RENHENG Enterprise Holdings Limited
仁 恒 實 業 控 股 有 限 公 司

RENHENG ENTERPRISE HOLDINGS LIMITED
仁恒實業控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8012)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of RENHENG Enterprise Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and (ii) there are no other matters the omission of which would make any statement herein or this announcement misleading.

HIGHLIGHTS

- The Company's shares were listed on GEM of the Stock Exchange on 18 November 2011;
- Turnover for the year ended 31 December 2011 was approximately HK$156,044,000, representing an increase of approximately 70.1% as compared with 2010;
- Profit attributable to shareholders of the Company for the year ended 31 December 2011 was approximately HK$25,679,000, representing an increase of approximately 28.8% as compared with 2010;
- Basic earnings per share was HK16.4 cents, representing an increase of approximately 23.3% as compared with 2010; and
- The Directors do not recommend the payment of a dividend and propose that the profit attributable to shareholders of the Company be retained.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 together with the comparative figures for 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	NOTES	**2011**	2010
		HK$'000	HK$'000
Turnover	4	**156,044**	91,713
Cost of sales		**(99,273)**	(51,099)
Gross profit		**56,771**	40,614
Other income	5	**5,578**	4,279
Other gains and losses	6	**8**	713
Selling and distribution costs		**(11,860)**	(8,817)
Administrative expenses		**(10,429)**	(7,062)
Listing expenses		**(7,118)**	(1,595)
Research and development costs		**(4,372)**	(394)
Profit before taxation	7	**28,578**	27,738
Taxation	8	**(2,899)**	(7,805)
Profit for the year		**25,679**	19,933
Other comprehensive income:			
Exchange differences arising on translation		**5,072**	2,775
Total comprehensive income for the year		**30,751**	22,708
Earnings per share	9		
- Basic		**16.4 HK cents**	13.3 HK cents
- Diluted		**16.4 HK cents**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	NOTES	**2011**	2010
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	11	**15,404**	14,664
Land use rights		**3,072**	3,002
Investment properties		**19,366**	18,305
		37,842	35,971
Current assets			
Inventories	12	**18,238**	17,928
Trade and other receivables	13	**80,230**	42,503
Land use rights		**74**	71
Amounts due from customers for contract work		**2,334**	1,614
Amounts due from related companies		**437**	417
Restricted bank deposits	14	**265**	237
Bank balances and cash	14	**103,353**	54,383
		204,931	117,153
Current liabilities			
Trade and other payables	15	**50,768**	41,450
Amounts due to customers for contract work		**7,406**	8,061
Amount due to a related company		-	2,500
Tax payable		**4,343**	5,959
		62,517	57,970
Net current assets		**142,414**	59,183
Total assets less current liabilities		**180,256**	95,154
Non-current liabilities			
Deferred tax liabilities		**360**	1,073
		179,896	94,081
Capital and reserves			
Share capital	16	**2,000**	390
Reserves		**177,896**	93,691
Total equity		**179,896**	94,081

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital	Share premium	Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total
	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000 (Note b)	HK$'000 (Note b)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	390	-	48,701	3,338	4,877	999	2,775	-	1,346	8,947	71,373
Profit for the year	-	-	-	-	-	-	-	-	-	19,933	19,933
Exchange differences arising on translation	-	-	-	-	-	-	-	-	2,775	-	2,775
Total comprehensive income for the year	-	-	-	-	-	-	-	-	2,775	19,933	22,708
At 31 December 2010	390	-	48,701	3,338	4,877	999	2,775	-	4,121	28,880	94,081
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25,679**	**25,679**
Exchange differences arising on translation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,072**	**-**	**5,072**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,072**	**25,679**	**30,751**
Issue of shares arising from the Group Reorganization	**(390)**	**-**	**390**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capitalization issue	**1,500**	**(1,500)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Placing of shares	**500**	**59,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,000**
Expenses incurred in connection with the placing of shares	**-**	**(5,060)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,060)**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**124**	**-**	**-**	**124**
Transfer	**-**	**-**	**-**	**-**	**1,176**	**-**	**-**	**-**	**-**	**(1,176)**	**-**
At 31 December 2011	**2,000**	**52,940**	**49,091**	**3,338**	**6,053**	**999**	**2,775**	**124**	**9,193**	**53,383**	**179,896**

Notes:

(a) The merger reserve represented the aggregate amount of paid-in capital of Bao Ying Ren Heng Industrial Co. Limited ("Baoying Renheng") and share capital of RENHENG Global Limited ("RENHENG Global"), subsidiaries of the Group, acquired pursuant to the Group Reorganization (as defined in Note 2).

(b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), Baoying Renheng is required to maintain two reserves, being a statutory surplus reserve and a discretionary surplus reserve which are non-distributable. Appropriations to such reserves are made out of profit after taxation of Baoying Renheng based on the relevant accounting principles and financial regulations applicable to PRC enterprises while the amount and allocation basis are decided by its board of directors annually. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve and the discretionary surplus reserve can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalization issue.

NOTES

1. GENERAL

The Company was incorporated in the Cayman Islands on 2 February 2011 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares were listed on GEM since 18 November 2011.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the manufacture and sale of tobacco machinery products. The addresses of the registered office and principal place of business of the Company are PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Room 1303, 13/F., Keen Hung Commercial Building, 80 Queen's Road East, Wanchai, Hong Kong, respectively.

The functional currency of the Company is Renminbi as it is the currency in which the majority of the Group's transactions are denominated. The consolidated financial statements of the Group are presented in Hong Kong dollars ("HK$") as the management considers this presentation to be more useful for its current and potential investors.

2. BASIS OF PRESENTATION AND GROUP REORGANISATION

In preparation for the listing of the shares of the Company on the GEM, the Company underwent a group reorganization (the "Group Reorganization") which includes the following steps:

(a) Prior to 28 October 2009, the business of the Group carried out by Baoying Renheng was under control by Mr. Wei Sheng Peng jointly with his spouse Ms. Liu Li (collectively the "Controlling Shareholders"). On 15 October 2009, RENHENG Global was incorporated in the British Virgin Islands and owned by Yanlord Industry Investment Limited ("Yanlord Industry"), a company beneficially owned by the Controlling Shareholders.

(b) On 28 October 2009, RENHENG Tech Limited, a wholly owned subsidiary of RENHENG Global, was incorporated and acquired the entire beneficial interests in Baoying Renheng from Yanlord Industry at nil consideration.

(c) On 15 December 2010, LinkBest Capital Group Limited ("LinkBest") and Open Venture Global Limited ("Open Venture"), companies wholly owned by Mr. Wei Sheng Peng and Ms. Liu Li respectively, acquired the entire beneficial interests in RENHENG Global from Yanlord Industry.

(d) On 2 February 2011, the Company was incorporated by LinkBest and Open Venture, and registered as an exempted company with limited liability in the Cayman Islands. Pursuant to a share swap agreement dated 2 February 2011, the Company acquired the entire equity interests in RENHENG Global by issuing and allotting a total of 100 shares of HK$0.01 each to LinkBest and Open Venture. Thereafter, the Company has become the holding company of the Group since 2 February 2011.

The Group resulting from the Group Reorganization is regarded as a continuing entity. Accordingly, the consolidated statements of comprehensive income and cash flows for the years ended 31 December 2010 and 2011 include the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Group Reorganization had been in existence throughout the years ended 31 December 2010 and 2011, or since their respective dates of incorporation where this is a shorter period. The consolidated statement of financial position as at 31 December 2010 has been prepared to present the assets and liabilities of the companies now comprising the Group as at 31 December 2010.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied all the standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1 January 2011.

The Group has not early applied any new and revised HKFRSs that have been issued but are not yet effective for the year ended 31 December 2011.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents revenue arising from sale of goods and construction contracts of casing and flavouring system. An analysis of the Group's revenue is as follows:

	2011 **HK$'000**	2010 HK$'000
Sales of goods	**44,884**	30,525
Revenue from construction contracts of casing and flavouring system	**111,160**	61,188
	156,044	91,713

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 Group, the chief operating decision maker of the Group. The chief executive officer of the Group regularly reviews revenue analysis by products, including casing and flavouring systems, pneumatic feeding systems ("PF systems"), pre-pressing packing machines ("PP systems") 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 chief executive officer of the Group 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 chief executive officer of the Group. Accordingly, no analysis of this single operating segment is presented.

Entity-wide information

An analysis of the Group's turnover by products is as follows:

	2011 **HK$'000**	2010 HK$'000
Sales of		
- casing and flavouring systems	**111,160**	61,188
- PF systems	**18,469**	17,805
- PP systems	**11,343**	8,476
- other products	**15,072**	4,244
	156,044	91,713

Revenue from customers of the corresponding year contributing over 10% of the total sales of the Group are as follows:

	2011 HK$'000	2010 HK$'000
Customer A[1]	**53,298**	60,589
Customer B[2]	**63,364**	-

1 Revenue from sales of all products.

2 Revenue from sales of casing and flavouring system. The revenue contributed did not excess 10% of the total sales of the Group during the year ended 31 December 2010.

All of the Group's turnover are arisen in the PRC, which are determined by the location where the systems or products being installed or delivered. The Group's non-current assets of approximately HK$37,802,000 (2010: approximately HK$35,971,000) are arisen in and located in the PRC. The Group's non-current assets of approximately HK$40,000 (2010: nil) are arisen and located in Hong Kong.

5. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Sales of materials, parts and components, net of costs	**2,210**	1,975
Subsidy income (note)	**2,020**	1,138
Rental income	**853**	819
Interest income	**338**	210
Others	**157**	137
	5,578	4,279

Note: Based on a document issued by the People's Government of Baoying, Baoying Renheng is entitled to a tax refund based on the PRC Enterprise Income Tax paid in prior year and approximately 12.5% of the excess value added tax paid in prior year as compared with the reference amount as stated in that document.

6. OTHER GAINS AND LOSSES

	2011 HK$'000	2010 HK$'000
Gain on fair value changes of investment properties	**181**	786
Allowance for doubtful debts	**(171)**	-
Loss on disposal of property, plant and equipment	**(2)**	(73)
	8	713

7. PROFIT BEFORE TAXATION

	2011 HK$'000	2010 HK$'000
Profit before taxation has been arriving at after charging:		
Directors' emoluments	**155**	-
Other staff costs:		
Salaries, bonus and allowances	**7,842**	7,812
Retirement benefits scheme contributions	**738**	214
Share-based payment expense	**105**	-
Total staff costs	**8,840**	8,026
Depreciation of property, plant and equipment	**1,383**	1,086
Allowance for inventories, included in costs of sales	**-**	341
Auditor's remuneration	**650**	285
Cost of inventories recognized as an expense	**21,220**	12,318
Operating lease rentals in respect of		
Land use rights	**72**	69
Rental premise	**152**	-

8. TAXATION

	2011 HK$'000	2010 HK$'000
The charge comprises:		
PRC Enterprise Income Tax		
- current year	**6,284**	7,557
- overprovision in prior year	**(3,295)**	-
	2,989	7,557
Withholding tax on distributed profits	**673**	-
Deferred taxation		
- attributable to change in tax rate	**(177)**	-
- current year	**(586)**	248
	(763)	248
	2,899	7,805

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit arisen in, or was derived from Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 15% (2010: 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%. Baoying Renheng has been recognized as HNTE and is therefore entitled to a reduced tax rate at 15%, which is applied retrospectively to prior year. An overprovision of PRC Enterprise Income Tax amounted to approximately HK$3,295,000 has been adjusted in the current year. In addition, the deferred tax balance has been adjusted to reflect the tax rate that is expected to apply to the respective periods when the assets are realized or the liabilities are settled.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for both years is based on the following data and on the assumption that the Group Reorganization and the capitalization issue of 149,999,900 shares as disclosed in note 16 had been effective on 1 January 2010:

	2011	2010
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share (2010: for basic earnings per share only)	**25,679**	19,933
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share (2010: for basic earnings per share only)	**156,164,384**	150,000,000

The computation of diluted earnings per share for the year ended 31 December 2011 has not assumed the exercise of the Company's share options because the adjusted exercise price of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2011.

No diluted earnings per share was presented as there was no potential ordinary share during the year ended 31 December 2010.

10. DIVDEND

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group purchased property, plant and equipment amounting to approximately HK$1,423,000 (2010: approximately HK$1,103,000).

12. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Raw materials	**13,884**	7,379
Work in progress	**4,354**	10,549
	18,238	17,928

13. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	HK$'000
Trade receivables	**50,852**	16,071
Less: Allowance for doubtful debts	**(2,365)**	(2,090)
	48,487	13,981
Retention money receivables	**19,088**	11,272
Prepayments and deposits	**8,202**	10,192
Valued added tax recoverable	**-**	3,144
Sundry receivables	**4,945**	4,384
Less: Allowance for doubtful debts	**(492)**	(470)
	31,743	28,522
	80,230	42,503

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 doubtful debts) presented based on the invoice date at the end of the reporting period.

	2011	2010
	HK$'000	HK$'000
0 - 90 days	**14,484**	9,265
91 - 365 days	**32,291**	4,149
1 - 2 years	**1,687**	279
Over 2 years	**25**	288
	48,487	13,981

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period which are past due but not impaired as the management of the Group considers that there has not been a significant change in credit quality and the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	2011	2010
	HK$'000	HK$'000
91 - 365 days	**32,291**	4,149
1 - 2 years	**1,687**	279
Over 2 years	**25**	288
	34,003	4,716

14. RESTRICTED BANK DEPOSITS/ BANK BALANCES AND CASH

Bank balances comprise short-term bank deposits carried at prevailing market deposit rate. The effective interest rate of these deposits ranged from 0.50% to 1.50% (2010: 0.36% to 1.50%) per annum.

Restricted bank deposits represent deposits of HK$265,000 (2010: HK$237,000) with effective interest rate of 0.5% (2010: 0.5%) per annum pledged to a bank to secure certain construction contracts, which will be released upon the completion of construction.

15. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	HK$'000
Trade payables	**40,472**	21,999
Advances from customers	**4,020**	16,595
Accrued welfare expense	**1,770**	1,690
Valued added tax payable	**1,205**	-
Other payables	**3,301**	1,166
	50,768	41,450

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

	2011	2010
	HK$'000	HK$'000
0 - 90 days	**35,812**	18,831
91 - 365 days	**3,685**	1,833
1 - 2 years	**660**	1,064
2 - 3 years	**315**	271
	40,472	21,999

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

16. SHARE CAPITAL

The movement in share capital of the Company are as follows:

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
On 2 February 2011 (date of incorporation)	38,750,000	388
Increase in authorised share capital	961,250,000	9,612
At 31 December 2011	**1,000,000,000**	**10,000**
Issued and fully paid:		
Issue of shares upon the Group Reorganization on 2 February 2011 (date of incorporation)	100	-
Capitalization issue	149,999,900	1,500
Placing of shares	50,000,000	500
At 31 December 2011	**200,000,000**	**2,000**

The Company was incorporated on 2 February 2011 with an authorised share capital of HK$387,500 dividend into 38,750,000 ordinary shares of HK$0.01 each. Pursuant to a share swap agreement dated 2 February 2011, the Company acquired the entire issued share capital of RENHENG Global, and in consideration thereof, a total of 100 shares of the Company were issued and allotted to LinkBest and Open Venture, which are wholly owned by Mr. Wei Sheng Peng and Ms. Liu Li, respectively.

Pursuant to the shareholders' resolutions which were passed to approve the matters set out in the paragraph headed "Written resolutions of all shareholders" in Appendix V to the Company's prospectus dated 28 October 2011 (the "Prospectus"):

(i) the authorised share capital of the Company was increased from HK$387,500 to HK$10,000,000 by the creation of an additional 961,250,000 ordinary shares each ranking pari passu in all respects; and

(ii) the Directors of the Company were hereby authorised to capitalize HK$1,499,999 standing to credit of the share premium account of the Company, as a result of the placing of shares, and to apply such sum in paying up in full at par 149,999,900 ordinary shares of HK$0.01 each for allotment and issue to holders of shares whose names appeared on the register of members of the Company at the close of business on 20 October 2011 in proportion.

On 17 November 2011, 50,000,000 ordinary shares of HK$0.01 each of the Company were issued at HK$1.20 per share by way of placing (the "Placing"). On 18 November 2011, the Company's shares were listed on GEM.

The share capital of the Group as at 1 January 2010 and 31 December 2010 present and represents the share capital of RENHENG Global.

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, PF systems and PP systems.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group achieved turnover of approximately HK$156,044,000, representing an increase of approximately 70.1% from HK$91,713,000 recorded last year. Gross profit margin dropped from approximately 44.3% to approximately 36.4%, translating into a gross profit of approximately HK$56,771,000 (2010: approximately HK$40,614,000). It is within the management expectation as a result of the completion of one considerable project during the year in delivering a new casing and flavouring system, which the Group has accepted a lower margin relative to the expected costs in respect of the components and devices when deciding the aggregate contract amount charged to the customer.

Despite the recognition of listing expenses of approximately HK$7,118,000 for the year, we showed a net profit attributable to shareholders of approximately HK$25,679,000, an increment of approximately 28.8% as compared to approximately HK$19,933,000 in 2010. Operating expenditures, comprising the selling and distribution costs and administrative expenses, amounted to HK$22,289,000 (2010: approximately HK$15,879,000). The increment was principally due to the increase in entertainment resulting from our results to various potential customers and the increase in staff costs.

BUSINESS REVIEW

During the year under review, the sale of our catalogued special-purpose tobacco machinery products remained the principal driver of our revenue, comprising approximately 90.3% of the Group’s turnover (2010: approximately 95.4%). At the same time, we are pleased to see the contribution from other businesses, including the sales of non-catalogued ancillary tobacco machinery and hot stamped foil products, was also increasing in its absolute value.

Bringing forward from 2010, the project in Kunming in providing a casing and flavouring system with movable tanks to a customer was completed during the year. The system is a brand new design as compared to the traditional system using pipe connection and is custom-made to our customer. At the same time, we are in the process of applying certain joint patents such as the automatic flavour spraying system, the automatic casing system and related technology and the integrated downdraft feeding machinery. These have proved the capability of our technical people and reinforced our competitive parity against other tobacco machinery manufacturers.

With our solid experience and proven track record in producing PF systems and PP systems, our Group continued to deliver these products to our customers during the year, for instance, certain PF systems to cigarette manufacturers in Shanghai, Yunan and Jiangxi, and PP systems to tobacco redrying factories in Yunan and Henan.

Leveraging on the successful launch of our new systems, as well as the various design and utility patents, our team members took swift move to approach our respective customers to conduct product introduction and technical feasibility study with a view to close the contract. By the end of 2011, our book recorded secured orders on hand of approximately RMB120 million.

BUSINESS OUTLOOK

To enhance our competitive edge, we will continue to endeavor our resources into product development and innovation so as to expand our existing product range and to create new and enhanced series of catalogued special-purpose tobacco machinery products to meet the evolving requirements of our customers, and more importantly, to provide new revenue stream for the Group. Our technical team is actively engaged in the development of a new set of PP systems and the design of other products and systems in accordance with our plan through utilization of internal resources and proceeds obtained from the Placing.

Even though we experienced growth in our revenue and profits in past years, our management is cautious in operating cost control. We will adopt measures to strengthen and achieve the highest level of costs management in order to maximize the return of each dollar spent, and more importantly with an aim to bring along better return to our shareholders.

Looking forward, we are confident with our business model and strategy, and strive to achieve improved profitability and bring RENHENG to attain the leadership status in the industry.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group did not have any borrowings, mortgages or charges as at 31 December 2011 (31.12.2010: Nil). As at 31 December 2011, we had bank balances and cash of approximately HK$103,353,000 (31.12.2010: approximately HK$54,383,000). As at 31 December 2011, we had net current assets of approximately HK$142,414,000 (31.12.2010: approximately HK$59,183,000). Current ratio as at 31 December 2011 was approximately 3.3 (31.12.2010: approximately 2.0). The improvement was principally due to the fund raised from the Placing.

Our operations are financed principally by revenues generated from business operations, available bank balances and the net proceeds from the Placing.

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2011 (31.12.2010: Nil).

GEARING RATIO

Our gearing ratio, defined as the ratio between total bank borrowing and shareholders' equity, is zero since the Group did not have any bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

The appreciation of Renminbi is moderate and we consider that potential foreign exchange exposure is limited.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2011 (31.12.2010: Nil).

PLEDGE OF ASSETS

As at 31 December 2011, restricted bank deposits of approximately HK$265,000 (31.12.2010: approximately HK$237,000) were pledged to a bank to secure certain construction contracts, which will be released upon the completion of construction.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group had a total of 141 employees (31.12.2010: 143). Total staff costs (including directors' emoluments) were approximately HK$8,840,000 for the year ended 31 December 2011 as compared to approximately HK$8,026,000 for the year ended 31 December 2010.

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 after listing.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by the Group as at 31 December 2011 (31.12.2010: Nil).

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries for two years ended 31 December 2011 and 31 December 2010.

COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS

An analysis comparing the section headed "Future plans and prospects" as set out in the Prospectus with our actual business progress for the period from 24 October 2011, being the latest practicable date as defined in the Prospectus, to 31 December 2011 (the "Relevant Period") is set out below:

	Future plans and prospects	**Actual business progress during the Relevant Period**
Continuous product development and innovation	Design and develop new set of PP system	Commenced development of a new set of PP system
	Design and develop new set of spraying device	Commenced the technical feasibility study of new type of spraying device
	Recruit technical personnel	Recruited four technical personnel
Enhancing corporate profile and increasing market penetration	Post advertisement in tobacco magazines	Posted advertisement in local publications
Enhancing production processing capabilities	Purchase machinery and equipment	Purchased one Computerized Numerical Control ("CNC") press brake and one CNC shearing machine
Strengthening management information system	Evaluate, acquire and implement management information system	Conducted evaluation with management information system service provider with regard to system requirement and functions

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK$45.7 million, which is approximately HK$1.6 million lower than that was anticipated in the Prospectus due to the underestimated listing expenses and related disbursements. During the Relevant Period, the net proceeds from the Placing had been applied as follows:

	Planned use of proceeds as stated in the Prospectus during the Relevant Period (HK$'000)	**Actual use of proceeds during the Relevant Period (HK$'000)**
Continuous product development and innovation (Note 1)	1,364	1,083
Enhancing corporate profile and increasing market penetration (Note 2)	18	2
Enhancing production processing capabilities (Note 3)	480	626
Strengthening management information system (Note 4)	480	-
Total	2,342	1,711

Notes:

1. Approximately HK$818,000 and HK$226,000 were used for the design and development of a new set of PP system employing two compressors and a new casing and flavouring system equipping the operating features of movable tanks and automated storage, retrieval and feeding devices respectively. The feasibility study of new type of spraying device was also commenced during the Relevant Period.

   Remaining balance amounting to approximately HK$39,000 was used to employ four technical personnel and recruitment is still continuous.

2. The Group is formulating a more detail marketing and promotion plan including the posting of advertisement in tobacco magazines.

3. CNC press brake was purchased during the Relevant Period as planned, but the purchase of CNC lathes is deferred due to our production plan. On the other hand, CNC shearing machine was purchased during the Relevant Period, which is earlier than that originally planned in first half of 2012.

4. Due to the more time needed to fix the system requirement and function of management information system with the service provider, the plan for upgrading management information system is deferred and expected to be completed by the first half of 2012.

The remaining net proceeds as at 31 December 2011 was placed on short-term interest bearing deposits with a licensed bank in Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 to 26 April 2012, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to entitle 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 of the Company, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 23 April 2012.

CORPORATE GOVERNANCE PRACTICES

Pursuant to the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the GEM Listing Rules which sets out corporate governance principles and the Code Provisions, the Company has applied all the Code Provisions and certain recommended best practices as set out in the Code during the year ended 31 December 2011.

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

Save as disclosed in the Prospectus, during the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit. The rest of the members are Mr. Tam Yuk Sang, Sammy and Mr. Kong Hing Ki. The annual results for the year ended 31 December 2011 of the Group have been reviewed by the audit committee and which was of the opinion that such results complied with the applicable accounting principles, standards and practices and that adequate disclosures had been made.

By order of the Board
RENHENG Enterprise Holdings Limited
Wei Sheng Peng
Chairman

Hong Kong, 14 March 2012

As at the date of this announcement, the executive Directors are Mr. Wei Sheng Peng, Ms. Liu Li and Mr. Sun Zhaohui and the independent non-executive Directors are Mr. Tam Yuk Sang, Sammy, Mr. Wong Yiu Kit and Mr. Kong Hing Ki.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the Company's website at www.renhengenterprise.com.