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 2022

HIGHLIGHTS

- Revenue for the year ended 31 December 2022 amounted to HK$69,083,000, representing a year-on-year decrease of 6.3%;
- Gross profit for the year ended 31 December 2022 was 37.0% (2021: 38.4%);
- Loss attributable to shareholders of the Company for the year ended 31 December 2022 was HK$2,363,000 (2021: profit for the year of HK$721,000);
- Total comprehensive expense for the year ended 31 December 2022 was HK$11,877,000 (2021: total comprehensive income of HK$3,742,000); and
- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022.

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 2022 together with the comparative figures for the year 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Revenue	4	**69,083**	73,731
Cost of sales		**(43,516)**	(45,454)
Gross profit		**25,567**	28,277
Other income	5	**1,858**	2,737
Impairment losses under expected credit loss model, net of reversal	6	**42**	(160)
Other gains and losses	7	**721**	3,264
Selling and distribution expenses		**(7,797)**	(9,212)
Administrative expenses		**(16,655)**	(17,030)
Research and development expenses		**(4,324)**	(4,508)
(Loss) profit before taxation		**(588)**	3,368
Taxation	8	**(1,775)**	(2,647)
(Loss) profit for the year		**(2,363)**	721
Other comprehensive income for the year:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation from functional currency to presentation currency		**(9,514)**	3,021
Total comprehensive (expense) income for the year		**(11,877)**	3,742
		HK cents	*HK cents*
(Loss) earnings per share	9		
– Basic		**(0.29)**	0.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment		**22,967**	7,640
Investment properties		**–**	21,893
Right-of-use assets		**5,115**	2,680
		28,082	32,213
Current assets			
Inventories		**97,097**	76,282
Trade and other receivables	11	**30,987**	41,452
Restricted bank deposits		**5,087**	22,011
Cash and cash equivalents		**97,195**	96,040
		230,366	235,785
Current liabilities			
Trade and other payables	12	**47,590**	54,808
Lease liabilities		**–**	300
Contract liabilities	13	**90,153**	80,100
Tax payable		**6,995**	7,740
		144,738	142,948
Net current assets		**85,628**	92,837
Total assets less current liabilities		**113,710**	125,050
Non-current liability			
Deferred tax liabilities		**2,389**	1,852
		2,389	1,852
		111,321	123,198
Capital and reserves			
Share capital		**2,010**	2,010
Share premium		**41,818**	41,818
Reserves		**80,761**	90,027
Accumulated losses		**(13,268)**	(10,657)
Total equity		**111,321**	123,198

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, Ugland 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")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

Except as described below, 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 on the disclosures set out in these consolidated financial statements.

2.1 Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021* retrospectively for the first time in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 *Leases* ("HKFRS 16") by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application of this amendment has had no material impact on the Group's financial positions and performance for the current and prior years.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If any entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's 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

	2022		
	Construction contracts of casing and flavouring system *HK$'000*	**Sales of other products** *HK$'000*	**Total** *HK$'000*
Type of products			
Construction works	**55,551**	**–**	**55,551**
	55,551	**–**	**55,551**
Sales of other products			
– pneumatic feeding system	**–**	**9,932**	**9,932**
– water treatment system	**–**	**709**	**709**
– other goods	**–**	**2,891**	**2,891**
	–	**13,532**	**13,532**
	55,551	**13,532**	**69,083**

	2021		
	Construction contracts of casing and flavouring system *HK$'000*	Sales of other products *HK$'000*	Total *HK$'000*
Type of products			
Construction works	37,316	–	37,316
	37,316	–	37,316
Sales of other products			
– pneumatic feeding system	–	14,544	14,544
– pre-pressing packing machine	–	15,398	15,398
– water treatment system	–	692	692
– other goods	–	5,781	5,781
	–	36,415	36,415
	37,316	36,415	73,731

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 other products 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 three 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 other products

The Group sells pneumatic feeding system, pre-pressing packing machine, water treatment system and other goods directly to the customers which are cigarette manufacturers and tobacco redrying factories in the PRC. For the sales of other products 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.

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 goods. 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

	2022	2021
	HK$'000	*HK$'000*
Subsidy income *(note a)*	**628**	901
Rental income from investment properties *(note b)*	**–**	170
Bank interest income	**1,230**	1,666
	1,858	2,737

Notes:

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

b. During the year ended 31 December 2022 and 2021, no direct operating expenses incurred for the investment properties that generated rental income and there is no variable lease payment arrangement under the lease contract.

6. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2022	2021
	HK$'000	*HK$'000*
Impairment losses recognised on Trade related Receivables	**(42)**	160
	(42)	160

7. OTHER GAINS AND LOSSES

	2022	2021
	HK$'000	*HK$'000*
Sales of scrap materials, parts and components, net gain	**1,960**	2,393
Net foreign exchange (losses)/gains	**(1,123)**	513
(Loss)/gain on fair value change of investment properties, unrealised	**(116)**	356
Impairment losses reversed on prepayments and deposits	**–**	2
	721	3,264

8. TAXATION

	2022	2021
	HK$'000	*HK$'000*
The charge comprises:		
Current Tax		
PRC Enterprise Income Tax ("EIT")	**1,052**	3,497
PRC withholding tax	**–**	(1,089)
	1,052	2,408
Overprovision in prior year		
PRC EIT	**–**	(997)
	1,052	1,411
Deferred taxation	**723**	1,236
	1,775	2,647

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 (2021: 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 2023, and is therefore entitled to a reduced tax rate at 15% for the years ended 31 December 2022 and 2021.

9. (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:

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit		
(Loss) profit for the year attributable to owners of the Company for the purposes of basic (loss) earnings per share	**(2,363)**	721

	Number of shares	
	2022	2021
Weighted average number of ordinary shares for the purposes of calculating basic (loss) earnings per share	**804,000,000**	804,000,000

No diluted (loss) earnings per share is presented for the years ended 31 December both 2022 and 2021 as there was no potential ordinary share in issue for both years.

10. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during 2022 (2021: Nil), nor was any dividend been proposed by the Company since the end of the reporting period.

11. TRADE AND OTHER RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**13,075**	15,654
Less: allowance for credit losses	**(3,862)**	(4,308)
	9,213	11,346
Retention money receivables	**8,475**	8,678
Less: allowance for credit losses	**(668)**	(686)
	7,807	7,992
	17,020	19,338
Prepayments and deposits	**1,598**	9,568
Other receivables from third parties	**3,777**	5,034
Less: allowance for credit losses	**(470)**	(512)
Value-added tax recoverable	**8,242**	6,996
Cash advance to staff	**820**	1,028
	30,987	41,452

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

The 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.

	2022	2021
	HK$'000	*HK$'000*
0–90 days	**6,542**	4,047
91–365 days	**959**	4,191
1–2 years	**1,712**	3,108
	9,213	11,346

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$2,671,000 (2021: HK$7,299,000) which are past due as at the reporting date. The past due balances are not considered as in default as the Group considered such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

12. TRADE AND OTHER PAYABLES

	2022	2021
	HK$'000	*HK$'000*
Trade payables	**31,297**	23,236
Bills payables	**5,086**	20,529
	36,383	43,765
Accrued warranty provision	**3,273**	3,289
Accrued welfare expenses	**1,607**	1,755
Other payables	**5,840**	5,566
Other tax payables	**487**	433
	47,590	54,808

Note: The balance of accrued warranty provision represents management's best estimate of the Group's liability under the relevant contracts with customers for the construction contracts of casing and flavouring system and sales of other products, based on prior experience and industry averages for defective products at the end of each reporting period.

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

	2022 *HK$'000*	2021 *HK$'000*
0–90 days	**23,561**	39,563
91–365 days	**11,127**	2,785
1–2 years	**1,421**	912
Over 2 years	**274**	505
	36,383	43,765

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

13. CONTRACT LIABILITIES

	2022 *HK$'000*	2021 *HK$'000*
Construction contracts of casing and flavouring system	**68,304**	70,490
Sales of other products	**21,849**	9,610
	90,153	80,100

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.

14. 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 2022 and up to the date of approval of this announcement.

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 2022, the Group recorded a loss of HK$2,363,000 while it was a profit of HK$721,000 for the year ended 31 December 2021. In the current year, affecting by (i) the depreciation of RMB against HK$; (ii) the decrease in other gains from the sale of scrap materials, parts and components from HK$2,393,000 for the year ended 31 December 2021 to HK$1,960,000 for the current year; (iii) the decrease in other income by HK$879,000 resulted from the decrease in bank interest income and subsidy income; and (iv) the down in revenue was due to the postponement of deliveries or installations of the other products from the impacts of COVID-19, representing a year-on-year decrease in revenue of approximately 6.3% in comparison to the prior year.

Revenue from construction contracts of casing and flavouring systems continued to have outperformed other type of products and goods, of which it contributed HK$55,551,000 or 80.4% of the total revenue in the current year (2021: HK$37,316,000 or 50.6%). Sales of pneumatic feeding system was tumbled down by around 31.7% from HK$14,544,000 for the year ended 31 December 2021 to HK$9,932,000 in the current year. There was no sales of pre-pressing packing machine in the current year in comparison with the pre-pressing packing machine of HK$15,398,000 for the year ended 31 December 2021. The sales of water treatment system escalated from HK$692,000 for the year ended 31 December 2021 to HK$709,000 in the current year. The sales of other goods have dropped from HK$5,781,000 in the year ended 31 December 2021 to HK$2,891,000 in the current year.

The gross profit margin for the current year was 37.0% and was dropped by 1.4% when comparing with that of prior year which was 38.4%. For the gross profit margin of the products, it was a significant drop for construction contracts on casing and flavouring systems by 8.2% from 41.2% for the year ended 31 December 2021 to 33.0% for the current year. The gross profit of construction contracts on casing and flavouring systems is HK$18,313,000 for the current year and it was HK$15,380,000 for the prior year. The gross profit of pneumatic feeding system is amounted to HK$5,531,000 for the current year (2021: HK$6,710,000). And the gross profit of water treatment system is amounted to HK$280,000 for the current year (2021: HK$309,000).

Allowance for inventories (included in cost of sales) amounted to HK$915,000 had been recognised during the year ended 31 December 2022 while HK$1,501,000 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.

The average contract sum of construction contracts on casing and flavouring systems completed was HK$2,222,000 for the current year while it was HK$2,665,000 for the year ended 31 December 2021. The revenue from the 3 largest construction contracts on casing and flavouring systems completed during the current year was HK$33,134,000 while it was HK$32,441,000 for the preceding year. The design and complexity of the products varies by customers and therefore there is a wide range of contract prices.

Other income were down by HK$879,000 or 32.1% and amounted to HK$1,858,000 in aggregate for the year ended 31 December 2022 (2021: HK$2,737,000). In the current year, the bank interest income is totalled HK$1,230,000 (2021: HK$1,666,000). And subsidy income of HK$628,000 were received while HK$901,000 was received in the prior year.

During the year ended 31 December 2022, the sales of scrap materials, parts and components is amounted to HK$1,960,000 for the year ended 31 December 2022 (2021: HK$2,393,000) and it was down by HK$433,000 or 18.1% compared to the prior year. In the contrary with the year ended 31 December 2021, there was no gain but the loss on fair value change of investment properties (unrealised) of HK$116,000 had been recognised for the current year, whereas it was a gain of HK$356,000 for the prior year. And the exchange losses of HK$1,123,000 had been recorded in the current year, while it was an exchange gain of HK$513,000 in the prior year.

A reversal of impairment loss on trade-related receivables under expected credit loss model amounted to HK$42,000 had been recognised during the year ended 31 December 2022, while it was an impairment loss of HK$160,000 in the prior year.

Operating expenditure of the Group, comprising of the selling and distribution expenses and administrative expenses, is amounted to HK$24,452,000 for the current year (2021: HK$26,242,000), representing a decrease of HK$1,790,000 or 6.8%. Impacting by the COVID-19, less marketing initiatives had been placed in the current year and led to a decrease in selling and distribution expenses by HK$1,415,000 from HK$9,212,000 for the prior year to HK$7,797,000 for the current year or 15.4% in compare with the prior year. The administrative expenses was down by HK$375,000 or 2.2% in comparison with prior year, and is amounted to HK$16,655,000 (2021: HK$17,030,000). The Group has kept undertaking efforts instrengthening the safety control measures in the manufacturing plants resulting to safety control expense of HK$191,000 was recognized for the current year. The increment in retirement benefits scheme contributions amounted to HK$1,890,000 (2021: HK$1,671,000) was recorded for the year ended 31 December 2022.

The research and development costs amounted to HK$4,324,000 for the year ended 31 December 2022 (2021: HK$4,508,000), and it was a slightly down by HK$184,000 or 4.1%.

For the year ended 31 December 2022, tax expense of HK$1,775,000 was recorded and it was HK$2,647,000 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. There was no overprovision of tax for the current year in comparison to overprovision of tax HK$997,000 was recorded for the year ended 31 December 2021.

The Directors do not recommend the payment of dividend for the year ended 31 December 2022 (2021: Nil).

BUSINESS REVIEW AND PROSPECT

During the year of 2022, the COVID-19 outbreak remains in existence, China has maintained its stable situation in general despite some volatilities in individual local areas, the overall economic situation in global might soon be teetering on the edge of a global recession due to COVID-19, geopolitical significance and the arisen of the interest rate of United States dollar (the "USD") by the Federal Reserve System, which would mainly cause the increments for the cost of goods, difficulties of purchasing the raw material and the exchange fluctuations including the depreciation among currencies, which most the currencies has depreciated against USD and HK$, including the depreciation of RMB in the current year. Nevertheless, the Group started to strengthen the efficiencies and effectiveness of the business operations and continued to optimize the sales and marketing strategy based on the individual needs of cigarette manufacturers and tobacco redrying factories, striving to enhance customers' consumption experience and maintaining the long-term and solid cooperative relationship with our customers.

Facing the uncertainties over the world, the Group retains a conservative capital structure to help insulate our business so as to maintain a constant focus on building a long-term sustainable business and quality control on the products against volatilities. We continue to increase the investment in research and development, along with developing our staffs 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. This is 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 purchasing cost of the raw materials and manpower cost had been shown as an upward trend over the years. The company has tried very hard to maintain a fairly stable performance. However, the profit is record as a loss compared to the prior same period and we forecast that cost of sales will be our main hurdle on the performance in the coming years. As a result, the company will strive for strengthening the operation efficiency and effectiveness in the future.

During the current period, the Group was working on a few construction contracts of casing and flavouring systems which were substantially completed and pending for inspection yet revenue can only be recognised when the completion certificates are obtained. Going forward, the Group would enhance the planning of production scheduling, making smooth connection between supply and production, accelerating the speed of input and output, and making improvement of 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.

The opportunity is disguised as a challenge, the Group would take advantages of our unique branding in the field and our stable capital structure to optimize the markets and to fulfil the needs from the customers. Under the changing epidemic condition and the increasingly complex external environment, the group will keep up the new trend of the business and be customer-centred with enhanced efforts for business innovation, corporate resilience, operational quality in order to continue creating values for the shareholders.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, there was no change in the capital structure of the Group for and cash and cash equivalents of the Group as at 31 December 2022 amounted to HK$97,195,000 (2021: HK$96,040,000), which were mainly denominated in RMB and HK$.

During the year ended 31 December 2022, there was no repayments to advance from a director (2021: 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 2022 (2021: Nil).

As at 31 December 2022, the Group's net current assets was HK$85,628,000 (2021: HK$92,837,000). Current ratio and quick ratio of the Group were 1.6 (2021: 1.6) and 0.92. (2021: 1.1), 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 2022, the Group had a total of 142 employees (2021: 140). Total staff costs (including directors' emoluments) were approximately HK$19,041,000 for the year ended 31 December 2022 (2021: HK$18,488,000).

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 2022.

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

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 2022, 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 2022.

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 2022 as set out in the 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 as approved by the Board of Directors on 28 March 2023. 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 2022 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 2022 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, 28 March 2023

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 Dr. Lam, Lee G., Mr. Kong Hing Ki and Mr. Wu Wei.