectly owned subsidiaries:</i>						
RENHENG Tech Limited	HK	<b>HK\$1</b>	HK\$1	<b>100%</b>	100%	Investment holding
RENHENG Future Limited	HK	<b>HK\$100</b>	N/A	<b>100%</b>	N/A	Investment holding
Baoying Renheng*	PRC	<b>RMB73,857,143</b>	RMB73,857,143	<b>100%</b>	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 or at the end of the year.

## 33. EVENT AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group's operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since mid of February 2020 and is already at full capacity as at the date hereof.

The directors of the Company are monitoring the financial impact that the COVID-19 will have on the Group's consolidated financial statements as at the date that these financial statements are authorised for issue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets		
Investment in a subsidiary	<b>378</b>	378
Amount due from a subsidiary (note)	<b>13,764</b>	16,223
	<b>14,142</b>	16,601
Current assets		
Prepayments and deposits	<b>67</b>	94
Amount due from a subsidiary (note)	<b>2,500</b>	1,500
Bank balances and cash	<b>888</b>	619
	<b>3,455</b>	2,213
Current liabilities		
Amount due to a subsidiary	<b>795</b>	364
Other payables	<b>6,278</b>	5,006
	<b>7,073</b>	5,370
Net current liabilities	<b>(3,618)</b>	(3,157)
Net assets	<b>10,524</b>	13,444
Capital and reserves		
Share capital	<b>2,010</b>	2,010
Reserves	<b>8,514</b>	11,434
Total equity	<b>10,524</b>	13,444

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in Company's reserves is set out below:

	Share premium <i>HK\$'000</i> (note a)	Other reserve <i>HK\$'000</i> (note b)	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	41,818	378	(28,889)	13,307
Loss and total comprehensive expense for the year	–	–	(1,873)	(1,873)
At 31 December 2018	41,818	378	(30,762)	11,434
Loss and total comprehensive expense for the year	–	–	<b>(2,920)</b>	<b>(2,920)</b>
At 31 December 2019	<b>41,818</b>	<b>378</b>	<b>(33,682)</b>	<b>8,514</b>

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\$8,136,000 (2018: HK\$11,056,000).
- (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				2019 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	
<b>RESULTS</b>					
Revenue	69,383	40,110	43,671	101,043	<b>71,507</b>
Profit (loss) before taxation	4,960	(13,166)	(943)	16,327	<b>4,379</b>
Taxation	(3,780)	179	(2,287)	(7,104)	<b>(3,676)</b>
Profit (loss) for the year	1,180	(12,987)	(3,230)	9,223	<b>703</b>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<b>HK cents</b>
Earnings (loss) per share (note)					
– Basic	0.15	(1.62)	(0.40)	1.15	<b>0.09</b>

	As at 31 December				2019 HK\$'000
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	
<b>ASSETS AND LIABILITIES</b>					
Total assets	166,928	148,209	169,056	188,299	<b>189,233</b>
Total liabilities	(38,322)	(39,103)	(56,599)	(73,012)	<b>(76,114)</b>
Net assets	128,606	109,106	112,457	115,287	<b>113,119</b>

Note: No diluted earnings and loss per share is presented as there was no potential ordinary share in issue.