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RENHENG ENTERPRISE HOLDINGS LIMITED

仁恒實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3628)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 was HK\$35,618,000, representing a decrease of 13.5% as compared with the corresponding period in 2019;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2020 was HK\$1,302,000 while it was HK\$1,571,000 for the six months ended 30 June 2019; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020.

The board (the “Board”) of directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2020 together with the unaudited comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2020	2019
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	35,618	41,162
Cost of sales		<u>(20,267)</u>	<u>(25,999)</u>
Gross profit		15,351	15,163
Other income and gains	4	1,886	2,806
Selling and distribution costs		(3,503)	(5,886)
Administrative expenses		<u>(10,825)</u>	<u>(8,447)</u>
Profit before taxation	5	2,909	3,636
Taxation	6	<u>(1,607)</u>	<u>(2,065)</u>
Profit for the period		1,302	1,571
Other comprehensive expense for the period:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		<u>(1,927)</u>	<u>(1,750)</u>
Total comprehensive expense for the period		<u>(625)</u>	<u>(179)</u>
Earnings per share	7	HK cents	HK cents
- Basic		<u>0.2</u>	<u>0.2</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		6,487	7,772
Right-of-use assets		2,446	2,700
Investment properties		19,525	19,871
		28,458	30,343
Current assets			
Inventories		46,508	39,549
Trade and other receivables	9	41,556	40,677
Restricted bank deposits		6,350	8,457
Bank balances and cash		71,610	70,207
		166,024	158,890
Current liabilities			
Trade and other payables	10	39,817	35,008
Lease liabilities		216	368
Contract liabilities		34,174	33,063
Tax payable		5,723	5,741
		79,930	74,180
Net current assets		86,094	84,710
Total assets less current liabilities		114,552	115,053
Non-current liabilities			
Deferred tax liabilities		2,057	1,901
Lease liabilities		-	32
		2,057	1,933
		112,495	113,120
Capital and reserves			
Share capital		2,010	2,010
Share premium		41,818	41,818
Reserves		76,945	78,872
Accumulated losses		(8,278)	(9,580)
Total equity		112,495	113,120

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2020 were unaudited but have been reviewed by the audit committee of the Company. The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

1A. SIGNIFICANT EVENT IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group had to suspend its manufacturing activities from January 2020 to mid of February 2020 due to mandatory government quarantine measures in an effort to contain the spread the pandemic. As such, the financial positions and performance of the Group were affected by the delay in completion of contracts with customers.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and a number of amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements.

The application of the Amendments to References to the Conceptual Framework in the HKFRS Standards and the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/ or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers and segment information

	For the six months ended 30 June 2020		
Type of products	Construction contracts of casing and flavouring system HK\$'000 (Unaudited)	Sales of goods HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Construction works	<u>21,637</u>	<u>-</u>	<u>21,637</u>
Sales of goods			
- pneumatic feeding system	-	11,175	11,175
- others	<u>-</u>	<u>2,806</u>	<u>2,806</u>
	<u>-</u>	<u>13,981</u>	<u>13,981</u>
	<u>21,637</u>	<u>13,981</u>	<u>35,618</u>

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

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

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

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Subsidy income (<i>note</i>)	531	983
Rental income from investment properties	79	165
Bank interest income	800	641
Other income	1,410	1,789
Sales of scrap materials, parts and components, net gain	476	941
Gain on disposal of property, plant and equipment, net	-	76
Other gains	476	1,017
	1,886	2,806

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

5. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arriving at after charging:		
Directors' emoluments	900	907
Other staff costs:		
Salaries, bonus and allowances	4,949	5,979
Retirement benefits scheme contributions	196	381
Total staff costs	<u>6,045</u>	<u>7,267</u>
Auditor's remuneration	500	450
Research and development cost recognised as an expense (included in administrative expenses)	2,832	1,893
Depreciation of property, plant and equipment	1,195	956
Depreciation of right-of-use assets	<u>212</u>	<u>190</u>

6. TAXATION

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC Enterprise Income Tax – current period	1,418	1,770
Deferred taxation	<u>189</u>	<u>295</u>
	<u>1,607</u>	<u>2,065</u>

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2020 and 2019 as the Group has no assessable profit arisen in, or was derived from Hong Kong.

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

7. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share	<u>1,302</u>	<u>1,571</u>
Number of shares		
Number of ordinary shares for the purposes of calculating basic earnings per share	<u>804,000,000</u>	<u>804,000,000</u>

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

8. DIVIDEND

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

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade and bills receivables	29,431	28,587
Less: allowance for credit losses	<u>(2,897)</u>	<u>(2,948)</u>
	<u>26,534</u>	<u>25,639</u>
Retention money receivables	11,526	11,447
Prepayments and deposits	1,038	1,345
Other receivables	2,917	2,714
Less: allowance for credit losses	<u>(459)</u>	<u>(468)</u>
	<u>41,556</u>	<u>40,677</u>

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
0 – 90 days	10,135	10,164
91 – 365 days	4,488	8,598
1 – 2 years	8,249	6,877
Over 2 years	<u>3,662</u>	<u>-</u>
	<u>26,534</u>	<u>25,639</u>

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

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

10. TRADE AND OTHER PAYABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade payables	20,901	14,631
Bills payables	<u>5,544</u>	<u>6,652</u>
	<u>26,445</u>	<u>21,283</u>
Amounts due to a director (<i>note</i>)	4,200	4,200
Accrued welfare expense	1,574	1,602
Valued added tax payable	1,281	885
Other payables	6,123	6,870
Other tax payables	<u>194</u>	<u>168</u>
	<u>39,817</u>	<u>35,008</u>

Note: The amounts 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.

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
0 – 90 days	20,278	13,967
91 – 365 days	5,247	6,195
1 – 2 years	736	704
Over 2 years	<u>184</u>	<u>417</u>
	<u>26,445</u>	<u>21,283</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

The economic outlook and operating environment of the PRC have become more challenging in the first half of 2020 as a result of COVID-19 outbreak. The medium-to-long-term economic growth of the PRC has slowed down. The Group responded with calm and poise to the outbreak of the COVID-19 and adopted sound and scientific counter-epidemic measures, such that business operations and production of the Group were resumed quicker than expected. However, the Group's operation was still affected by the external factors like the prohibitions on interprovincial transportation and restrictions of on-site installation which led to the decrease in revenue by 13.5% from HK\$41,162,000 for the six months ended 30 June 2019 to HK\$35,618,000 for the current period under review.

Construction of casing and flavouring systems are still the core business of the Group. Revenue from the construction of casing and flavouring systems continued to outperform other type of products and goods despite its shares in total revenue has been tumbled from 80.7% of the total revenue in prior period to 60.8% of the total revenue in the current period under review. Sales of pneumatic feeding system for the six months ended 30 June 2020 has been escalated to HK\$11,175,000 (six months ended 30 June 2019: HK\$449,000) which mainly resulted from the completion of a contract with contract sum amounted to approximately HK\$9.9 million during the current period. The sales of other goods which mainly include water treatment system, retooling and repair system and other products have plummeted more than 60% from HK\$7,498,000 to HK\$2,806,000 for the current period in comparison with prior period. The Group does not have seasonality of operations and the revenue from construction works and sales of goods depend on the design and complexity of the products and demands from the customers.

Despite the revenue of the Group has decreased by more than 10%, the gross profit margin of the current period was 43.1% (six months ended 30 June 2019: 36.8%) and was mainly contributed by a higher gross profit margin from the pneumatic feeding systems and retooling and repair systems.

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK\$3,503,000 and HK\$10,825,000, respectively for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$5,886,000 and HK\$8,447,000). Due to the suspension or limited services of transportation facilities in certain provinces in the PRC, less marketing initiatives has been placed in the first half year of 2020. Although the outbreak of COVID-19 epidemic has brought certain pressure to bear on the Group's business, the Group has taken a positive view and undertaken more effort on research and development on its new systems and strengthen the safety control measures in the manufacturing plants resulting to an increase in administrative expense for the current period.

Other income and gains of HK\$1,886,000, down from HK\$2,806,000 in the prior period fuelled in part by decrease in subsidy income from government by HK\$452,000 and decline in sales of scrap materials, parts and components of HK\$465,000.

Tax expense of HK\$1,607,000 was incurred for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$2,065,000). Tax expense was resulted from the profit earned by the PRC subsidiary and deferred taxation on the withholding tax on undistributed profit.

The net profit for the six months ended 30 June 2020 was HK\$1,302,000 downed by HK\$269,000 or 17.1% from the corresponding period in 2019. Exchange loss arising on translation of foreign operation amounted to HK\$1,927,000 was resulted from the depreciation of Renminbi to Hong Kong dollars and led to a total comprehensive expense of HK\$625,000 for the six months ended 30 June 2020 while it was HK\$179,000 for the prior period.

FINANCIAL POSITION, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had a stable capital structure with net current assets of HK\$86,094,000 (31 December 2019: HK\$84,710,000). Bank balances and cash of the Group as at 30 June 2020 amounted to HK\$71,610,000 (31 December 2019: HK\$70,207,000), which were mainly denominated in Renminbi and Hong Kong dollars. Other than the amounts due to a director of the Company who is also the ultimate controlling shareholder of the Company amounted to HK\$4,200,000, there were no other borrowings, mortgages or charges as at 30 June 2020 and 31 December 2019.

BUSINESS REVIEW AND PROSPECT

As a result of the outbreak of COVID-19 and the corresponding public health measures taken by the PRC government, the operation of the Group was suspended from January 2020 to mid of February 2020. Being a manufacturer on catalogued special-purpose tobacco machinery products with sales solely from the PRC, the Group's revenue for the first half year of 2020 has been worsen up as expected. Benefiting from operating leverage, we were able to maintain a stable performance as compared to the prior period.

The Group is conducting renegotiation with relevant customers on the delivery time and other terms for construction of the systems and sales of goods to adjust the delivery schedule, so as to minimise the negative economic impact on both parties. On the other hand, the Group works closely with suppliers to speed up the delivery of raw materials in order to ensure the Group's normal production order and meet customer delivery needs. As the economy has gradually recovered, we are actively participating in various contract biddings. The Group has successfully bid a construction contract of casing and flavouring systems with contract sum of around HK\$63 million in July 2020 and together with other contracts entered in the first half of 2020 and the committed backlog on hand, the Group is cautiously optimistic about the future market conditions.

To consolidate its existing business strengths, the Group will drive quality and efficiency enhancement for its existing projects and further optimise its business mix by stepping up with the development of manufacturing of water treatment system and retooling and repaired services (included in the sales of other goods) to increase its weighting in the Group's overall business portfolio.

The Group will persist in leading the way through business innovations and driving sustainable development of various businesses through technological innovation and innovations in business model, in a full effort to foster core corporate competitiveness.

PRE-IPO SHARE OPTION SCHEME

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

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

Up to 30 June 2020, no outstanding options were resulted.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

Up to 30 June 2020, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

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

As at 30 June 2020, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, were as follows:

Long positions

Ordinary shares of HK\$0.0025 each of the Company

Name	Capacity/ Nature of Interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Directors			
Ms. Liu Li <i>(Note)</i>	Interest of controlled corporations	600,000,000	74.6%
Mr. Xu Jiagui	Beneficial interest	800,000	0.1%

Note: Open Venture Global Limited (“Open Venture”) and LinkBest Capital Limited (“LinkBest”), which are both wholly owned by Ms. Liu Li, are interested in 240,000,000 shares and 360,000,000 shares of the Company, respectively.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2020.

SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, 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 <i>(Note)</i>	Beneficial owner	360,000,000	44.8%
Open Venture <i>(Note)</i>	Beneficial owner	240,000,000	29.8%

Note: 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 30 June 2020.

COMPETING INTERESTS

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

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

Pursuant to the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules which sets out the principles of good corporate governance and the code provisions (the "Code Provisions"), the Company has applied all the Code Provisions as set out in the CG Code during the six months ended 30 June 2020, save and except the Code Provision A.2.1 of the CG Code as follows:

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

AUDIT COMMITTEE

The audit committee comprising three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit, Ernest. The rest of the members are Mr. Kong Hing Ki and Mr. Wu Wei. The interim results for the six months ended 30 June 2020 have been reviewed by the audit committee in accordance with the Listing Rules. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 21 August 2020

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