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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 2021

HIGHLIGHTS

- Revenue for the six months ended 30 June 2021 was HK\$34,373,000, representing a slight decrease of 3.5% as compared with the corresponding period in 2020;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2021 was HK\$1,680,000 while it was HK\$1,302,000 for the six months ended 30 June 2020; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021.

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 2021 together with the unaudited comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	For the six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	34,373	35,618
Cost of sales		<u>(22,354)</u>	<u>(20,267)</u>
Gross profit		12,019	15,351
Other income and gains	4	2,269	1,886
Selling and distribution costs		(3,615)	(3,503)
Administrative expenses		(8,594)	(7,993)
Research and development costs		<u>(1,017)</u>	<u>(2,832)</u>
Profit before taxation	5	1,062	2,909
Taxation	6	<u>618</u>	<u>(1,607)</u>
Profit for the period		1,680	1,302
Other comprehensive income (expense) for the period:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		<u>3,188</u>	<u>(1,927)</u>
Total comprehensive income (expense) for the period		<u>4,868</u>	<u>(625)</u>
Earnings per share	7	HK cents	HK cents
- Basic		<u>0.2</u>	<u>0.2</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		8,099	8,371
Investment properties		21,164	20,913
Right-of-use assets		2,860	2,421
		32,123	31,705
Current assets			
Inventories		57,340	48,311
Trade and other receivables	9	47,255	31,450
Restricted bank deposits		7,675	10,043
Bank balances and cash		76,921	97,418
		189,191	187,222
Current liabilities			
Trade and other payables	10	42,139	44,146
Lease liabilities		362	34
Contract liabilities		50,151	48,955
Tax payable		2,829	4,683
		95,481	97,818
Net current assets		93,710	89,404
Total assets less current liabilities		125,833	121,109
Non-current liabilities			
Deferred tax liabilities		1,378	1,653
Lease liabilities		131	-
		1,509	1,653
		124,324	119,456
Capital and reserves			
Share capital		2,010	2,010
Share premium		41,818	41,818
Reserves		89,632	86,444
Accumulated losses		(9,136)	(10,816)
Total equity		124,324	119,456

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2021 were unaudited but have been reviewed by the audit committee of the Company. The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than 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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied 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 2021 for the preparation of the Group’s condensed consolidated financial statements.

The application of 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 2021		
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>22,133</u>	<u>-</u>	<u>22,133</u>
Sales of goods			
- pneumatic feeding system	-	442	442
- pre-pressing packing machine	-	10,582	10,582
- others	<u>-</u>	<u>1,216</u>	<u>1,216</u>
	<u>-</u>	<u>12,240</u>	<u>12,240</u>
	<u>22,133</u>	<u>12,240</u>	<u>34,373</u>

	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>

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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Subsidy income (<i>note</i>)	693	531
Rental income from investment properties	108	79
Bank interest income	681	800
Other income	1,482	1,410
Sales of scrap materials, parts and components, net gain	451	476
Exchange gain	336	-
Other gains	787	476
	<u>2,269</u>	<u>1,886</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.

5. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arriving at after charging:		
Directors' emoluments	913	900
Other staff costs:		
Salaries, bonus and allowances	5,383	4,949
Retirement benefits scheme contributions	266	196
Total staff costs	6,562	6,045
Auditor's remuneration	525	500
Research and development cost recognised as an expense	1,017	2,832
Depreciation of property, plant and equipment	740	1,195
Depreciation of right-of-use assets	236	212

6. TAXATION

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The (credit) charge comprises:		
PRC Enterprise Income Tax ("EIT") – current period	(740)	1,418
Deferred taxation	122	189
	(618)	1,607

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2021 and 2020 as the Group has no assessable profit arisen in, or was derived from Hong Kong.

The provision for EIT is based on the estimated taxable income for PRC taxation purposes at 15% for the current period (six months ended 30 June 2020: 25%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation (the "EIT Law").

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. The PRC subsidiary of the Company had been recognised and approved as a HNTE during the period. The HNTE qualification is effective since 2020 and the PRC subsidiary needs to renew its status in 2022, and is therefore entitled to a reduced tax rate at 15% for the three years ended at 31 December 2022. During the period, the local tax bureau has refunded to the PRC subsidiary the additional EIT tax paid based on the 25% of taxable income for the year ended 31 December 2020.

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	
	2021	2020
	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>1,680</u>	<u>1,302</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 dividend was paid or proposed for shareholders of the Company 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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Trade and bills receivables	28,847	16,326
Less: allowance for credit losses	<u>(3,721)</u>	<u>(3,677)</u>
	<u>25,126</u>	<u>12,649</u>
Retention money receivables	9,993	12,633
Less: allowance for credit losses	<u>(1,026)</u>	<u>(1,014)</u>
	<u>8,967</u>	<u>11,619</u>
Prepayments and deposits	5,945	1,198
Other receivables from third parties	4,453	3,753
Less: allowance for credit losses	<u>(504)</u>	<u>(498)</u>
Value-added tax recoverable	2,434	1,535
Cash advance to staff	<u>834</u>	<u>1,194</u>
	<u>47,255</u>	<u>31,450</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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
0 – 90 days	14,434	3,482
91 – 365 days	5,735	4,178
1 – 2 years	<u>4,957</u>	<u>4,989</u>
	<u>25,126</u>	<u>12,649</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 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.

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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

10. TRADE AND OTHER PAYABLES

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Trade payables	21,761	20,541
Bills payables	<u>6,274</u>	<u>9,169</u>
	<u>28,035</u>	<u>29,710</u>
Amounts due to a director (<i>note</i>)	4,200	4,200
Accrued warranty provision	2,801	2,849
Accrued welfare expense	2,547	1,705
Other payables	3,864	5,379
Other tax payables	<u>692</u>	<u>303</u>
	<u>42,139</u>	<u>44,146</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 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
0 – 90 days	23,493	22,550
91 – 365 days	3,797	5,959
1 – 2 years	381	811
Over 2 years	<u>364</u>	<u>390</u>
	<u>28,035</u>	<u>29,710</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

In the first half of 2021, despite the COVID-19 outbreak still remains raging, the global economy recovered from the trough in 2020 and was on the track of continuous development. The Group's revenue was down modestly by 3.5% and was HK\$34,373,000 in total sales for the six months ended 30 June 2021. It had net profit of HK\$1.7 million for the current period under review and was in line with the previous period's performance - HK\$1.3 million.

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 and its share in total revenue has been scaled from 60.8% of the total revenue in prior period to 64.4% of the total revenue in the current period under review. The sales mix other than construction of casing and flavouring systems had a notifiable change during the period under review in comparison with prior period.

Sales of pre-pressing packing machine system for the six months ended 30 June 2021 had escalated to HK\$10,582,000 (six months ended 30 June 2020: Nil) which was resulted from the completion of a contract with contract sum amounted to approximately HK\$10.6 million during the current period. The sales of pneumatic feeding system took a heavy beating with sales decreased by HK\$10,733,000 in the current period under review from HK\$11,175,000 in the prior period. A contract of sales of pneumatic feeding system amounted to approximately HK\$9.9 million was delivered and completed with the installation before the prior period end and led to the significance in sales amount in the prior period.

The sales of other goods which mainly include water treatment system, retooling and repair system and other products had dropped from HK\$2,806,000 to HK\$1,216,000 for the current period in comparison with the prior period.

The Group does not subject to 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. It is inevitable that our sales volume and sales mix are highly dependent on the business needs and budget of cigarette manufacturers and tobacco redrying factories.

Despite the revenue of the Group has dipped by 3.5%, the gross profit margin has been decreased by more than 8% from 43.1% for the six months ended 30 June 2020 to 35.0% for the current period under review. The decrease in gross profit margin was a combined result of lower gross profit margin for construction of casing and flavouring systems and pre-pressing packing machine system in comparison with others together with a lower gross profit margin was set for sales contract with big contract sum.

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK\$3,615,000 and HK\$8,594,000, respectively for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$3,503,000 and HK\$7,993,000). The Group continued to strengthen the safety control measures in the manufacturing plants resulting to an increase in administrative expenses for the current period under review.

Other income and gains of HK\$2,269,000, growth from HK\$1,886,000 in the prior period was dedicated by exchange gain of HK\$336,000 while it was exchange loss for the prior period.

Tax credit of HK\$618,000 was incurred for the six months ended 30 June 2021 (six months ended 30 June 2020: tax expense HK\$1,607,000). During the current period, our PRC subsidiary qualified as the High and New-Tech Enterprise (“HNTE”) and enjoys a reduced tax rate at 15%. The effective qualification periods of HNTE range between the year ended 2020 to 2022. The tax credit for the current period was resulted from the profit earned by the PRC subsidiary and deferred taxation on the withholding tax on undistributed profit netting off with the over-provision of enterprise income tax for the prior period.

Exchange gain arising on translation of foreign operation amounted to HK\$3,188,000 was resulted from the appreciation of Renminbi to Hong Kong dollars and led to a total comprehensive income of HK\$4,868,000 for the six months ended 30 June 2021 while it was a total comprehensive loss of HK\$625,000 for the prior period.

FINANCIAL POSITION, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had a stable capital structure with net current assets of HK\$93,710,000 (31 December 2020: HK\$89,404,000). Bank balances and cash of the Group as at 30 June 2021 amounted to HK\$76,921,000 (31 December 2020: HK\$97,418,000), 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 2021 and 31 December 2020.

BUSINESS REVIEW AND PROSPECT

During the first half of 2021, against the backdrop of the globally volatile COVID-19, China has maintained its stable situation in general despite some volatility in individual local areas. As such, we continued to optimize the sales and marketing strategy based on the individual needs of consumers, striving to enhance customers’ consumption experience and maintaining the long-term and solid cooperative relationship with our customers.

As at the current period end, the Group was working on few large construction contracts of casing and flavouring systems and pre-pressing machine systems which were substantially completed and pending for final inspection yet revenue can only be recognised when the completion certificates are obtained. Going forward, the Company would enhance the planning of production scheduling, make smooth connection between supply and production, accelerate the speed of input and output, and improve the efficiency of capital utilization.

Benefited from the long-term and solid cooperative relationship built with our suppliers, as well as the responsive adjustment made for the supply of raw materials in exact accordance with the customers' needs, the Group was able to provide customers with stable and consistent services and products of quality.

We believe that both challenges and opportunities coexist in the current business environment. The Group will firmly grasp the favourable opportunities to strengthen our unique advantages and better utilise our strong capital structure. Under the changing epidemic condition and the increasingly complex external environment, we will increase business innovation, strengthen corporate resilience, and improve operational quality in order to continue creating value for the shareholders.

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 2021, 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 2021, 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 2021, 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 2021.

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

As at 30 June 2021, 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 2021.

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 2021, 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 2021, 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 2021 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, 20 August 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.