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 REPORT
2012

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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 the Growth Enterprise Market 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 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Wei Sheng Peng *(Chairman)*
Ms. Liu Li
Mr. Sun Zhaohui *(Chief Executive Officer)*

Independent Non-executive Directors
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

COMPANY SECRETARY
Mr. Ho Pui Lam Joseph *(CPA)*

COMPLIANCE OFFICER
Mr. Sun Zhaohui

AUDIT COMMITTEE
Mr. Wong Yiu Kit *(Chairman)*
Mr. Tam Yuk Sang, Sammy
Mr. Kong Hing Ki

REMUNERATION COMMITTEE
Mr. Kong Hing Ki *(Chairman)*
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit

NOMINATION COMMITTEE
Mr. Tam Yuk Sang, Sammy *(Chairman)*
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

AUTHORISED REPRESENTATIVES UNDER GEM LISTING RULES
Ms. Liu Li
Mr. Ho Pui Lam Joseph

COMPLIANCE ADVISER
Shenyin Wanguo Capital (H.K.) Limited

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Cayman Islands

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Far East Finance Centre
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Admiralty, Hong Kong

LEGAL ADVISERS
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Louis K. Y. Pau & Co.

As to Cayman Islands law
Maples and Calder

AUDITOR
Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
Bank of China Limited, Baoying Sub-Branch
Industrial and Commercial Bank of China Limited, Baoying Sub-Branch
China Construction Bank Corporation, Baoying Sub-Branch

STOCK CODE
8012

WEBSITE
www.renhengenterprise.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board") of RENHENG Enterprise Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

RENHENG delivered a satisfactory performance for the year under review, recording a turnover of approximately HK$145,461,000 and a net profit attributable to shareholders of approximately HK$29,686,000, an increase of approximately 15.6% as compared to approximately HK$25,679,000 in last year.

In 2012, the Group stayed firm with the set business strategies and executed in good pace. To keep our competitive status, externally, we have mobilized our sales and technical team around the country and endeavored resources, and worked proactively with customers for all potential and contracted projects. Internally, we planned ahead and have adopted different approaches to improve our costs management in manufacturing process and routine operation throughout the year, with successful outcome reflected by the improved gross profit margin and net profit. All these measures bring the Group to a more equipped position to meet future challenges.

Our focus on product development and innovation has proved to be the right direction. During the year under review, we successfully extended our product range under our catalogued special-purpose machinery with a new pneumatic feeding system ("PF System") and a new pre-pressing packing machine ("PP System"). Discussion with respective cigarette manufacturers and tobacco redrying factories has started and is undergoing and contracts are expected to be concluded in the following year. Meanwhile, the Group kept on research and development of other new products and makes adjustment in timeline after evaluation of customers' needs, technology advancement and overall tobacco industry and business environment. I see such continuous effort can lay a good foundation for the Group and serves an engine for future growth.

OUTLOOK

We expect the coming business environment is filled with uncertainty, but still promising. According to the National Bureau of Statistic of China, fixed asset investment in relation to equipment purchasing in the tobacco products industry in urban areas reached approximately RMB11.2 billion in 2011, representing an increase of approximately 29% as compared to the previous year, and grew at a CAGR (compound annual growth rate) of approximately 14.7% during the years between 2006 and 2011. Besides, we believe cigarette manufacturers will strive to formulate production technologies that could maintain the flavour of cigarettes despite the reduction of tar content, an objective set out by the State Tobacco Monopoly Administration in its development plan for 2006 to 2020 issued earlier in July 2006. All these conditions create business opportunities for tobacco machinery manufacturers, including RENHENG.

We will stay cautious and keep track of the changes in the tobacco market as well as the product development of the tobacco machinery industry. In response to the changing circumstances in the business environment, we are prepared and ready to make adjustment to our structure, process and people, and take swift action ahead of our competitors in response to any change in the market so as to pursue our leading status within the industry.

Last but not least, I would like to thank my fellow directors, our superb management and all diligent employees for their loyalty and contribution to the Group.

Yours faithfully,

Wei Sheng Peng
Chairman

7 March 2013

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wei Sheng Peng

Mr. Wei, aged 45, is an executive director of the Company, chairman of our Board and one of the founders of Bao Ying Ren Heng Industrial Co., Ltd ("Baoying Renheng"). Mr. Wei is primarily responsible for the overall business planning and strategic development of our Group. He has more than 16 years of experience in the electrical and mechanical equipment industry. As a founding member of Baoying Renheng, Mr. Wei has gained knowledge and experience in the tobacco machinery industry during the last 11 years. Mr. Wei was a director and the legal representative of Baoying Renheng between November 2001 and March 2005, and he has served as the director of the holding companies of Baoying Renheng including Yanlord (Holdings) Industrial Limited ("Yanlord Industrial") since August 1992 and Yanlord Industry Investment Limited ("Yanlord Industry Investment") since May 2005 to monitor the operation of Baoying Renheng. Mr. Wei graduated from Lufeng County Donghai Secondary School in July 1987. In the last three years, he did not hold any directorship in any publicly listed company. Mr. Wei was appointed as an executive Director on 2 February 2011 and is the spouse of Ms. Liu.

Ms. Liu Li

Ms. Liu, aged 42, is an executive director of the Company and is responsible for overseeing the human resources and administration functions of our Group. In February 2007, she was appointed as a director of Yanlord Industry Investment and has been responsible for overseeing the operation of Baoying Renheng thereafter since the completion of the transfer of equity interest in Baoying Renheng from Yanlord Industrial to Yanlord Industry Investment in 2008. Ms. Liu is principally responsible for the treasury, human resources and administrative functions of the company. She obtained a bachelor's degree in sport management from Beijing Sport University in July 1992. Ms. Liu was appointed as an executive Director on 2 February 2011 and is the spouse of Mr. Wei.

Mr. Sun Zhaohui

Mr. Sun, aged 45, is an executive Director, the chief executive officer of our Company and the legal representative of Baoying Renheng. He is primarily responsible for the overall management and corporate development, acquisition and strategy implementation of Baoying Renheng. Mr. Sun has accumulated no less than 12 years of experience in engineering field. He joined IPACS Asia Pte Ltd. as a senior engineer in October 1997, and subsequently took up the position of vice general manager of IPACS Computer System Engineering (Shanghai) Co. Ltd. in December 1999. Mr. Sun then worked as the general manager of Quantum Automation (Shanghai) Co. Ltd. for over 8 years from September 2001 to March 2010. Mr. Sun graduated with a bachelor's degree in engineering mechanics from Harbin Institute of Technology in July 1990. He was appointed as an executive Director on 20 October 2011.

Biographical Details in respect of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Yuk Sang, Sammy

Mr. Tam, aged 49, is an independent non-executive Director and the chairman of the nomination committee, and a member of the remuneration committee and the audit committee of the Company. He has over 22 years of experience in accounting, auditing and finance. He is currently the president of Essentack Limited, a corporate strategy and management advisory company. He is an independent non-executive director and the audit committee chairman of Kith Holdings Limited (stock code: 1201), a company whose shares are listed on the Stock Exchange, an independent non-executive director of KEE Holdings Company Limited (stock code: 2011), a company whose shares are listed on the Stock Exchange and also an independent non-executive director and the audit committee chairman of Long Success International (Holding) Limited (stock code: 8017), a company whose shares are listed on the GEM of the Stock Exchange. Mr. Tam graduated from the Hong Kong Polytechnic University and is a fellow of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He was appointed as an independent non-executive Director with effect from 20 October 2011.

Mr. Wong Yiu Kit

Mr. Wong, aged 45, is an independent non-executive Director and the chairman of the audit committee, and a member of the remuneration committee and the nomination committee of the Company. Mr. Wong has over 16 years of experience in venture capital, corporate finance, business development, financial and general management. Currently he is the president and group chief financial officer of KVB Kunlun Holdings Limited ("KVB") which he joined in November 2011. KVB is an international financial services corporation providing forex, equities, commodities trading and asset management services with operations in Auckland, Sydney, Melbourne, Toronto, Hong Kong, Beijing and Tokyo. Besides, he has served as the executive director of China Private Equity Investment Holdings Limited ("CPE") since April 2008. CPE focuses on private equity investment and is a listed company on the Alternative Investment Market of the London Stock Exchange Plc. He also served as the chief financial officer of CPE from April 2008 to October 2011. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of the Institute of Chartered Accountants in England and Wales. He obtained a Bachelor's Degree of Business Administration from the University of Hong Kong, a Master of Science Degree in Investment Management from the Hong Kong University of Science and Technology and a Master of Science Degree in Electronic Engineering from the Chinese University of Hong Kong. He is also a charter-holder of Chartered Financial Analyst and a member of Hong Kong Securities Institute. He was appointed as an independent non-executive Director with effect from 20 October 2011.

Mr. Kong Hing Ki

Mr. Kong, aged 42, is an independent non-executive Director and the chairman of the remuneration committee, and a member of the audit committee and the nomination committee of the Company. He has over 11 years' experience in accounting, auditing and finance, gained from accountancy and commercial firms. Currently, he is a financial controller of a company whose ultimate holding company is listed on the main board of the Singapore Exchange Securities Trading Limited, and is an independent non-executive director and the audit committee chairman of Hing Lee (HK) Holdings Limited (stock code: 396), a company whose shares are listed on the Stock Exchange, and also an independent non-executive director of KEE Holdings Company Limited (stock code: 2011), a company whose shares are listed on the Stock Exchange. Mr. Kong obtained a Bachelor's Degree in Commerce from The Australian National University and a Master of Business Administration Degree from Deakin University, which is a joint program of Deakin University and CPA Australia conducted in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He was appointed as an independent non-executive Director with effect from 20 October 2011.

Biographical Details in respect of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Xu Jiagui
Mr. Xu, aged 46, is the director and general manager of Baoying Renheng. He is primarily responsible for the strategic planning, business development as well as overseeing the daily operations of Baoying Renheng. Mr. Xu has over 10 years of experience in research and development, production and general management relating to the tobacco machinery manufacturing industry. He joined Baoying Renheng in January 2002. Mr. Xu was awarded by Baoying County top ten technological worker and advanced technological worker in March 2000 and April 2001 respectively. He graduated with a college diploma in mechanical design and manufacturing process from Jiangsu Radio and TV University in July 1991 and obtained a certificate of completion for Class for Advanced Studies of Postgraduate Curricula in management science and engineering from Southeast University in December 2004.

Mr. Liu Yang
Mr. Liu, aged 40, is a director and vice general manager of Baoying Renheng. He is principally responsible for overseeing the sales and marketing activities of Baoying Renheng. Mr. Liu has over 16 years of experience in sales and marketing. He was the vice general manager for sales of Zhuhai Gang Zhuhai Ming An Enterprise Co. Ltd. between July 1994 to June 2002, and subsequently acquired knowledge and experience in the tobacco machinery industry after joining Baoying Renheng in June 2004. He graduated with a bachelor's degree in marketing from Changchun University of Science and Technology in July 1993. Mr. Liu is the brother of Ms. Liu.

Mr. An Zhanqi
Mr. An, aged 54, is the chief engineer of Baoying Renheng and is the head of the technical department, the production department as well as the procurement department of our Group. He has no less than 11 years of experience in the engineering field. Mr. An was the general manager of Yanlord Industrial (Shenzhen) Co., Ltd. from April 1995 to June 1996 and was appointed as the general manager of Zhuhai Special Economic Zone Ren Heng Electromechanical Company Limited from July 1996 to December 1997. He was the chief engineer of a company engaged in the provision of environmental technology consultancy services between 2001 and 2005 prior to joining our Group in January 2006. He graduated with a bachelor's degree in chemical engineering from Tsinghua University in November 1982.

Mr. Ho Pui Lam Joseph
Mr. Ho, aged 32, is the company secretary of our Company and the finance manager of our Group. He is a member of the Hong Kong Institute of Certified Public Accountants and has over 9 years of experience in the audit and accounting profession. Prior to joining our Group on 1 December 2010, Mr. Ho worked as an audit manager in an international accounting firm. He obtained a bachelor's degree of business administration in accounting and finance from the University of Hong Kong in December 2002.

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 flovouring systems, PF systems and PP Systems.

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group achieved turnover of approximately HK$145,461,000 (2011: HK$156,044,000), representing a slight drop of approximately 6.8%. Such decrease was mainly due to the recognition of revenue from a considerable casing and flavouring system project in Kunming (the "Kunming Project") in the year 2011, which had an aggregate contract value of approximately RMB79 million. Nevertheless, through the continuous effort of our technical personnel in refining respective systems design and modification, and the stringent control of the manufacturing process by our production people, the Group attained both better gross profit and gross profit margin for the year ended 31 December 2012. Gross profit increased by approximately 13.6% to approximately HK$64,500,000 in 2012 from approximately HK$56,771,000 last year, while the gross profit margin in 2012 improved from 36.4% to 44.3%.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK$24,461,000 (2011: approximately HK$22,289,000), representing an increase of approximately 9.7% as compared with last year. The increase were mainly attributable to the increased operating and compliance expenditure resulting from the full operation in Hong Kong after listing, while offset our cost management conducted by our subsidiary in the PRC.

Net profit attributable to shareholders for the year ended 31 December 2012 increased to approximately HK$29,686,000 (2011: approximately HK$25,679,000), representing an increase of approximately 15.6% as compared with 2011.

As at 31 December 2012, the Group has a sound capital structure with a net current assets of approximately HK$172,581,000 (31.12.2011: HK$142,414,000) and zero bank borrowings (31.12.2011: zero). As at 31 December 2012, trade receivables increased by approximately 39.8% from HK$48,487,000 to HK$67,804,000, with an increase in ageing between 1-2 years to approximately HK$15,325,000 (31.12.2011: approximately HK$1,687,000). Such increment was mainly attributable to slower repayment from customers who require our provision of additional modification work. Nevertheless, the amount of trade receivable past due for more than 90 days as a percentage of total net trade receivable decreased to approximately 35.0% (31.12.2011: 70.1%) as at 31 December 2012. As a precautionary and continuous monitoring process, the Group has sent our people and paid visit to our customers to update the project status and followed up directly with customers in respect of overdue payment on a regular basis.

BUSINESS REVIEW

During the year under review, the Group continued to generate majority of the revenue from the sale of catalogued special-purpose tobacco machinery products, amounting to approximately HK$122,232,000 (2011: approximately HK$140,972,000), or approximately 84.0% (2011: approximately 90.3%) of total turnover, comprising completed projects and those in progress.

The slight drop was principally due to the completion of the Kunming Project during 2011, a project with an aggregate contract value of approximately RMB79 million. Nevertheless, the Group has succeeded in securing and recognizing revenue from other casing and flavouring system projects including delivery to cigarette manufacturers in Chongqing, Guangxi, Hunan, Anhui and Xinjiang province, with individual contract value ranged between approximately RMB9 million to RMB22 million.

Improving from 2011, the contribution from the sales of other products, including the sales of non-catalogued ancillary tobacco machinery and supply of hot stamp foil products increased from approximately HK$15,072,000 (approximately 9.7% of total turnover) to approximately HK$23,229,000 (approximately 16.0% of total turnover), representing a growth of approximately 54.1%.

New product design has been progressing satisfactorily and the Group continued to put effort and resources in this aspect so as to extend our product range. During the year under review, the expenditures incurred on research and development amounted to approximately HK$10,294,000 (2011: approximately HK$4,372,000), representing an increase of 135.5%. With our remarkable research and development personnel, we have completed the development of a new PF System and a new PP System during 2012, and at the same time, obtained various patents including the invention patent for tobacco barrel clipping mechanical hand and the automatic flavour spraying system jointly registered with Shanghai Tobacco (Group) Co.. The development of a new casing and flavouring system was still under progress and our people will continue the work and strive to bring along another new series in our product family in coming year.

BUSINESS OUTLOOK

The tobacco machinery industry is believed to grow in a moderate manner. Leveraging on our prolonged relationship with customers, the enhanced corporate brand especially after the Group's listing, and our dedication to production innovation, we are confident to bring sustainable results and create greater value to our shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Our operations were financed principally by revenues generated from business operations, available bank balances and the net proceeds from the placing of shares upon the initial public offering (the "Placing"). As at 31 December 2012, bank balances and cash amounted to approximately HK$120,693,000 (31.12.2011: HK$103,353,000) and the net current assets was approximately HK$172,581,000 (31.12.2011: HK$142,414,000). As at 31 December 2012, the current ratio was approximately 3.7 (31.12.2011: approximately 3.3). The improvement was mainly resulted from our continuous growth in business operations during the year ended 31 December 2012.

The Group did not have any borrowings, mortgages or charges as at 31 December 2012 (31.12.2011: Nil).

CAPITAL EXPENDITURE

The Group purchased property, plant and equipments amounting to approximately HK$1,161,000 for the year ended 31 December 2012 (2011: approximately HK$1,423,000).

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2012 (31.12.2011: 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 (2011: zero).

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 2012 (31.12.2011: Nil).

PLEDGE OF ASSETS

As at 31 December 2012, the Group did not have any restricted bank deposits.

As at 31 December 2011, restricted bank deposits of approximately HK$265,000 were pledged to a bank to secure certain construction contracts.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had a total of 146 employees (31.12.2011: 141). Total staff costs (including directors' remuneration) were approximately HK$11,377,000 for the year ended 31 December 2012 as compared to approximately HK$8,840,000 for the year ended 31 December 2011.

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 us as at 31 December 2012 (31.12.2011: 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 2012.

SEGMENT INFORMATION

The operating activities of the Group are attributable to a single operating segment focusing on manufacturing and sale of tobacco machinery products. The chief executive officer, who is the chief operating decision maker of the Group, regularly reviews revenue analysis by projects related to three types of catalogued special-purpose tobacco machinery products mentioned above.

Segment information about the business of the Group for the year ended 31 December 2012 is set out in note 8 to the consolidated financial statements.

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 Company's prospectus dated 28 October 2011 (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 2012 (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	Completed the development of a new set of PP system
	Design and develop new set of spraying device	Continued the technical feasibility study of a new type of spraying device
	Design and develop new casing and flavouring system	Commenced and continuously developed a new set of casing and flavouring system
	Design and develop new PF system	Completed the development a new set of PF system
	Design and develop tobacco bale slicers	Continued the technical feasibility study of new tobacco bale slicers
	Recruit technical personnel	Recruited technical personnel for product research and development
Enhancing corporate profile and increasing market penetration	Post advertisement in tobacco magazines	Posted advertisement in local publications
	Design and distribute corporate and product brochures as well as video compact disc	Engaged a service provider to commence the design of corporate and product brochures and video
	Participate in trade exhibitions	Explored the opportunity of any trade exhibitions
	Organize product launch promotional activities for casing and flavouring systems	Formulated initial plan for product launch for casing and flavouring system
Enhancing production processing capabilities	Purchase machinery and equipment	Purchased one computerized numerical control ("CNC") press brake, one CNC shearing machine, one lathes and one automatic pipe welding machine
	Upgrade production facilities	Scheduled the upgrade to commence in year 2013
Strengthening management information system	Evaluate, acquire and implement management information system	Completed installation and upgrade of management information system by service provider

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)	16,600	12,283
Enhancing corporate profile and increasing market penetration (Note 2)	1,450	83
Enhancing production processing capabilities (Note 3)	2,940	929
Strengthening management information system (Note 4)	480	382
Total	21,470	13,677

Notes:

1. Approximately HK$3,903,000, HK$6,506,000 and HK$928,000 were used for the design and development of a new set of PP system employing two compressors, a new casing and flavouring system equipping the operating features of movable tanks and automated storage, retrieval and feeding devices and a new set of PF system with only one tube connecting to one cigarette wrapping machine respectively during the Relevant Period. The design and development of the new set of PP system and PF system were completed as at 31 December 2012. The technical feasibility studies of a new type of spraying device and tobacco bale slicers were carried on and the development processes were deferred to a later schedule during the Relevant Period.

   Remaining balance was used to employ technical personnel during the Relevant Period.

2. The Group has engaged a service provider to design corporate and product brochures and videos. Meanwhile, the Group is finalizing a marketing and promotion plan including the posting of advertisement in tobacco magazines and is exploring the opportunity of any trade exhibitions in the PRC. For the product launch promotional activities for casing and flavouring systems, the Group has formulated an initial plan with schedule to be determined upon the outcome of the corporate and product brochures and videos.

3. CNC shearing machine, CNC press brake and automatic pipe welding machine were purchased during the Relevant Period as planned. The Group also purchased a set of lathes instead of a set of CNC lathes according to our latest production need. The upgrade of production facilities has been scheduled to year 2013 in order to avoid any significant disturbance to existing system production.

4. The Group completed the installation and upgrade of management information system during the Relevant Period and is in the process of monitoring the results of the implementation.

The remaining net proceeds as at 31 December 2012 were placed on short-term interest bearing deposits with licensed banks in the PRC and Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29 April to 2 May 2013, 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 Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 26 April 2013.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

Segment information about the business of the Group for the year ended 31 December 2012 is set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income.

The Directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

GROUP FINANCIAL SUMMARY

A summary of the results of the Group for each of the four years ended 31 December 2012 is set out on page 71 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

The investment properties were revalued at 31 December 2012 and the resulting fair value change of approximately HK$740,000 has been credited to the consolidated statement of comprehensive income.

Details of the movements during the year in the investment properties of the Group are set out in note 17 to the consolidated financial statements.

USE OF PROCEEDS

The Company issued 50,000,000 new Shares by way of placing in November 2011 at a price of HK$1.20 per Share. The gross proceeds received by the Company amounted to HK$60,000,000. These proceeds were applied during the year in accordance with the principles set out in the Prospectus and the actual development of the tobacco industry in the PRC. Details of application of net proceeds are set out in the section of "Management discussion and analysis" to this annual report.

SHARE CAPITAL

Details of movements during the year in the share capital are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out on page 31 of this annual report and in note 31 to the consolidated financial statements respectively.

At the end of the reporting date, the Company's reserve available for distribution amounted to approximately HK$40,062,000 (31.12.2011: approximately HK$44,005,000). Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of the Company's memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

BANK BORROWINGS

The Group did not have any bank borrowings during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, sales to the Group's five largest customers in aggregate accounted for approximately 89.6% (2011: approximately 86.2%) of the total sales and sales to the largest customer accounted for approximately 54.4% (2011: approximately 40.6%) of total sales. Purchases from the Group's five largest suppliers in aggregate accounted for approximately 43.5% (2011: approximately 47.3%) of the total purchases and purchases from the largest supplier accounted for approximately 14.4% (2011: approximately 29.8%) of total purchases.

None of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers during the year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:
Mr. Wei Sheng Peng
Ms. Liu Li
Mr. Sun Zhaohui

Independent Non-executive Directors
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

In accordance with Article 16 of the Company's Articles of Association, Mr. Wei Sheng Peng and Ms. Liu Li will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details in respect of the Directors and senior management of the Group are set out in pages 5 to 7 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into service agreements with the Company for a period of three years commencing 20 October 2011 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

Other than those disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at 31 December 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 issued ordinary shares held	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 December 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 the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2012.

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 December 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 year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2012	Approximate percentage of issued share capital of the Company
Director									
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%
				1,300,000	–	–	–	1,300,000	0.65%

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 December 2012, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

Details of the Share Option Scheme are set out in note 26 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors are independent.

CONNECTED TRANSACTION

The Directors are not aware of any connected transactions of the Group that shall be disclosed in this report under the GEM Listing Rules.

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

As at 31 December 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 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 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 December 2012.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management. Having regard of the Group's operating results, individual performance and competence, our remuneration is comparable according to market practices.

The Company has adopted a Share Option Scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 26 to the consolidated financial statements.

Details of Directors' emoluments are set out in note 12 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETING INTERESTS

None of the Directors 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 year ended 31 December 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 December 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.

CORPORATE GOVERNANCE

The corporate governance report adopted by the Company is set out in pages 21 to 26 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the period from the date of listing to 31 December 2012 and as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant events that have taken place subsequent to 31 December 2012 and up to the date of approval of this report.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wei Sheng Peng
Chairman

Hong Kong, 7 March 2013

CORPORATE GOVERNANCE REPORT

The Board considers that maintaining high standard of corporate governance and business ethics will serve the long interest of the Company and of its shareholders. The principles adopted by the Board emphasise a quality board, sound internal control, accountability to shareholders and thus an ethical corporate culture established.

CORPORATE GOVERNANCE PRACTICES

Pursuant to the Corporate Governance Code (the "Code") contained in Appendix 15 to the GEM Listing Rules which sets out the principles of good corporate governance and the Code Provisions, the Company has applied all the Code Provisions as set out in the Code during the year ended 31 December 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has applied the principles of the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company has been confirmed by all Directors that they have complied with or they were not aware of any non-compliance with the required standard of dealings as set out in the GEM Listing Rules during the year ended 31 December 2012.

BOARD OF DIRECTORS

Board composition

Up to the date of this annual report, the Board comprises six Directors, including three executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Wei Sheng Peng *(Chairman)*
Ms. Liu Li
Mr. Sun Zhaohui *(Chief Executive Officer)*

Independent non-executive Directors

Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

Biographical details of Directors are set out on pages 5 to 6 of this annual report.

The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties to the significant issues of overall business planning, management and strategic development of the Group.

Mr. Wei Sheng Peng is the spouse of Ms. Liu Li. Other than that, neither Directors have relation to each other and business relation with the Group, nor the chairman and the chief executive officer have relation to each other.

Board and general meetings

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. During the year ended 31 December 2012 and up to the date of this annual report, there were five board meetings and one general meeting held. The Directors can attend meetings in person or via telephone conference as permitted under the articles of association of the Company.

Details of individual attendance of all Directors at the board meetings and general meeting are as follows:

Name of Directors	Attendance of Board meetings	Attendance of general meeting
Executive Directors		
Mr. Wei Sheng Peng	5/5	1/1
Ms. Liu Li	5/5	1/1
Mr. Sun Zhaohui	5/5	0/1
Independent non-executive Directors		
Mr. Tam Yuk Sang, Sammy	5/5	1/1
Mr. Wong Yiu Kit	5/5	1/1
Mr. Kong Hing Ki	5/5	1/1

Information of material issues, due notice of meeting and minutes of each directors' meeting have been sent to each of the Directors for their information, comment and review.

The Board is responsible to set strategic plans, formulates policies and provides effective oversight over the management on the operational affairs, and members of the Board are individually and collectively accountable to the shareholders of the Company. The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Independent non-executive Directors

Each Director is required to keep abreast of his responsibilities as a director of the Company and of the Company's conduct, business activities and development. Given the essential unitary nature of the Board, independent non-executive Director has the same duties of care and skill and fiduciary duties as executive Directors. Independent non-executive Director brings a wide range of business and financial expertise, experience and independent judgement to the Board. Functions of independent non-executive Director include but should not be limited to the following:

i. participating in Board meetings to bring independent judgement;

ii. taking the lead where potential conflict of interests may arise;

iii. serving on the audit, nomination and remuneration committees if invited; and

iv. scrutinizing the Group's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Pursuant to Rule 5.05 of the GEM Listing Rules, the Board has appointed three independent non-executive Directors, representing half of the Board and all of them have appropriate professional accounting qualifications or related experiences on financial management which is in compliance with Rule 5.05A and 5.05 of the GEM Listing Rules. Each of the independent non-executive Directors is appointed for a period of three years, commencing on 20 October 2011. None of each has served the Group for more than nine years.

All independent non-executive Directors have confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules by providing an annual confirmation of their independence. The Board has assessed their independence and considers that all independent non-executive Directors are independent as required under the GEM Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

During the year ended 31 December 2012, the chairman of the Board is Mr. Wei Sheng Peng who is responsible for the overall business planning and strategic development of the Group and the chief executive officer is Mr. Sun Zhaohui who is responsible for the overall management and corporate development, acquisition and strategy implementation.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered a service agreement for a term of three years, and each of the independent non-executive Directors has been appointed for a term of three years.

Pursuant to Article 16 of the Company's articles of association, one-third of the Directors are subject to retirement from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Wei Sheng Peng and Ms. Liu Li will hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's business and the statutory and regulatory obligations of a director of a listed company.

During the year ended 31 December 2012, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Type of continuous professional development programmes (Note)
Executive Directors	
Mr. Wei Sheng Peng	2
Ms. Liu Li	2
Mr. Sun Zhaohui	1 & 2
Independent non-executive Directors	
Mr. Tam Yuk Sang, Sammy	1 & 2
Mr. Wong Yiu Kit	1 & 2
Mr. Kong Hing Ki	1 & 2

Notes:

1. Attending seminars/courses for development of professional skills and knowledge.

2. Reading materials in relation to regular update to statutory requirements, listing rules and other relevant topics related to listed company.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit. The rest of members are Mr. Tam Yuk Sang, Sammy and Mr. Kong Hing Ki. At the discretion of the audit committee, executive Directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements, annual reports, interim reports and quarterly reports, and to provide advice and comment thereon to the Board.

Up to the date of this annual report, the audit committee held six meetings to review the quarterly, interim and annual results during the year ended 31 December 2012 as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group. All members have attended these six meetings.

Nomination committee

The nomination committee comprises three independent non-executive Directors and is chaired by Mr. Tam Yuk Sang, Sammy. The rest of the members are Mr. Wong Yiu Kit and Mr. Kong Hing Ki. The primary role and function of the nomination committee are to review and monitor the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to carry out the Company's corporate strategies; to assess the independence of independent non-executive Directors; and to make recommendations to the Board succession planning. Up to the date of this annual report, the nomination committee held two meetings to perform the aforesaid functions. All members have attended these two meetings.

Remuneration committee

The remuneration committee comprises three independent non-executive Directors and is chaired by Mr. Kong Hing Ki. The rest of the members are Mr. Tam Yuk Sang, Sammy and Mr. Wong Yiu Kit. The primary role and function of the remuneration committee are to review and make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration; and to review and make recommendations to the Board the remuneration packages of all Directors and senior management. Up to the date of this annual report, the remuneration committee held five meetings and has considered and reviewed the service contracts of the executive Directors and senior management of the Group. All members have attended these five meetings.

AUDITOR'S REMUNERATION

The remuneration of the audit service provided by the auditor of the Group to the Group for the year ended 31 December 2012 was mutually agreed in view of the scope of services, amounting to HK$680,000. There is no significant non-audit service provided by the auditor of the Group for the year.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2012, which give a true and fair view of the financial position of the Group on a going concern basis.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group's assets against unauthorized use or disposition, and to protect the interest of shareholders of the Company. During the year ended 31 December 2012, review of the effectiveness of the Group's internal control systems has been conducted and the result has been summarized and reported to the audit committee and the Board.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 12 of the Articles of Association of the Company (the "Articles of Association"), extraordinary general meeting ("EGM") may be convened by the Board on written requisition of any two or more shareholders of the Company holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists"). Such written requisition must specify the objects of the EGM and must be signed by the Requisitionists and deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such principal office, the registered office of the Company. Shareholders should follow the requirements and procedures as set out in such article for convening an EGM.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong or by email to info@renhengenterprise.com and for the attention of the company secretary.

Procedures for putting forward proposals at shareholders' meetings

There is no provision for shareholders to propose resolutions at general meetings under the Cayman Islands Companies Law. However, shareholders can follow the above procedure and request to convene an EGM.

Pursuant to article 16 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the company secretary notice in writing by a shareholder of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Accordingly shareholders who wish to propose a person for election as a director of the Company shall file a notice in writing to the principal place of business of the Company in Hong Kong for the attention of the company secretary and should follow the requirements and procedures as set out in such article.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publish and posting of notices, announcements and circulars on the GEM website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

During the year ended 31 December 2012, there has been no significant change in the Company's constitutional documents.

Deloitte.
德勤

TO THE SHAREHOLDERS OF RENHENG ENTERPRISE HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of RENHENG Enterprise Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 70, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

7 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	8	**145,461**	156,044
Cost of sales		**(80,961)**	(99,273)
Gross profit		**64,500**	56,771
Other income and gains	9	**6,646**	5,578
Other gains and losses	10	**688**	8
Selling and distribution costs		**(8,228)**	(11,860)
Administrative expenses		**(16,233)**	(10,429)
Research and development costs		**(10,294)**	(4,372)
Listing expenses		**–**	(7,118)
Profit before taxation	11	**37,079**	28,578
Taxation	13	**(7,393)**	(2,899)
Profit for the year		**29,686**	25,679
Other comprehensive income:			
Exchange differences arising on translation		**19**	5,072
Total comprehensive income for the year		**29,705**	30,751
Earnings per share	14		
– Basic		**14.8 HK cents**	16.4 HK cents
– Diluted		**14.8 HK cents**	16.4 HK cents

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**15,093**	15,404
Land use rights	16	**2,997**	3,072
Investment properties	17	**20,101**	19,366
		38,191	37,842
Current assets			
Inventories	18	**11,730**	18,238
Trade and other receivables	19	**101,049**	80,230
Land use rights	16	**74**	74
Amounts due from customers for contract work	20	**2,212**	2,334
Amounts due from related companies	21	**437**	437
Restricted bank deposits	22	**–**	265
Bank balances and cash	22	**120,693**	103,353
		236,195	204,931
Current liabilities			
Trade and other payables	23	**38,699**	50,768
Amounts due to customers for contract work	20	**18,598**	7,406
Tax payable		**6,317**	4,343
		63,614	62,517
Net current assets		**172,581**	142,414
Total assets less current liabilities		**210,772**	180,256
Non-current liabilities			
Deferred tax liabilities	24	**553**	360
		210,219	179,896
Capital and reserves			
Share capital	25	**2,000**	2,000
Reserves		**208,219**	177,896
Total equity		**210,219**	179,896

The consolidated financial statements on pages 29 to 70 were approved and authorised for issue by the Board of Directors on 7 March 2013 and are signed on its behalf by:

WEI SHENG PENG
DIRECTOR

LIU LI
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note a)	Discretionary surplus reserve HK$'000 (Note b)	Statutory surplus reserve HK$'000 (Note b)	Capital reserve HK$'000 (Note c)	Property revaluation reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2011	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 Reorganisation	(390)	–	390	–	–	–	–	–	–	–	–
Placing of shares	500	59,500	–	–	–	–	–	–	–	–	60,000
Capitalisation issue	1,500	(1,500)	–	–	–	–	–	–	–	–	–
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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,686**	**29,686**
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19**	**–**	**19**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19**	**29,686**	**29,705**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**618**	**–**	**–**	**618**
Transfer	**–**	**–**	**–**	**–**	**6,265**	**–**	**–**	**–**	**–**	**(6,265)**	**–**
At 31 December 2012	**2,000**	**52,940**	**49,091**	**3,338**	**12,318**	**999**	**2,775**	**742**	**9,212**	**76,804**	**210,219**

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 Company, acquired pursuant to the Group Reorganisation (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 capitalisation issue.

(c) The capital reserve represented wavier of an amount due to a former shareholder of a subsidiary of the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Profit before taxation	**37,079**	28,578
Adjustments for:		
Depreciation of property, plant and equipment	**1,433**	1,383
Loss on disposal of property, plant and equipment	**16**	2
Allowance for doubtful debts	**36**	171
Operating lease rentals in respect of land use rights	**74**	72
Interest income	**(976)**	(338)
Gain on fair value changes of investment properties	**(740)**	(181)
Share option expenses	**618**	124
Operating cash flows before movements in working capital	**37,540**	29,811
Decrease in inventories	**6,504**	386
Increase in trade and other receivables	**(20,871)**	(36,781)
Decrease (increase) in amounts due from customers for contract work	**122**	(657)
Increase in amounts due from related companies	**–**	(4)
(Decrease) increase in trade and other payables	**(12,013)**	7,710
Increase (decrease) in amounts due to customers for contract work	**11,193**	(968)
Cash from (used in) operations	**22,475**	(503)
PRC Enterprise Income Tax paid	**(5,224)**	(5,519)
Net cash from (used in) operating activities	**17,251**	(6,022)
Investing activities		
Interest received	**976**	338
Release of restricted bank deposits	**265**	–
Proceeds from disposal of property, plant and equipment	**20**	–
Purchase of property, plant and equipment	**(1,161)**	(1,423)
Addition in restricted bank deposits	**–**	(19)
Net cash from (used in) investing activities	**100**	(1,104)
Financing activities		
Proceeds from placing of shares	**–**	60,000
Expenses incurred in connection with placing of shares	**–**	(4,528)
Repayment to related companies	**–**	(2,500)
Net cash from financing activities	**–**	52,972
Net increase in cash and cash equivalents	**17,351**	45,846
Cash and cash equivalents at beginning of the year	**103,353**	54,383
Effect of foreign exchange rate changes	**(11)**	3,124
Cash and cash equivalents at end of the year, represented by bank balances and cash	**120,693**	103,353

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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") since 18 November 2011. The Group is controlled by Mr. Wei Sheng Peng jointly with his spouse Ms. Liu Li (collectively the "Controlling Shareholders"), both of whom are directors of the Company.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the manufacture and sale of tobacco machinery products. The address of the registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of the principal place of the Company is Room 3805, 38/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

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 reorganisation (the "Group Reorganisation") 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 the Controlling Shareholders through a direct held wholly-owned subsidiary Yanlord Industry Investment Limited ("Yanlord Industry Investment"). On 15 October 2009, RENHENG Global was incorporated in the British Virgin Islands and owned by Yanlord Industry Investment, 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 Investment 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 Investment at 60% and 40% respectively.

(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 Reorganisation is regarded as a continuing entity. Accordingly, the consolidated statements of comprehensive income and cash flows for the year ended 31 December 2011 included the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Group Reorganisation had been in existence throughout the year ended 31 December 2011, or since their respective dates of incorporation where this was a shorter period.

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

In the current year, the Group has applied a number of amendments to HKFRSs and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets
Amendments to HKAS 1	As part of the annual improvements to HKFRSs 2009-2011 cycle issued in 2012

Except as described below, the application of other amendments to HKFRSs and HKAS in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 "Deferred tax: Recovery of underlying assets"

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group has rebutted the presumption that the Group's investment properties located in the PRC of carrying amount of approximately HK$20,101,000 (2011: HK$19,366,000) as such properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Accordingly, the adoption of amendments to HKAS 12 has no impact on the deferred tax liabilities in respect of properties located in the PRC.

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

The Group has not early applied the following new and revised HKFRSs, HKAS and interpretations ("INT") (collectively referred to as "new and revised HKFRSs") that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 1	Government loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC)*-INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.
* IFRIC represents the International Financial Reporting Interpretations Committee.

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

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The application of the new standard will have no significant impact on amounts reported in the consolidated financial statements and disclosures in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The directors of the Company anticipate that the amendments to HKAS 1 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the consolidated financial statements in the future accounting periods.

The management anticipates that the application of the other new and revised HKFRSs will have no material impact on the Group's financial performance and position.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties that are measured at fair values, and in accordance with HKFRSs. In addition, the consolidated financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the GEM and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Revenue from construction contracts is recognised using the percentage of completion method by reference to the value of work carried out during the year as determined by progress verification certificate issued by customers.

Rental income, including rental invoiced in advance from investment properties let under operating leases, is recognised on a straight line basis over the relevant lease terms.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by progress verification certificate issued by customers. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (continued)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and as a reduction of rental expense over the lease term on a straight line basis.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the relevant lease term.

Land use rights

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is released over the lease term on a straight line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets comprise financial assets classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated from the functional currency of the respective companies into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sales, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund ("MPF") Scheme, which are defined contribution schemes, are recognised as expenses when employees have rendered service entitling them to the contributions.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, are described below.

Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are made on trade and other receivables whenever there is any objective evidence that the balances may not be collectible. The Group makes judgement in assessing the collectability based on observable data including creditworthiness and payment history of the customers (for details please refer to note 19). When objective evidence for allowance exists, the amount of allowance is determined at the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the original effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

At 31 December 2012, the carrying amounts of trade and other receivables, net of allowance, is HK$94,721,000 (2011: HK$72,028,000).

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31 December 2012, the carrying amounts of inventories is HK$11,730,000 (2011: HK$18,238,000).

Construction contracts

Revenue from construction contract is recognised under the percentage of completion method which requires estimation made by the management. Anticipated losses are fully provided on contracts when identified. The management estimates the contract costs and foreseeable losses of construction based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, the management reviews and revises the estimates of contract costs in the budget prepared for each contract as the contract progresses. Where the contract revenue is less than expected or actual contract costs are more than expected, additional losses may need to be recognised.

As at 31 December 2012, the carrying amounts due from (to) the customers for contract work are HK$2,212,000 and HK$18,598,000 (2011: HK$2,334,000 and HK$7,406,000) respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 **HK$'000**	2011 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**215,851**	176,083
Financial liabilities		
Amortised cost	**35,065**	43,773

(b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, amounts due from related companies, restricted bank deposits, bank balances and cash and trade and other payables.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk from prior year.

7. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Currency risk

The carrying amounts of the foreign currency (other than the functional currency) denominated monetary assets of the Group, representing bank balances and cash, at the end of reporting period are as follows:

	2012 **HK$'000**	2011 HK$'000
Hong Kong dollars	**27,253**	54,472
United States dollars	**100**	–

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a 5% increase and decrease in its functional currency against the relevant foreign currency. 5% is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary item and adjusts its translation at the year end for a 5% change in foreign currency rates.

A negative number indicates a decrease in profit for the year when its functional currency strengthens 5% against the relevant foreign currency. For a 5% weakening of its functional currency against the relevant currency, there would be an equal but opposite impact on the profit for the year.

	Hong Kong dollars		**United States dollars**	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Profit for the year	**(1,363)**	(2,724)	**(5)**	–

In the management's opinion, the sensitivity analysis above is unrepresentative for the foreign exchange risk as the exposure at the end of reporting period does not reflect the exposure during the year.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank deposits and bank balances (see note 22 for details of these deposits) at the end of the reporting period. The management considers the Group's exposure of the short-term bank deposits and balances to interest rate risk is not significant as interest bearing bank deposits and balances are within short maturity period.

7. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 51% (2011: 82%) of the aggregated amount of trade receivables and retention money receivables was due from the Group's five largest customers, which operate in the tobacco industry in the PRC. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table represented principal cash flows since the balances are non-interest bearing.

7. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Repayable on demand HK$'000	Less than 3 months HK$'000	Total undiscounted cash flows HK$'000	Total carrying amounts HK$'000
2012				
Trade and other payables	**4,419**	**30,646**	**35,065**	**35,065**
2011				
Trade and other payables	7,961	35,812	43,773	43,773

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

8. 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:

	2012 HK$'000	2011 HK$'000
Sales of goods	**47,222**	44,884
Revenue from construction contracts of casing and flavouring system	**98,239**	111,160
	145,461	156,044

8. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief executive officer of the 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 system, pneumatic feeding system, pre-pressing packing machine 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 segment information is presented.

Entity-wide information

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

	2012 **HK$'000**	2011 HK$'000
Revenue from construction contracts of casing and flavouring system	**98,239**	111,160
Sales of		
– pneumatic feeding system	**10,442**	18,469
– pre-pressing packing machine	**13,551**	11,343
– other products	**23,229**	15,072
	145,461	156,044

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

	2012 **HK$'000**	2011 HK$'000
Customer A[1]	**79,064**	63,364
Customer B[2]	**–**	53,298

1 Revenue from construction contracts of casing and flavouring system.

2 Revenue from sales of all products. The revenue contributed did not exceed 10% of the total sales of the Group during the year ended 31 December 2012.

All of the Group's turnover 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 comprise of HK$38,171,000 (2011: HK$37,802,000) which are located in the PRC (excluding Hong Kong) and HK$20,000 (2011: HK$40,000) which are located in Hong Kong.

9. OTHER INCOME AND GAINS

	2012 **HK$'000**	2011 HK$'000
Sales of materials, parts and components, net gain	**2,563**	2,210
Subsidy income *(note)*	**1,912**	2,020
Rental income	**874**	853
Interest income	**976**	338
Others	**321**	157
	6,646	5,578

Note: Based on a document issued by the People's Government of Baoying, Baoying Renheng is entitled to one-off tax refunds 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. There were no unfulfilled conditions attached to these refunds, therefore, the Group recognised the refunds upon receipts.

10. OTHER GAINS AND LOSSES

	2012 **HK$'000**	2011 HK$'000
Gain on fair value changes of investment properties	**740**	181
Allowance for doubtful debts	**(36)**	(171)
Loss on disposal of property, plant and equipment	**(16)**	(2)
	688	8

11. PROFIT BEFORE TAXATION

	2012 **HK$'000**	2011 HK$'000
Profit before taxation has been arriving at after charging:		
Directors' emoluments *(note 12)*	**1,261**	155
Other staff costs:		
Salaries, bonus and allowances	**8,891**	8,003
Retirement benefits scheme contributions	**702**	577
Share-based payment expense	**523**	105
Total staff costs	**11,377**	8,840
Depreciation of property, plant and equipment	**1,433**	1,383
Auditor's remuneration	**680**	650
Cost of inventories recognised as an expense	**28,563**	21,220
Construction contract costs recognised as an expense	**52,398**	78,053
Operating lease rentals in respect of		
land use rights	**74**	72
office premise	**158**	152

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable by the Group to directors of the Company and the chief executive of the Group are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payment expense HK$'000	Total emoluments HK$'000
2012					
Executive directors:					
Mr. Wei Sheng Peng	**–**	**120**	**6**	**–**	**126**
Ms. Liu Li	**–**	**120**	**6**	**–**	**126**
Mr. Sun Zhaohui	**–**	**540**	**14**	**95**	**649**
Independent non-executive directors:					
Mr. Tam Yuk Sang, Sammy	**120**	**–**	**–**	**–**	**120**
Mr. Wong Yiu Kit	**120**	**–**	**–**	**–**	**120**
Mr. Kong Hing Ki	**120**	**–**	**–**	**–**	**120**
	360	**780**	**26**	**95**	**1,261**
2011					
Executive directors:					
Mr. Wei Sheng Peng	–	14	–	–	14
Ms. Liu Li	–	14	–	–	14
Mr. Sun Zhaohui	–	64	2	19	85
Independent non-executive directors:					
Mr. Tam Yuk Sang, Sammy	14	–	–	–	14
Mr. Wong Yiu Kit	14	–	–	–	14
Mr. Kong Hing Ki	14	–	–	–	14
	42	92	2	19	155

Mr. Sun Zhaohui is also the chief executive of the Group and his emoluments disclosed above included those for services rendered by him as the chief executive.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The five highest paid individuals of the Group included one (2011: nil) executive director, details of whose emoluments are set out above. The emoluments of the remaining four (2011: five) highest paid employees of the Group are as follows:

	2012 HK$'000	2011 HK$'000
Employees		
– salaries and allowances	677	734
– performance related bonus	424	619
– retirement benefits scheme contributions	36	39
– share-based payment expense	48	9
	1,185	1,401

The emoluments of each of the five highest paid individuals during both years are below HK$1,000,000.

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments during both years.

13. TAXATION

	2012 HK$'000	2011 HK$'000
The charge comprises:		
PRC Enterprise Income Tax		
– current year	6,670	6,284
– under (over) provision in prior year	530	(3,295)
	7,200	2,989
Withholding tax on distributed profits	–	673
Deferred taxation *(note 24)*		
– attributable to change in tax rate	–	(177)
– current year	193	(586)
	193	(763)
	7,393	2,899

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 purpose at 15% (2011: 15%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation (the "EIT Law").

13. TAXATION (CONTINUED)

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. Baoying Renheng has been recognised as a HNTE in 2011 and is therefore entitled to a reduced tax rate at 15% for 3 years, which is applied retrospectively to prior year. Such tax concession is subject to renewal by the local tax authority. An overprovision of PRC Enterprise Income Tax amounted to approximately HK$3,295,000 has been adjusted in the year ended 31 December 2011. In addition, the deferred tax balance has been adjusted to reflect the tax rate that is expected to apply in the respective periods when the assets are realised or the liabilities are settled.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Profit before taxation	**37,079**	28,578
Tax at the applicable tax rate of 15% (2011: 15%)	**5,562**	4,287
Tax effect of expenses not deductible for tax purposes	**1,405**	2,228
Tax effect of income not taxable for tax purposes	**(15)**	(10)
Effect of different tax rates of subsidiaries in other jurisdictions	**(89)**	(134)
Effect of change in tax rate	**–**	(177)
Under(over)provision in prior year	**530**	(3,295)
Tax charge for the year	**7,393**	2,899

14. EARNINGS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**29,686**	25,679
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**200,000,000**	156,164,384
Effect of dilutive potential shares		
Share options	**302,151**	–
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**200,302,151**	156,164,384

14. EARNINGS PER SHARE (CONTINUED)

For the year ended 31 December 2011, the calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the assumption that the group reorganisation and the capitalisation issue of 149,999,900 shares as disclosed in note 25 had been effective on 1 January 2011.

For the year ended 31 December 2011, the computation of diluted earnings per share 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Total HK$'000
COST						
At 1 January 2011	16,168	412	209	1,867	4,979	23,635
Currency realignment	774	20	11	106	252	1,163
Additions	–	19	84	704	616	1,423
Disposals	–	–	–	–	(19)	(19)
At 31 December 2011	16,942	451	304	2,677	5,828	26,202
Currency realignment	(4)	–	–	–	(1)	(5)
Additions	–	35	320	531	275	1,161
Disposals	–	–	(64)	–	(309)	(373)
At 31 December 2012	**16,938**	**486**	**560**	**3,208**	**5,793**	**26,985**
DEPRECIATION						
At 1 January 2011	3,951	327	93	1,086	3,514	8,971
Currency realignment	208	16	5	59	173	461
Provided for the year	783	47	52	271	230	1,383
Eliminated on disposals	–	–	–	–	(17)	(17)
At 31 December 2011	4,942	390	150	1,416	3,900	10,798
Currency realignment	(1)	–	–	–	(1)	(2)
Provided for the year	802	16	74	296	245	1,433
Eliminated on disposals	–	–	(59)	–	(278)	(337)
At 31 December 2012	**5,743**	**406**	**165**	**1,712**	**3,866**	**11,892**
CARRYING VALUES						
At 31 December 2012	**11,195**	**80**	**395**	**1,496**	**1,927**	**15,093**
At 31 December 2011	12,000	61	154	1,261	1,928	15,404

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated at the following rates, after taking into account of their estimated residual values, on a straight line basis:

Buildings	5%
Furniture, fixtures and office equipment	20% – 33%
Computer equipment	33%
Motor vehicles	10% – 20%
Plant and machinery	20%

The Group's buildings are held under medium-term leases and are situated in the PRC.

16. LAND USE RIGHTS

	2012 HK$'000	2011 HK$'000
CARRYING AMOUNT		
At beginning of the year	**3,146**	3,073
Currency realignment	**(1)**	145
Charge to profit or loss during the year	**(74)**	(72)
At end of the year	**3,071**	3,146
Non-current asset	**2,997**	3,072
Current asset	**74**	74
	3,071	3,146

The Group's leasehold interest in land is held under medium-term leases and is situated in the PRC.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2011	18,305
Currency realignment	880
Increase in fair value recognised in profit or loss	181
At 31 December 2011	19,366
Currency realignment	(5)
Increase in fair value recognised in profit or loss	740
At 31 December 2012	**20,101**

17. INVESTMENT PROPERTIES (CONTINUED)

The investment properties are measured using the fair value model at the end of the reporting period based on the valuation carried out by Greater China Appraisal Limited ("Greater China Appraisal") by adopting the direct comparison approach making reference to comparable sales evidence. Greater China Appraisal is an independent qualified professional property valuer not connected with the Group, who has appropriate qualifications and recent experience in the valuations of similar properties in the relevant location.

The Group's investment properties are held under medium-term leases to earn rentals and are situated in the PRC.

18. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**8,917**	13,884
Work in progress	**2,813**	4,354
	11,730	18,238

19. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**70,169**	50,852
Less: Allowance for doubtful debts	**(2,365)**	(2,365)
	67,804	48,487
Retention money receivables	**22,769**	19,088
Prepayments and deposits	**6,328**	8,202
Sundry receivables	**4,676**	4,945
Less: Allowance for doubtful debts	**(528)**	(492)
	33,245	31,743
	101,049	80,230

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. Retention money receivables refer to the sum retained by customers after the delivery and completion of the contracts but before the expiry of the warranty period given by the Group, which in general, a period of 12 months. Included in retention money receivables with carrying amount of HK$3,990,000 (2011: Nil) which is 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 amount is recoverable. The Group does not hold any collateral over the balance.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

	2012	2011
	HK$'000	HK$'000
0 – 90 days	**44,086**	14,484
91 – 365 days	**8,368**	32,291
1 – 2 years	**15,325**	1,687
Over 2 years	**25**	25
	67,804	48,487

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.

	2012	2011
	HK$'000	HK$'000
91 – 365 days	**8,368**	32,291
1 – 2 years	**15,325**	1,687
Over 2 years	**25**	25
	23,718	34,003

The Group's management closely monitors the credit quality of receivables and considers those receivables that are neither past due nor impaired to be of a good credit quality.

Movement in the allowance for doubtful debts:

	2012	2011
	HK$'000	HK$'000
At beginning of the year	**2,857**	2,560
Currency realignment	**–**	126
Provided for the year	**36**	171
At end of the year	**2,893**	2,857

The allowance for doubtful debts represented individually impaired trade and other receivables which have been placed under liquidation or in severe financial difficulties or assessed by the management that the relevant receivables are not expected to be recoverable. The Group does not hold any collateral over these balances.

20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2012 HK$'000	2011 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**49,121**	8,670
Less: Progress billings	**(65,507)**	(13,742)
	(16,386)	(5,072)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**2,212**	2,334
Amounts due to customers for contract work	**(18,598)**	(7,406)
	(16,386)	(5,072)

Retentions by the customers for contract works, included in note 19, were amounted to HK$15,362,000 (2011: HK$13,859,000), and advances received from customers for contract work, included in note 23, were amounted to nil (2011: HK$2,285,000).

21. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

Name of related company	**31.12.2012 HK$'000**	31.12.2011 HK$'000	1.1.2011 HK$'000	**Maximum amount outstanding during the year 2012 HK$'000**	2011 HK$'000
Yangzhou Jinchuang Curtain Wall Engineering Company Limited （揚州金窗幕牆工程有限公司）	**224**	224	214	**224**	224
Yangzhou Longtai Electric Company Limited （揚州龍泰電器有限公司）	**213**	213	203	**269**	376
	437	437	417		

Note: The Controlling Shareholders are also the controlling shareholders of these companies. The amounts are allowed for a credit period of three months, unsecured and interest-free.

21. AMOUNTS DUE FROM RELATED COMPANIES (CONTINUED)

The following is an aged analysis of trade balances with related companies for rental services based on the invoice date at the end of the reporting period.

	2012 **HK$'000**	2011 HK$'000
0 – 90 days	**437**	437

22. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances comprising cash and short-term bank deposits with an original maturity of three months or less carried at prevailing market deposit rate. The effective interest rate of these deposits ranged from 0.01% to 3.10% (2011: 0.50% to 1.50%) per annum.

As at 31 December 2011, the restricted bank deposits represented deposits of HK$265,000 with effective interest rate of 0.5% per annum pledged to a bank to secure certain construction contracts, which was released during the year ended 31 December 2012.

23. TRADE AND OTHER PAYABLES

	2012 **HK$'000**	2011 HK$'000
Trade payables	**32,845**	40,472
Advances from customers	**1,093**	4,020
Accrued welfare expense	**1,770**	1,770
Valued added tax payable	**771**	1,205
Other payables	**2,220**	3,301
	38,699	50,768

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

	2012 **HK$'000**	2011 HK$'000
0 – 90 days	**30,662**	35,812
91 – 365 days	**1,852**	3,685
1 – 2 years	**4**	660
2 – 3 years	**327**	315
	32,845	40,472

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

24. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current or prior year:

	Provision for trade and other receivables	Provision for inventories	Withholding tax on undistributed profits	Revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	640	771	(642)	(1,842)	(1,073)
Currency realignment	25	29	(31)	(73)	(50)
Effect of change in tax rate	(261)	(316)	–	754	177
Credit (charge) to profit or loss for the year	26	–	673	(113)	586
At 31 December 2011	430	484	–	(1,274)	(360)
Credit (charge) to profit or loss for the year	5	–	–	(198)	(193)
At 31 December 2012	**435**	**484**	**–**	**(1,472)**	**(553)**

As at 31 December 2012, the Group does not recognise deferred tax liability in relation to withholding tax on undistributed profits of a PRC subsidiary of HK$98,553,000 (2011: HK$62,902,000), because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

25. 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 and 31 December 2012	**1,000,000,000**	**10,000**
Issued and fully paid:		
Issue of shares upon Group Reorganisation on 2 February 2011 (date of incorporation)	100	–
Capitalisation issue	149,999,900	1,500
Placing of shares	50,000,000	500
At 31 December 2011 and 31 December 2012	**200,000,000**	**2,000**

The Company was incorporated on 2 February 2011 with an authorised share capital of HK$387,500 divided 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 Capital Group Limited and Open Venture Global Limited, 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:

(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 capitalise 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$1.2 per share by way of placing. On 18 November 2011, the Company's shares were listed on the GEM.

26. SHARE OPTION SCHEMES

(a) Share option scheme

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on 20 October 2011 (the "Share Option Scheme"), the Company may grant options to eligible directors of the Company, eligible employees of the Group and other selected participants, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$10 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

(i) the closing price of the Company's shares on the GEM on the date of grant;

(ii) the average of closing prices of the Company's shares on the GEM on the five trading days immediately preceding the date of grant of the option; and

(iii) the nominal value of the Company's shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of Company.

Up to the date of issuance of the consolidated financial statements, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

(b) Pre-IPO share option scheme

The principal terms of the Pre-IPO share option scheme, approved by a written resolution of the shareholders of the Company dated 20 October 2011, are substantially the same as the terms of the Share Option Scheme except that:

(i) the exercise price of the share option is 80% of HK$1.20; and

(ii) the option shall only be exercisable on or after 1 January 2013 and expire not later than 10 years from the date of grant.

26. SHARE OPTION SCHEMES (CONTINUED)

(b) Pre-IPO share option scheme (continued)

The following table sets out the movements in the share options of the Company during the period:

Date of grant	Exercisable period	Exercise price HK$	Granted on 20.10.2011	Outstanding as at 31.12.2011 and 31.12.2012
A director of the Company:				
20.10.2011	1.1.2013 to 19.10.2021	0.96	**200,000**	**200,000**
Employees:				
20.10.2011	1.1.2013 to 19.10.2021	0.96	**1,100,000**	**1,100,000**
Exercisable at the end of the year				–

The fair value of those granted share options at the date of grant determined using the Binomial option pricing model ("Binomial model") was HK$742,000.

The following assumptions were used to calculate the fair value of share options:

Share price on date of grant	HK$1.154
Exercise price	HK$0.96
Expected volatility	43.1%
Expected life of options	10 years
Risk-free interest rate	1.378%
Sub-optional exercise factor	2.2
Expected dividend yield	–

Expected volatility was estimated by the average annualised standard derivations of the continuously compounded rates of return on the share prices of comparable companies with similar business operation because of insufficient price history of the Company's shares.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

During the year ended 31 December 2012, the Group recognised total expenses of HK$618,000 (2011: HK$124,000) in relation to share options granted by the Company.

27. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under an non-cancellable operating lease for its office property which fall due as follows:

	2012 **HK$'000**	2011 HK$'000
Within one year	**7**	165
In the second to fifth years inclusive	**–**	7
	7	172

Lease was negotiated and rental was fixed originally for a lease term of two years (2011: two years).

The Group as lessor

At the end of the reporting period, the Group had contracted with related companies, companies controlled by the directors of the Company, for the following future minimum lease payments:

	2012 **HK$'000**	2011 HK$'000
Within one year	**947**	874

The investment properties have committed tenants for lease terms of one year.

28. RETIREMENT BENEFITS SCHEME

The Group participates in the MPF Scheme registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs with a cap of monthly contributions of HK$1,000 (HK$1,250 effective from 1 June 2012) to the MPF Scheme, which contribution is matched by employee.

The employees of the Group's PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of its payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The amounts incurred for retirement benefit scheme contributions are disclosed in note 11. According to the respective schemes, those contributions are not refundable nor forfeitable.

29. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related companies disclosed in the respective notes, the Group entered into the following transactions with related companies. The Controlling Shareholders are also the controlling shareholders of these related companies.

Nature of transactions	**2012** **HK$'000**	2011 HK$'000
Rental income	**874**	853
Purchase of goods	**296**	64
Subcontracting work	**13**	146

Compensation of key management personnel

Details of the remuneration of key management personnel, which are the directors and five highest paid employees, during the year, were set out in note 12.

30. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of subsidiary	**Place of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest of the Group**		**Principal activities**
			2012	2011	
RENHENG Global	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
RENHENG Tech Limited	Hong Kong	HK$1	**100%**	100%	Investment holding
Baoying Renheng (wholly foreign-owned enterprise)	PRC	RMB62,857,143	**100%**	100%	Manufacture and sale of tobacco machinery products

Note: RENHENG Global is directly held by the Company. Other subsidiaries are indirectly held by the Company.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

31. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company is set out below:

	2012 HK$'000	2011 HK$'000
Investment in a subsidiary	**378**	378
Other receivables	**33**	29
Amount due from a subsidiary *(Note)*	**16,033**	–
Bank balances and cash	**27,251**	54,206
Other payables	**(1,255)**	(2,295)
Amount due to a subsidiary *(Note)*	**–**	(5,935)
Net assets	**42,440**	46,383
Share capital	**2,000**	2,000
Reserves	**40,440**	44,383
Total equity	**42,440**	46,383

Note: The amounts are unsecured, interest-free and repayable on demand.

31. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Movement in share capital and reserves is set out below:

	Share capital HK$'000	Share premium HK$'000 (Note a)	Other reserve HK$'000 (Note b)	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Loss and total comprehensive expense for the period	–	–	–	–	(9,059)	(9,059)
Arising from the group reorganisation	–	–	378	–	–	378
Placing of shares	500	59,500	–	–	–	60,000
Capitalisation issue	1,500	(1,500)	–	–	–	–
Expenses incurred in connection with the placing of shares	–	(5,060)	–	–	–	(5,060)
Recognition of equity-settled share-based payments	–	–	–	124	–	124
At 31 December 2011	2,000	52,940	378	124	(9,059)	46,383
Loss and total comprehensive expense for the year	–	–	–	–	(4,561)	(4,561)
Recognition of equity-settled share-based payments	–	–	–	618	–	618
At 31 December 2012	**2,000**	**52,940**	**378**	**742**	**(13,620)**	**42,440**

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to HK$40,062,000 (2011: HK$44,005,000).

(b) Other reserve represented the net asset value of RENHENG Global which was acquired by the Company at nil consideration pursuant to the group reorganisation underwent in prior years.

Financial Summary

	Year ended 31 December			
	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS				
Turnover	72,616	91,713	156,044	**145,461**
Profit before taxation	16,733	27,738	28,578	**37,079**
Taxation	(5,748)	(7,805)	(2,899)	**(7,393)**
Profit for the year	10,985	19,933	25,679	**29,686**

	As at 31 December			
	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES				
Total assets	94,503	153,124	242,773	**274,386**
Total liabilities	(23,130)	(59,043)	(62,877)	**(64,167)**
Net assets	71,373	94,081	179,896	**210,219**

The results and summary of assets and liabilities for year ended 31 December 2009 and 2010 are extracted from the Company's prospectus dated 28 October 2011.