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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)

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **HIGHLIGHTS**

- Revenue for the year ended 31 December 2020 amounted to HK\$76,279,000, representing a year-on-year increase of 6.7%;
- Gross profit for the year ended 31 December 2020 was 39.1% (2019: 46.7%);
- Loss attributable to shareholders of the Company for the year ended 31 December 2020 was HK\$783,000 (2019: profit for the year of HK\$703,000);
- Total comprehensive income for the year ended 31 December 2020 was HK\$6,337,000 (2019: total comprehensive expense of HK\$2,168,000); and
- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020.

The board (the “Board”) of directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 together with the comparative figures for the year 2019 as follows:

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

*For the year ended 31 December*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
<b>Revenue</b>	4	<b>76,279</b>	71,507
Cost of sales		<u>(46,437)</u>	<u>(38,104)</u>
<b>Gross profit</b>		<b>29,842</b>	33,403
Other income and gains	5	<b>4,705</b>	6,117
Impairment losses under expected credit loss model, net of reversal		<b>(1,469)</b>	38
Other losses	6	<b>(318)</b>	(2,345)
Selling and distribution costs		<b>(10,328)</b>	(11,663)
Administrative expenses		<b>(16,067)</b>	(17,948)
Research and development costs		<u>(3,874)</u>	<u>(3,223)</u>
<b>Profit before taxation</b>		<b>2,491</b>	4,379
Taxation	7	<u>(3,274)</u>	<u>(3,676)</u>
<b>(Loss) profit for the year</b>		<b>(783)</b>	703
<b>Other comprehensive income (expense) for the year:</b>			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation from functional currency to presentation currency		<u>7,120</u>	<u>(2,871)</u>
Total comprehensive income (expense) for the year		<u><b>6,337</b></u>	<u>(2,168)</u>
<b>(Loss) earnings per share</b>	8	<b>HK cents</b>	HK cents
- Basic		<u>(0.10)</u>	<u>0.09</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		8,371	7,772
Investment properties		20,913	19,871
Right-of-use assets		<u>2,421</u>	<u>2,700</u>
		<u>31,705</u>	<u>30,343</u>
<b>Current assets</b>			
Inventories		48,311	39,549
Trade and other receivables	10	31,450	40,677
Restricted bank deposits		10,043	8,457
Bank balances and cash		<u>97,418</u>	<u>70,207</u>
		<u>187,222</u>	<u>158,890</u>
<b>Current liabilities</b>			
Trade and other payables	11	44,146	35,008
Lease liabilities		34	368
Contract liabilities	12	48,955	33,064
Tax payable		<u>4,683</u>	<u>5,741</u>
		<u>97,818</u>	<u>74,181</u>
<b>Net current assets</b>		<u>89,404</u>	<u>84,709</u>
<b>Total assets less current liabilities</b>		<u>121,109</u>	<u>115,052</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		1,653	1,901
Lease liabilities		<u>-</u>	<u>32</u>
		<u>1,653</u>	<u>1,933</u>
		<u>119,456</u>	<u>113,119</u>
<b>Capital and reserves</b>			
Share capital		2,010	2,010
Share premium		41,818	41,818
Reserves		86,444	78,871
Accumulated losses		<u>(10,816)</u>	<u>(9,580)</u>
<b>Total equity</b>		<u>119,456</u>	<u>113,119</u>

## NOTES TO ANNUAL RESULTS

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares were 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 the “Group”) are principally engaged in the manufacture and sale of tobacco machinery products in the People’s Republic of China (the “PRC”). The address of the registered office of the Company is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The address of the principal place of business of the Company is Room 3805, 38/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is different from the the Company’s functional currency of Renminbi (“RMB”). The directors of the Company adopted HK\$ as presentation currency as the Company’s shares are listed on the Stock Exchange and the management considers this presentation to be more useful for its current and potential investors.

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

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the presentation of the consolidated financial statements.

The application of these amendments to HKFRSs 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 the disclosures set out in these consolidated financial statements.

### 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.

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.

#### 4. REVENUE AND SEGMENT INFORMATION

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

	2020		
	Construction contracts of casing and flavouring system HK\$'000	Sales of goods HK\$'000	Total HK\$'000
<b>Type of products</b>			
Construction works	54,390	-	54,390
	<u>54,390</u>	<u>-</u>	<u>54,390</u>
Sales of goods			
- pneumatic feeding system	-	17,597	17,597
- water treatment system	-	431	431
- other products	-	3,861	3,861
	<u>-</u>	<u>21,889</u>	<u>21,889</u>
	<u>54,390</u>	<u>21,889</u>	<u>76,279</u>
	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
	<u>62,139</u>	<u>-</u>	<u>62,139</u>
Sales of goods			
- pneumatic feeding system	-	806	806
- water treatment system	-	2,329	2,329
- other products	-	6,233	6,233
	<u>-</u>	<u>9,368</u>	<u>9,368</u>
	<u>62,139</u>	<u>9,368</u>	<u>71,507</u>

#### 4. REVENUE AND SEGMENT INFORMATION (Continued)

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

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.

(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.

#### 4. REVENUE AND SEGMENT INFORMATION (Continued)

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.

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 substantially all located in the PRC (excluding Hong Kong).

#### 5. OTHER INCOME AND GAINS

	2020 HK\$'000	2019 HK\$'000
Subsidy income (note)	554	989
Rental income from investment properties	161	257
Bank interest income	<u>1,525</u>	<u>1,327</u>
Other income	<u>2,240</u>	<u>2,573</u>
Sales of scrap materials, parts and components, net gain	2,153	3,038
Exchange gain	312	-
Gain on fair value change of investment properties, unrealised	-	454
Gain on disposal of property, plant and equipment, net	<u>-</u>	<u>52</u>
Other gains	<u>2,465</u>	<u>3,544</u>
	<u>4,705</u>	<u>6,117</u>

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.

## 6. OTHER LOSSES

	2020 HK\$'000	2019 HK\$'000
Loss on fair value change of investment properties, unrealised	225	-
Impairment loss recognised on prepayments and deposits	90	70
Loss on written off of property, plant and equipment, net	3	-
Allowance for inventories	-	2,275
	<u>318</u>	<u>2,345</u>

## 7. TAXATION

	2020 HK\$'000	2019 HK\$'000
The charge comprises:		
Current Tax		
PRC Enterprise Income Tax	3,625	4,097
PRC withholding tax	(416)	(710)
	<u>3,209</u>	<u>3,387</u>
Deferred taxation	65	289
	<u>3,274</u>	<u>3,676</u>

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 the PRC subsidiary is 25% for both years.



## 8. (LOSS) EARNINGS PER SHARE

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

	2020 HK\$'000	2019 HK\$'000
<b>(Loss) profit</b>		
(Loss) profit for the year attributable to owners of the Company for the purposes of basic (loss) earnings per share	<u>(783)</u>	<u>703</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of calculating basic (loss) earnings per share	<u>804,000,000</u>	<u>804,000,000</u>

No diluted (loss) earnings per share is presented for the years ended 31 December 2020 and 2019 as there was no potential ordinary share in issue for both years.

## 9. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during the year ended 31 December 2020 (2019: Nil), nor was any dividend been proposed by the Company since the end of the reporting period.

## 10. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade and bills receivables	16,326	28,587
Less: allowance for credit losses	<u>(3,677)</u>	<u>(2,948)</u>
	<u>12,649</u>	<u>25,639</u>
Retention money receivables	12,633	11,447
Less: allowance for credit losses	<u>(1,014)</u>	<u>-</u>
	<u>11,619</u>	<u>11,447</u>
	<u>24,268</u>	<u>37,086</u>
Prepayments and deposits	1,198	1,345
Other receivables from third parties	3,753	1,365
Less: allowance for credit losses	(498)	(468)
Value-added tax recoverable	1,535	-
Cash advance to staff	<u>1,194</u>	<u>1,349</u>
	<u>31,450</u>	<u>40,677</u>

The Group normally allows a credit period of three months to its trade customers. All bills received by the Group are with a maturity period of less than one year. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

## 10. TRADE AND OTHER RECEIVABLES (Continued)

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.

	2020 HK\$'000	2019 HK\$'000
0 – 90 days	3,482	10,164
91 – 365 days	4,178	8,598
1 – 2 years	4,989	6,877
	<u>12,649</u>	<u>25,639</u>

As at 31 December 2020, included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of HK\$9,167,000 (2019: HK\$15,475,000) 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 experiences. The Group does not hold any collateral over these balances.

## 11. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	20,541	14,631
Bills payables	9,169	6,652
	<u>29,710</u>	<u>21,283</u>
Amount due to a director (note)	4,200	4,200
Accrued warranty provision	2,849	2,454
Accrued welfare expenses	1,705	1,602
Valued added tax payables	-	885
Other payables	5,379	4,416
Other tax payables	303	168
	<u>44,146</u>	<u>35,008</u>

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.

## 11. 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>2020</b> <b>HK\$'000</b>	2019 HK\$'000
0 – 90 days	<b>22,550</b>	13,967
91 – 365 days	<b>5,959</b>	6,195
1 – 2 years	<b>811</b>	704
Over 2 years	<b>390</b>	417
	<b>29,710</b>	21,283

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

## 12. CONTRACT LIABILITIES

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Construction contracts of casing and flavouring system	<b>40,049</b>	26,541
Sales of goods	<b>8,906</b>	6,523
	<b>48,955</b>	33,064

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.

## 13. EVENT AFTER THE REPORTING PERIOD

The directors of the Company are not aware of any other significant events that have taken place subsequent to 31 December 2020 and up to the date of approval of this report.

## 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 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 2020, the Group recorded a loss for the year of HK\$783,000 while it was a profit for the year of HK\$703,000 for the year ended 31 December 2019, the results were down modestly by HK\$1,486,000. In the current year, benefiting by the appreciation of RMB against HK\$, an exchange gain of HK\$7,120,000 was arose on translation from function currency to presentation currency and a total comprehensive income of HK\$6,337,000 was resulted for the current year (2019: exchange loss of HK\$2,871,000 and total comprehensive expense of HK\$2,168,000).

Revenue for the year ended 31 December 2020 amounted to HK\$76,279,000, representing a year-on-year increase of approximately 6.7% from HK\$71,507,000 for the year ended 31 December 2019.

Revenue from construction contracts of casing and flavouring systems continued to have outperformed other type of products and goods, of which it contributed HK\$54,390,000 or 71.3% of the total revenue in the current year (2019: HK\$62,139,000 or 86.9%). Sales of pneumatic feeding system escalated from HK\$806,000 in the year ended 31 December 2019 to HK\$17,597,000 in the current year. The intensity increase in sales of pneumatic feeding system was mainly resulted from the completion of a transaction with contract sum of over HK\$10 million during the current year. As a result, the weighting of sales in pneumatic feeding system shared 23.1% of the Group's overall business portfolio in total revenue in the current year (2019: 1.1%). The sales of other goods which mainly include water treatment systems and retooling and repair services have dropped from HK\$8,562,000 in the year ended 31 December 2019 to HK\$4,292,000 for the current year.

The gross profit margin for the current year was down by 7.6% after the gross profit margin in prior year was in its highest peak in the past 4 years. The gross profit margin was 39.1% for the current year which it was held steady in comparison with the average gross profit margin for the prior 4 years (i.e. 38.3%). In prior year, the average gross profit margin from the 3 largest construction contracts on casing and flavouring systems was 46.2% while it was only 32.6% for the current year. As the share of total revenue from the construction contracts of casing and flavouring systems had a heavier weighting in the Group's overall business portfolio in the year ended 31 December 2019, higher overall gross profit margin was resulted for the year 2019.

The number of construction contracts on casing and flavouring systems completed was fairly stable with prior year and the average contract sum was HK\$2,365,000 for the current year while it was HK\$2,263,000 for the year ended 31 December 2019. The revenue from the 3 largest construction contracts on casing and flavouring systems completed during the current year was HK\$39,022,000 while it was HK\$31,898,000 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 higher.

Other income and gains was down by HK\$1,412,000 or 23.1% and amounted to HK\$4,705,000 (2019: HK\$6,117,000) in aggregate for the current year. During the current year, government grants of HK\$554,000 were received while HK\$989,000 subsidy income was received in prior year. The sales of scrap materials, parts and components tumbled 29.1% from HK\$3,038,000 for the year 2019 to HK\$2,153,000 in the current year. In addition, there was a gain on fair value change of investment properties (unrealised) amounted to HK\$454,000 in the year ended 31 December 2019 while it was a loss on fair value change of investment properties (unrealised) amounted to HK\$225,000 (included in the other losses) in the current year.

Impairment loss on trade-related receivables under expected credit loss model (net of reversal) amounted to HK\$1,469,000 had been recognised during the year ended 31 December 2020 while it was a reversal of impairment loss of HK\$38,000 in prior year.

Allowance for inventories amounted to HK\$2,275,000 had been recognised in other losses during the year ended 31 December 2019 while HK\$340,000 allowance loss was made in the current year (included in cost of sales).

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK\$26,395,000 for the current year (2019:HK\$29,611,000), representing a decrease of HK\$3,216,000 or 10.9%. Due to the suspension or limited services of transportation facilities in certain provinces in the PRC in the earlier of the year 2020, less marketing initiatives had been placed in the current year. Although the outbreak of COVID-19 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 research and development cost and safety control by HK\$651,000 and HK\$929,000, respectively. Besides, a decrement in retirement benefits scheme contributions amounted to HK\$1,118,000 was recorded during the year ended 31 December 2020 as waiver was obtained from the local government as relief measures suffered from COVID-19.

For the year ended 31 December 2020, tax expense of HK\$3,274,000 was recorded and it was HK\$3,676,000 for the prior year. The tax expense was resulted from 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 2020 (2019: 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.

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 had suspended from January 2020 to mid of February 2020. Being a manufacturer on catalogued special-purpose tobacco machinery products solely from the PRC, the Group's revenue for the first half year of 2020 has been worsen up. While the performance improved in the second half of the year, the contributions of the related business were inevitably lower compared with last year in terms of the gross profit margin. Nevertheless, benefiting from operating leverage, we were able to maintain a fairly stable performance as compared to the prior year.

Revenue and gross profit margin have 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\$71,987,000 or 94.4% of total revenue for the current year (2019: HK\$62,945,000 or 88.0% of total revenue).

As at year end of 2020, 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 2021. 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 2020, the Group had over RMB80 million committed sales contracts and expected to finish in the coming two years. We are actively participating in various contract biddings and together with the committed backlog on hand, the Group is cautiously optimistic about the future market conditions. The Group will continue to invest in innovative products with competitive differentiation advantages and good market potential based on the actual needs of the market to ensure the Group's sustainable growth.

The strategy on focusing quality control and cost effective measure has been reinforced during the 2021 National Tobacco Work Conference (2021 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. Strategy on improving the technology enhancement and manufacture production supply chain has been highlighted. Meanwhile, keen competition among the cigarette manufacturers and tobacco redrying factories are expected. The market participants are expected to increase its productions and allocate more resources on innovation of new tobacco products.

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. Although the use of heat-not-burn tobacco products in China are sharing a narrow portion in terms of the percentage of smokes in China, with the development of heat-not-burn tobacco products on a global scale, this industry possesses great potential and will eventually become standardized and mature under the governance.

All the workplace hygiene and measures to prevent the spread of COVID-19 in the working environment would be continued. The Group will stay alert and impose appropriate measures to minimise the potential negative impact on the Group's business operation. The Group remains cautiously optimistic in a more stable business environment going forward. Building on our core competitiveness, the Group will proactively explore further merger and acquisition opportunities and/or business collaboration with the best endeavours to improve our operation efficiency and profitability of the businesses.

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

During the year under review, there was no change in the capital structure of the Group and bank balances and cash of the Group as at 31 December 2020 amounted to HK\$97,418,000 (2019: HK\$70,207,000), which were mainly denominated in RMB and HK\$.

As at 31 December 2020, other than an advance of HK\$4,200,000 (2019: 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 (2019: Nil).

As at 31 December 2020, the Group's net current assets was HK\$89,404,000 (2019: HK\$84,709,000). Current ratio and quick ratio of the Group were 1.9 (2019: 2.1) and 1.4 (2019: 1.6), respectively.

## **SIGNIFICANT INVESTMENTS HELD**

The Group's investing activities mainly include placement and withdrawal of short term fixed deposits and purchase of property, plant and equipment.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2020, the Group had a total of 141 employees (2019: 133). Total staff costs (including directors' emoluments) were approximately HK\$15,533,000 for the year ended 31 December 2020 (2019: HK\$16,764,000).

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.

## **MATERIAL ACQUISITION AND DISPOSAL**

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2020.

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

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 23 June 2021 to 25 June 2021, 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 p.m. on 22 June 2021.

## **CORPORATE GOVERNANCE**

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 2020, save and except the Code Provisions A.2.1 regarding segregation of chairman and chief executive as explained below.

The roles of chairman and chief executive of the Company are both 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.

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 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 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 2020.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

## **REVIEW OF ANNUAL RESULTS**

The audited consolidated results for the year ended 31 December 2020 have been reviewed by the audit committee of the Company. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.



## **PUBLICATION OF THE AUDITED ANNUAL RESULTS AND ANNUAL REPORT**

The annual results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.renhengenterprise.com>). The annual report for the year ended 31 December 2020 will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 25 March 2021

*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.*