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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 2021**

#### **HIGHLIGHTS**

- Revenue for the year ended 31 December 2021 amounted to HK\$73,731,000, representing a year-on-year decrease of 3.3%;
- Gross profit for the year ended 31 December 2021 was 38.4% (2020: 39.1%);
- Profit attributable to shareholders of the Company for the year ended 31 December 2021 was HK\$721,000 (2020: loss for the year of HK\$783,000);
- Total comprehensive income for the year ended 31 December 2021 was HK\$3,742,000 (2020: HK\$6,337,000); and
- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021.

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 2021 together with the comparative figures for the year 2020 as follows:

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

*For the year ended 31 December*

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b>	2020 HK\$'000
<b>Revenue</b>	4	<b>73,731</b>	76,279
Cost of sales		<u>(45,454)</u>	<u>(46,437)</u>
<b>Gross profit</b>		<b>28,277</b>	29,842
Other income and gains	5	<b>6,001</b>	4,705
Impairment losses under expected credit loss model, net of reversal		<b>(160)</b>	(1,469)
Other losses	6	<b>-</b>	(318)
Selling and distribution costs		<b>(9,212)</b>	(10,328)
Administrative expenses		<b>(17,030)</b>	(16,067)
Research and development costs		<u>(4,508)</u>	<u>(3,874)</u>
<b>Profit before taxation</b>		<b>3,368</b>	2,491
Taxation	7	<u>(2,647)</u>	<u>(3,274)</u>
<b>Profit (loss) for the year</b>		<b>721</b>	(783)
<b>Other comprehensive income 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>3,021</u>	<u>7,120</u>
Total comprehensive income for the year		<u><b>3,742</b></u>	<u>6,337</u>
<b>Earnings (loss) per share</b>	8	<b>HK cents</b>	HK cents
- Basic		<u>0.09</u>	<u>(0.10)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		7,640	8,371
Investment properties		21,893	20,913
Right-of-use assets		<u>2,680</u>	<u>2,421</u>
		<u>32,213</u>	<u>31,705</u>
<b>Current assets</b>			
Inventories		76,282	48,311
Trade and other receivables	10	41,452	31,450
Restricted bank deposits		22,011	10,043
Bank balances and cash		<u>96,040</u>	<u>97,418</u>
		<u>235,785</u>	<u>187,222</u>
<b>Current liabilities</b>			
Trade and other payables	11	54,808	44,146
Lease liabilities		300	34
Contract liabilities	12	80,100	48,955
Tax payable		<u>7,740</u>	<u>4,683</u>
		<u>142,948</u>	<u>97,818</u>
<b>Net current assets</b>		<u>92,837</u>	<u>89,404</u>
<b>Total assets less current liabilities</b>		<u>125,050</u>	<u>121,109</u>
<b>Non-current liability</b>			
Deferred tax liabilities		<u>1,852</u>	1,653
		<u>1,852</u>	<u>1,653</u>
		<u>123,198</u>	<u>119,456</u>
<b>Capital and reserves</b>			
Share capital		2,010	2,010
Share premium		41,818	41,818
Reserves		90,027	86,444
Accumulated losses		<u>(10,657)</u>	<u>(10,816)</u>
<b>Total equity</b>		<u>123,198</u>	<u>119,456</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, Uglund 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 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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the presentation of the consolidated financial statements.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance 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

	2021		
	Construction contracts of casing and flavouring system HK\$'000	Sales of goods HK\$'000	Total HK\$'000
<b>Type of products</b>			
Construction works	<u>37,316</u>	<u>-</u>	<u>37,316</u>
	<u>37,316</u>	<u>-</u>	<u>37,316</u>
Sales of goods			
- pneumatic feeding system	-	14,544	14,544
- pre-pressing packing machine	-	15,398	15,398
- water treatment system	-	692	692
- other products	-	5,781	5,781
	<u>-</u>	<u>36,415</u>	<u>36,415</u>
	<u>37,316</u>	<u>36,415</u>	<u>73,731</u>
<hr/>			
	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	<u>54,390</u>	<u>-</u>	<u>54,390</u>
	<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>

#### 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, pre-pressing packing machine, 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

	2021 HK\$'000	2020 HK\$'000
Subsidy income (note)	901	554
Rental income from investment properties	170	161
Bank interest income	<u>1,666</u>	<u>1,525</u>
Other income	<u>2,737</u>	<u>2,240</u>
Sales of scrap materials, parts and components, net gain	2,393	2,153
Exchange gain	513	312
Gain on fair value change of investment properties, unrealised	356	-
Impairment losses reversed on prepayments and deposits	<u>2</u>	<u>-</u>
Other gains	<u>3,264</u>	<u>2,465</u>
	<u>6,001</u>	<u>4,705</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

	2021 HK\$'000	2020 HK\$'000
Loss on fair value change of investment properties, unrealised	-	225
Impairment loss recognised on prepayments and deposits	-	90
Loss on written off of property, plant and equipment, net	-	3
	<u>-</u>	<u>318</u>

## 7. TAXATION

	2021 HK\$'000	2020 HK\$'000
The charge comprises:		
Current Tax		
PRC Enterprise Income Tax ("EIT")	3,497	3,625
PRC withholding tax	<u>(1,089)</u>	<u>(416)</u>
	2,408	3,209
Overprovision in prior year		
PRC EIT	<u>(997)</u>	-
	1,411	3,209
Deferred taxation	<u>1,236</u>	<u>65</u>
	<u>2,647</u>	<u>3,274</u>

No provision for taxation in Hong Kong has been made 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 25% for the current period (2020: 25%) under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law.

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. A PRC subsidiary of the Company had been recognised and approved as a HNTE during the year ended 31 December 2021. 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 31 December 2022. During the year ended 31 December 2021, 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.



## 8. EARNINGS (LOSS) PER SHARE

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

	2021 HK\$'000	2020 HK\$'000
<b>Profit (loss)</b>		
Profit (loss) for the year attributable to owners of the Company for the purposes of basic earnings (loss) per share	<u>721</u>	<u>(783)</u>
	<b>Number of shares</b>	
	2021	2020
Weighted average number of ordinary shares for the purposes of calculating basic earnings (loss) per share	<u>804,000,000</u>	<u>804,000,000</u>

No diluted earnings (loss) per share is presented for the years ended 31 December 2021 and 2020 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 2021 (2020: Nil), nor was any dividend been proposed by the Company since the end of the reporting period.

## 10. TRADE AND OTHER RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables	15,654	16,326
Less: allowance for credit losses	<u>(4,308)</u>	<u>(3,677)</u>
	<u>11,346</u>	<u>12,649</u>
Retention money receivables	8,678	12,633
Less: allowance for credit losses	<u>(686)</u>	<u>(1,014)</u>
	<u>7,992</u>	<u>11,619</u>
	<u>19,338</u>	<u>24,268</u>
Prepayments and deposits	9,568	1,198
Other receivables from third parties	5,034	3,753
Less: allowance for credit losses	(512)	(498)
Value-added tax recoverable	6,996	1,535
Cash advance to staff	<u>1,028</u>	<u>1,194</u>
	<u>41,452</u>	<u>31,450</u>

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

## 10. TRADE AND OTHER RECEIVABLES (Continued)

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

	2021 HK\$'000	2020 HK\$'000
0 – 90 days	4,047	3,482
91 – 365 days	4,191	4,178
1 – 2 years	3,108	4,989
	<u>11,346</u>	<u>12,649</u>

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$7,299,000 (2020: HK\$9,167,000) 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

	2021 HK\$'000	2020 HK\$'000
Trade payables	23,236	20,541
Bills payables	20,529	9,169
	<u>43,765</u>	<u>29,710</u>
Amount due to a director (note)	-	4,200
Accrued warranty provision	3,289	2,849
Accrued welfare expenses	1,755	1,705
Other payables	5,566	5,379
Other tax payables	433	303
	<u>54,808</u>	<u>44,146</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 was 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:

	2021 HK\$'000	2020 HK\$'000
0 – 90 days	39,563	22,550
91 – 365 days	2,785	5,959
1 – 2 years	912	811
Over 2 years	505	390
	<u>43,765</u>	<u>29,710</u>

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

## 12. CONTRACT LIABILITIES

	2021 HK\$'000	2020 HK\$'000
Construction contracts of casing and flavouring system	70,490	40,049
Sales of goods	9,610	8,906
	<u>80,100</u>	<u>48,955</u>

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 2021 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 2021, the Group's results were improved modestly by HK\$1,504,000 and recorded a profit for the year of HK\$721,000 in compare with the loss for the year of HK\$783,000 for the year ended 31 December 2020. In the current year, benefiting from the appreciation of RMB against HK\$, an exchange gain of HK\$3,021,000 (2020: HK\$7,120,000) was arose on translation from function currency to presentation currency and a total comprehensive income of HK\$3,742,000 was resulted for the current year (2020: HK\$6,337,000).

Revenue for the year ended 31 December 2021 amounted to HK\$73,731,000, representing a year-on-year decrease of approximately 3.3% from HK\$76,279,000 for the year ended 31 December 2020.

Revenue from construction contracts of casing and flavouring systems continued to have outperformed other type of products and goods, of which it contributed HK\$37,316,000 or 50.6% of the total revenue in the current year (2020: HK\$54,390,000 or 71.3%). Sales of pneumatic feeding system was tumbled down by around 17.3% from HK\$17,597,000 in the year ended 31 December 2020 to HK\$14,544,000 in the current year. There was no sales of pre-pressing packing machine in the year ended 31 December 2020 and the sales was escalated drastically to HK\$15,398,000 in the current year. The intensity increase in the sales of pre-pressing packing machine was mainly resulted from the completion of two sales of pre-pressing machine contracts with respective contract sum of around HK\$10 million and HK\$5 million during the current year. As a result, the weighting of sales in pre-pressing packing machine shared 20.9% of the Group's overall business portfolio in total revenue in the current year. The sales of other goods which mainly include water treatment systems and retooling and repair services have risen from HK\$4,292,000 in the year ended 31 December 2020 to HK\$6,473,000 for the current year.

The gross profit margin for the current year was 38.4% and was fairly stable with the gross profit margin in prior year which was 39.1%.

The average contract sum of construction contracts on casing and flavouring systems completed was HK\$2,665,000 for the current year while it was HK\$2,365,000 for the year ended 31 December 2020. The revenue from the 3 largest construction contracts on casing and flavouring systems completed during the current year was HK\$32,441,000 while it was HK\$39,022,000 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 thrived by HK\$1,296,000 or 27.5% and amounted to HK\$6,001,000 in aggregate for the current year (2020: HK\$4,705,000). During the current year, government grants of HK\$901,000 were received while HK\$554,000 subsidy income was received in the prior year. The sales of scrap materials, parts and components constantly contributed most of the other gains and amounted to HK\$2,393,000 for the year 2021 while it was HK\$2,153,000 in the prior year. In addition, there was a gain on fair value change of investment properties (unrealised) amounted to HK\$356,000 in the year ended 31 December 2021 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 year ended 31 December 2020.

Impairment loss on trade-related receivables under expected credit loss model (net of reversal) amounted to HK\$160,000 and HK\$1,469,000 had been recognised during the year ended 31 December 2021 and 2020, respectively.

During the year ended 31 December 2021, in contrary with the year 2020, no other losses had been recognised as it was a gain on fair value change of investment properties (unrealised) and an impairment losses reversed on prepayments and deposits (included in other gains).

Allowance for inventories (included in cost of sales) amounted to HK\$1,501,000 had been recognised during the year ended 31 December 2021 while HK\$340,000 allowance loss was made in the prior year. The identification of obsolete inventories required the use of judgement and estimates on the conditions and usefulness of the inventories.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK\$26,242,000 for the current year (2020:HK\$26,395,000), representing a slight decrease of HK\$153,000 or 0.6%. Impacting by the COVID-19, less marketing initiatives had been placed in the current year and led to a decrease in selling and distribution costs by HK\$1,116,000 or 10.8% in compare with the prior year. The Group has continued to take a positive view and undertaken more effort in strengthening the safety control measures in the manufacturing plants resulting to an increase in safety control expense by HK\$266,000. Besides, an increment in retirement benefits scheme contributions amounted to HK\$1,384,000 was recorded during the year ended 31 December 2021 as no waiver was obtained from the local government as relief measures suffered from COVID-19 and the amount of benefits scheme contributions in the current year was restored back to the level before the waiver was granted.

For the year ended 31 December 2021, tax expense of HK\$2,647,000 was recorded and it was HK\$3,274,000 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. Under the Enterprise Income Tax, 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 year ended 31 December 2021. 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 31 December 2022. During the year ended 31 December 2021, the local tax bureau has refunded to the PRC subsidiary the additional tax paid based on 25% of taxable income for the year ended 31 December 2020. Therefore, an overprovision of tax of HK\$997,000 was recorded for the current year and netting off with the increase on the PRC withholding tax provided based on 10% on the undistributed profit for the PRC subsidiary (2020: 5%) resulting an overall decrease in tax expense for the current year.

The Directors do not recommend the payment of dividend for the year ended 31 December 2021 (2020: Nil).

## **BUSINESS REVIEW AND PROSPECT**

During the year of 2021, against the backdrop of the globally volatile COVID-19, China had 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.

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.

Being a manufacturer on catalogued special-purpose tobacco machinery products solely from the PRC, we rely heavily on our suppliers to supply raw materials in exact accordance with the customers' needs. It was our mission to provide customers with stable and consistent services and products of quality yet we were also under difficult dilemma to maintain our gross profit margin given that the purchase cost of the raw materials and manpower cost had been increased over the years. Benefiting from operating leverage, we were able to maintain a fairly stable performance as compared to the prior year. However, we forecasted that cost of sales will be our main hurdle on the performance in the coming years.

Revenue for the year ended 31 December 2021 amounted to HK\$73,731,000, representing a year-on-year decrease of approximately 3.3% and the sales mix for the current year was inconsistent with the prior year with revenue from construction contracts of casing and flavouring systems shared 50.6% of the total sales while its share was over 70% for the prior year. The different sales mix was resulted from the increase in sales of pre-pressing packing machine and the dominant sales in pneumatic feeding system in this year.

As at year end of 2021, 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 2022. 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 2021, the Group had over RMB92 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 was the key focus of the cigarette manufacturers and tobacco redrying factories. Keen competition among the cigarette manufacturers and tobacco redrying factories are expected. Therefore, instead of allocating budgets to build new factories and plants, the market participants would prefer upgrading the existing factories and manufacturing chains. Strategy on improving the technology enhancement and providing retooling and enhancement service will be one of our highlighted focus.

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. 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 2021 amounted to HK\$96,040,000 (2020: HK\$97,418,000), which were mainly denominated in RMB and HK\$.

During the year ended 31 December 2021, the Group had repaid the advance of 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 as at 31 December 2021 (2020: Nil).

As at 31 December 2021, the Group's net current assets was HK\$92,837,000 (2020: HK\$89,404,000). Current ratio and quick ratio of the Group were 1.6 (2020: 1.9) and 1.1 (2020: 1.4), 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 2021, the Group had a total of 140 employees (2020: 141). Total staff costs (including directors' emoluments) were approximately HK\$18,488,000 for the year ended 31 December 2021 (2020: HK\$15,533,000).

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 2021.

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

During the year ended 31 December 2021, 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 21 June 2022 to 23 June 2022, 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 20 June 2022.

## **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 2021, 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 2021.

## **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 2021 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 audited consolidated financial statements of the Group for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## **REVIEW OF ANNUAL RESULTS**

The audited consolidated results for the year ended 31 December 2021 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 2021 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 2022

*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.*