

First Quarterly Report

2012



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

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This report, 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 (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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- Turnover for the three months ended 31 March 2012 was approximately HK\$16,477,000, representing a decrease of approximately 29.1% as compared with the corresponding period in 2011;
- Profit attributable to shareholders of the Company for the three months ended 31 March 2012 was approximately HK\$527,000, representing a decrease of approximately 49.3% as compared with the corresponding period in 2011; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2012.

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2012 together with the unaudited comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended 31 March	
	<i>Notes</i>	2012	2011
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	4	16,477	23,233
Cost of sales		(9,666)	(14,214)
		<hr/>	<hr/>
Gross profit		6,811	9,019
Other income	5	526	445
Selling and distribution costs		(1,561)	(4,055)
Administrative expenses		(3,372)	(2,843)
Research and development costs		(1,465)	(146)
Listing expenses		–	(280)
		<hr/>	<hr/>
Profit before taxation	6	939	2,140
Taxation	7	(412)	(1,100)
		<hr/>	<hr/>
Profit for the period		527	1,040
Other comprehensive income:			
Exchange differences arising on translation		2,071	1,179
		<hr/>	<hr/>
Total comprehensive income for the period		2,598	2,219
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	8		
– Basic		0.26 HK cents	0.69 HK cents
		<hr/> <hr/>	<hr/> <hr/>
– Diluted		0.26 HK cents	N/A
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO QUARTERLY RESULTS

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. The Company acts as an investment holding company while its subsidiaries are principally engaged in the manufacture and sale of tobacco machinery products in the People's Republic of China (the "PRC"). 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirement of the GEM Listing Rules.

The accounting policies used in the preparation of the unaudited consolidated financial statements for the three months ended 31 March 2012 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2011.

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

The Group has applied all the standards, amendments and interpretations issued by HKICPA, which are effective for the Group's financial year beginning 1 January 2012. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and presentation of the Group's unaudited consolidated financial statements.

4. TURNOVER

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

	For the three months ended 31 March	
	2012	2011
	HK\$'000 (Unaudited)	<i>HK\$'000</i> (Unaudited)
Sales of goods	12,929	2,317
Revenue from construction contracts of casing and flavouring systems	3,548	20,916
	<u>16,477</u>	<u>23,233</u>

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products. An analysis of the Group's turnover by products is as follows:

	For the three months ended 31 March	
	2012	2011
	HK\$'000 (Unaudited)	<i>HK\$'000</i> (Unaudited)
Sales of		
– casing and flavouring systems	3,548	20,916
– pneumatic feeding systems	2,790	832
– pre-pressing packing machines	644	–
– other products (<i>Note</i>)	9,495	1,485
	<u>16,477</u>	<u>23,233</u>

Note: Sale of other products for the three months ended 31 March 2012 included sale of dedusting systems, which was a non-catalogued ancillary tobacco machinery product.

5. OTHER INCOME

	For the three months ended 31 March	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Sales of materials, parts and components, net of costs	257	146
Rental income	218	209
Interest income	51	90
	<u>526</u>	<u>445</u>

6. PROFIT BEFORE TAXATION

	For the three months ended 31 March	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation has been arriving at after charging:		
Directors' emoluments	315	–
Other staff costs:		
Salaries, bonus and allowances	2,007	2,973
Retirement benefits scheme contributions	140	157
Share-based payment expense	131	–
Total staff costs	<u>2,593</u>	<u>3,130</u>
Depreciation of property, plant and equipment	354	315
Auditor's remuneration	175	131
Cost of inventories recognized as an expense	7,648	952
Operating lease rentals in respect of		
land use rights	19	18
rental premise	40	33
	<u>40</u>	<u>33</u>

7. TAXATION

For the three months ended 31 March	
2012	2011
<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)

The charge comprises:

PRC Enterprise Income Tax		
– current period	<u>412</u>	<u>1,100</u>

No provision for Hong Kong Profits Tax has been made in the unaudited 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% (three months ended 31 March 2011:25%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for both periods is based on the following data:

	For the three months ended 31 March	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share (three months ended 31 March 2011: for basic earnings per share only)	<u>527</u>	<u>1,040</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share (three months ended 31 March 2011: for basic earnings per share only)	<u>200,000,000</u>	<u>150,000,000</u>

The computation of diluted earnings per share for the three months ended 31 March 2012 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 three months ended 31 March 2012.

No diluted earnings per share was presented as there was no potential ordinary share during the three months ended 31 March 2011.

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2012 (three months ended 31 March 2011: Nil).

10. MOVEMENT OF EQUITY

	Share capital	Share premium	Discretionary surplus	Statutory surplus	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1 January 2011	390	-	48,701	3,338	4,877	999	2,775	-	4,121	28,880	94,081
Profit for the period	-	-	-	-	-	-	-	-	-	1,040	1,040
Exchange differences arising on translation	-	-	-	-	-	-	-	-	1,179	-	1,179
Total comprehensive income for the period	-	-	-	-	-	-	-	-	1,179	1,040	2,219
Transfer	-	-	-	-	1,176	-	-	-	-	(1,176)	-
Issue of shares arising from the group reorganization	(390)	-	390	-	-	-	-	-	-	-	-
At 31 March 2011	<u>-</u>	<u>-</u>	<u>49,091</u>	<u>3,338</u>	<u>6,053</u>	<u>999</u>	<u>2,775</u>	<u>-</u>	<u>5,300</u>	<u>28,744</u>	<u>96,300</u>
At 1 January 2012	2,000	52,940	49,091	3,338	6,053	999	2,775	124	9,193	53,383	179,896
Profit for the period	-	-	-	-	-	-	-	-	-	527	527
Exchange differences arising on translation	-	-	-	-	-	-	-	-	2,071	-	2,071
Total comprehensive income for the period	-	-	-	-	-	-	-	-	2,071	527	2,598
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	155	-	-	155
At 31 March 2012	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>6,053</u>	<u>999</u>	<u>2,775</u>	<u>279</u>	<u>11,264</u>	<u>53,910</u>	<u>182,649</u>

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.

FINANCIAL REVIEW

For the three months ended 31 March 2012, turnover amounted to approximately HK\$16,477,000 (three months ended 31 March 2011: approximately HK\$23,233,000), representing a decrease of approximately 29.1% as compared to the corresponding period last year. Such drop was principally due to the recognition of considerable revenue relating to a project in Kunming in providing a brand new casing and flavouring system to a customer in 2011. Nevertheless, the Group has attained an improved gross profit margin of 41.3% during the period under review, as compared to 38.8% in the corresponding period in 2011, and recorded a gross profit of approximately HK\$6,811,000 (three months ended 31 March 2011: approximately HK\$9,019,000).

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK\$4,933,000 (three months ended 31 March 2011: approximately HK\$6,898,000), representing a drop of approximately 28.5% as compared with that for the corresponding period last year. The savings were mainly attributable to the strengthened cost management as laid down ahead. Net profit attributable to shareholders for the three months ended 31 March 2012 decreased to approximately HK\$527,000 (three months ended 31 March 2011: approximately HK\$1,040,000).

BUSINESS REVIEW

During the period under review, the overall tobacco machinery industry in the PRC remained competitive. To meet the challenge, the Group has planned and pursues its focuses on (i) system customization to customers with high product quality; (ii) product development and innovation; and (iii) increasing market penetration so as to gain the leading role status in the tobacco machinery industry in the PRC.

Backed by our experienced and robust technical personnel, our sales and marketing team continued to interact with our customers in the PRC, comprising the cigarette manufacturers and tobacco redrying factories, and identify potential projects. During the quarter, our team members devoted their utmost effort to respective on-going projects in delivering casing and flavouring systems to our customers in Hunan, Chongqing and Guangxi, all valuing over RMB10 million individually in their contract sum. During the quarter, we underwent both the product manufacture and technical modification as requested by customers. Following the current agreed schedule, these projects are anticipated to be completed within this year.

At the same time, we have completed a considerable project in supplying dedusting systems, a non-catalogued ancillary tobacco machinery product, to a cigarette manufacturer in Guizhou. As a result, owing to our business conducting on a project by project basis, the Group has a relatively low contribution in turnover by our primary three types of catalogued special-purpose tobacco machinery products, namely the casing and flavouring systems, pneumatic feeding systems and pre-pressing packing machines, for the quarter under review as compared with the corresponding period last year.

New product design has been progressing satisfactorily. In the quarter, the Group has worked hard on the development of new products, namely the new PP system (pre-pressing packing machine) and the new casing and flavouring system. We strived to bring along extended range of special-purpose tobacco machinery products to our customers in short future, with a view to uplift our revenue and return to our shareholders.

PRE-IPO SHARE OPTION SCHEME

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011. The purpose of the Pre-IPO Share Option Scheme is to grant options to the participants as incentive or rewards for their contributions to the Group.

Options to subscribe for an aggregate of 1,300,000 shares at an exercise price of HK\$0.96 were granted to 10 participants including one executive Director, four members of the senior management of the Group and five employees of the Group, each at a consideration of HK\$10.00 under the Pre-IPO Share Option Scheme on 20 October 2011.

As at 31 March 2012, details of the options granted under the Pre-IPO Share Option Scheme were as follows:

Name of grantee	Date of grant (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per share (HK\$)	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 March 2012	Approximate percentage of issued share capital of the Company
Director									
Mr. Sun Zhaohui	20/10/2011	01/01/2013 – 19/10/2021	0.96	200,000	-	-	-	200,000	0.10%
Senior management and employees of the Group	20/10/2011	01/01/2013 – 19/10/2021	0.96	1,100,000	-	-	-	1,100,000	0.55%
				<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>	<u>0.65%</u>

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group. Up to 31 March 2012, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2012, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name	Capacity/Nature of Interest	Number of ordinary shares	Number of underlying shares subject to the Pre-IPO Share Option Scheme	Approximate percentage of the issued share capital of the Company*
Directors				
Mr. Wei Sheng Peng ⁽¹⁾	Interest of a controlled corporation and family interest	150,000,000	–	75%
Ms. Liu Li ⁽²⁾	Interest of a controlled corporation and family interest	150,000,000	–	75%
Mr. Sun Zhaohui	Personal interest	–	200,000	0.10%

* The percentage represents the number of shares/underlying shares interested divided by the number of the Company's issued share as at 31 March 2012.

Notes:

1. LinkBest Capital Group Limited ("LinkBest"), which is wholly owned by Mr. Wei Sheng Peng, is interested in 90,000,000 shares of the Company. Mr. Wei Sheng Peng is also the spouse of Ms. Liu Li, so he is deemed to be interested in 60,000,000 shares held by Open Venture Global Limited ("Open Venture"), being a corporation wholly owned by Ms. Liu Li.
2. Open Venture, which is wholly owned by Ms. Liu Li, is interested in 60,000,000 shares of the Company. Ms. Liu Li is also the spouse of Mr. Wei Sheng Peng, so she is deemed to be interested in 90,000,000 shares held by LinkBest, being a corporation wholly owned by Mr. Wei Sheng Peng.

Save as disclosed above, none of the Directors and chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2012.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2012, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and the Stock Exchange, as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of shareholders	Capacity/ Nature of Interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
LinkBest ⁽¹⁾	Beneficial owner	90,000,000	45%
Open Venture ⁽²⁾	Beneficial owner	60,000,000	30%
Mr. Wei Sheng Peng ⁽³⁾	Interest of a controlled corporation and family interest	150,000,000	75%
Ms. Liu Li ⁽⁴⁾	Interest of a controlled corporation and family interest	150,000,000	75%

Notes:

1. LinkBest is wholly owned by Mr. Wei Sheng Peng.
2. Open Venture is wholly owned by Ms. Liu Li.
3. Mr. Wei Sheng Peng is the sole shareholder of LinkBest which is interested in 90,000,000 shares of the Company and as the spouse of Ms. Liu Li, he is deemed to be interested in 60,000,000 shares held by Open Venture, being a corporation wholly owned by Ms. Liu Li.
4. Ms. Liu Li is the sole shareholder of Open Venture which is interested in 60,000,000 shares of the Company and as the spouse of Mr. Wei Sheng Peng, she is deemed to be interested in 90,000,000 shares held by LinkBest, being a corporation wholly owned by Mr. Wei Sheng Peng.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2012.

COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company nor their respective associates (as defined under the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group.

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

During the three months ended 31 March 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Shenyin Wanguo Capital (H.K.) Limited ("Shenyin Wanguo"), the compliance adviser of the Company, neither Shenyin Wanguo nor its directors or employees or associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 March 2012.

Pursuant to the agreement dated 27 October 2011 entered into between Shenyin Wanguo and the Company, Shenyin Wanguo received and will receive fees for acting as the compliance adviser of the Company.

AUDIT COMMITTEE

The Company established an audit committee on 20 October 2011, currently comprising 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 unaudited consolidated results for the three months ended 31 March 2012 have been reviewed by the audit committee in accordance with the GEM Listing Rules. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

By order of the Board

RENHENG Enterprise Holdings Limited

Wei Sheng Peng

Chairman

Hong Kong, 10 May 2012

As at the date of this report, 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.