



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



First Quarterly Report

2013

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

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This report, for which the directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM 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.

HIGHLIGHTS

- Turnover for the three months ended 31 March 2013 was approximately HK\$20,039,000, representing an increase of approximately 21.6% as compared with the corresponding period in 2012;
- Profit attributable to shareholders of the Company for the three months ended 31 March 2013 was approximately HK\$2,995,000, representing an increase of approximately 468.3% as compared with the corresponding period in 2012; and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2013.

The board of Directors (the “Board”) of the Company is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2013 together with the unaudited comparative figures for the corresponding period in 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended 31 March	
	Notes	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	4	20,039	16,477
Cost of sales		(11,838)	(9,666)
		<hr/>	<hr/>
Gross profit		8,201	6,811
Other income and gains	5	2,199	526
Other gains and losses	6	(26)	–
Selling and distribution costs		(2,132)	(1,561)
Administrative expenses		(2,615)	(3,372)
Research and development costs		(1,927)	(1,465)
		<hr/>	<hr/>
Profit before taxation	7	3,700	939
Taxation	8	(705)	(412)
		<hr/>	<hr/>
Profit for the period		2,995	527
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences arising on translation of a foreign subsidiary		763	2,071
		<hr/>	<hr/>
Total comprehensive income for the period		<u>3,758</u>	<u>2,598</u>
Earnings per share	9		
– Basic		<u>1.50 HK cents</u>	<u>0.26 HK cents</u>
– Diluted		<u>1.50 HK cents</u>	<u>0.26 HK cents</u>

NOTES TO QUARTERLY RESULTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 2 February 2011 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company acts as an investment holding company while its subsidiaries are principally engaged in the manufacture and sale of tobacco machinery products in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Room 3805, 38/F., Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, respectively.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the preparation of the unaudited consolidated financial statements for the three months ended 31 March 2013 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2012.

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

The Group has applied all the standards, amendments and interpretations issued by HKICPA, which are effective for the Group's financial year beginning 1 January 2013. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and presentation of the Group's unaudited consolidated financial statements.

4. TURNOVER

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

	For the three months ended 31 March	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Sales of goods	4,573	12,929
Revenue from construction contracts of casing and flavouring system	15,466	3,548
	<u>20,039</u>	<u>16,477</u>

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

	For the three months ended 31 March	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from construction contracts of casing and flavouring system	15,466	3,548
Sales of		
– pneumatic feeding system	1,403	2,790
– pre-pressing packing machine	–	644
– other products	3,170	9,495
	<u>20,039</u>	<u>16,477</u>

5. OTHER INCOME AND GAINS

	For the three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of materials, parts and components, net gain	105	257
Rental income	237	218
Interest income	617	51
Subsidy income (<i>note</i>)	1,236	–
Others	4	–
	<u>2,199</u>	<u>526</u>

Note: Pursuant to a document issued by the People's Government of Yangzhou in promoting enterprise of Yangzhou and underneath counties to seek public listing, Bao Ying Ren Heng Industrial Co., Ltd. ("Baoying Renheng") is eligible for a subsidy income after its successful listing. The amount represented the subsidy income as granted by the People's Government of Baoying to Baoying Renheng. There were no unfulfilled conditions attached to the subsidy income, and therefore, the Group recognized the amount as income upon receipt.

6. OTHER GAINS AND LOSSES

	For the three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	26	–
	<u>26</u>	<u>–</u>

7. PROFIT BEFORE TAXATION

	For the three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arriving at after charging:		
Directors' emoluments	292	315
Other staff costs:		
Salaries, bonus and allowances	2,115	2,007
Retirement benefits scheme contributions	188	140
Share-based payment expense	–	131
	<u>2,595</u>	<u>2,593</u>
Total staff costs		
Depreciation of property, plant and equipment	389	354
Auditor's remuneration	200	175
Cost of inventories recognized as an expense	2,920	7,648
Construction contract costs recognized as an expense	8,918	2,018
Operating lease rentals in respect of land use rights	19	19
office premise	66	40
	<u>66</u>	<u>40</u>

8. TAXATION

	For the three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC Enterprise Income Tax – current period	705	412
	<u>705</u>	<u>412</u>

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

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 15% (three months ended 31 March 2012: 15%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

9. EARNINGS PER SHARE

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

	For the three months ended 31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>2,995</u>	<u>527</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	200,000,000	200,000,000
Effect of dilutive potential shares		
Share options	<u>283,946</u>	–
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>200,283,946</u>	<u>200,000,000</u>

For the three months ended 31 March 2012, 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.

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2013 (three months ended 31 March 2012: Nil).

11. MOVEMENT OF EQUITY

	Share capital	Share premium	Discretionary Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2012	2,000	52,940	49,091	3,338	6,053	999	2,775	124	9,193	53,383	179,896
Profit for the period	-	-	-	-	-	-	-	-	-	527	527
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	-	2,071	-	2,071
Total comprehensive income for the period	-	-	-	-	-	-	-	-	2,071	527	2,598
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	155	-	-	155
At 31 March 2012	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>6,053</u>	<u>999</u>	<u>2,775</u>	<u>279</u>	<u>11,264</u>	<u>53,910</u>	<u>182,649</u>
At 1 January 2013	2,000	52,940	49,091	3,338	12,318	999	2,775	742	9,212	76,804	210,219
Profit for the period	-	-	-	-	-	-	-	-	-	2,995	2,995
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	-	763	-	763
Total comprehensive income for the period	-	-	-	-	-	-	-	-	763	2,995	3,758
At 31 March 2013	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>12,318</u>	<u>999</u>	<u>2,775</u>	<u>742</u>	<u>9,975</u>	<u>79,799</u>	<u>213,977</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the manufacture, sale and provision of maintenance, overhaul and modification services in respect of tobacco machinery products in the PRC. We generate our turnover primarily from projects related to three types of catalogued special-purpose tobacco machinery products, namely the casing and flavouring systems, pneumatic feeding systems ("PF systems") and pre-pressing packing machines ("PP systems").

FINANCIAL REVIEW

For the three months ended 31 March 2013, the Group's revenue increased by approximately 21.6% to HK\$20,039,000 (three months ended 31 March 2012: approximately HK\$16,477,000) as compared to the corresponding period last year. Such increment was mainly due to the recognition of revenue from several large casing and flavouring system projects in this quarter. The gross profit margin for the 2 periods remained stable at approximately 41.3% and 40.9% for the three months ended 31 March 2012 and 2013 respectively.

Continued with our cost management, the operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, dropped slightly by 3.8% to approximately HK\$4,737,000 for the current financial period (three months ended 31 March 2012: approximately HK\$4,933,000). The net profit for the three months ended 31 March 2013 amounted to approximately HK\$2,995,000 (three months ended 31 March 2012: approximately HK\$527,000), representing an increase of approximately 468.3%. Apart from the favourable operating results, the improvement was also contributed by the receipt and recognition of a subsidy income during the period under review.

BUSINESS REVIEW

For the three months ended 31 March 2013, the Group generated majority of the revenue from the sale of catalogued special-purpose tobacco machinery products, amounting to approximately HK\$16,869,000 (three months ended 31 March 2012: approximately HK\$6,982,000). The increase of approximately 141.6% was principally due to revenue recognized from casing and flavouring system projects, amounting to a total of approximately HK\$15,466,000 as compared to approximately HK\$3,548,000 for the corresponding period last year. During the period under review, the Group has provided our casing and flavouring systems to customers located in Chongqing, Jiangxi and Jilin.

Projects in providing PF systems to cigarette manufacturers located in Qingdao, Yunan and Henan were undergoing for the three months ended 31 March 2013 and expected to be completed in following months. Hence, the revenue recognized for the period under review from PF systems amounted to approximately HK\$1,403,000 (three months ended 31 March 2012: approximately HK\$2,790,000). Meanwhile, our sales and marketing personnel were actively identifying and discussing with respective tobacco redrying factories in respect of contracting PP system projects.

Our technical personnel is always committed to new product design and development and strives to bring along extended range of products to customers. During the period under review, the Group continued the development of a new set of casing and flavouring system and has so far completed the fundamental system modules, and was undergoing the process of software design to integrate the function and operation of respective modules. Feasibility studies for the other new products such as the spraying device and tobacco bale slice were under progress and the formulation of an initial prototype for spraying device would be commenced upon satisfactory results of the study.

PRE-IPO SHARE OPTION SCHEME

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

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

As at 31 March 2013, 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 2013	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 March 2013	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%
				<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>	<u>0.65%</u>

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group. Up to 31 March 2013, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

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

As at 31 March 2013, 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 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 shares subject to the Pre-IPO Share Option Scheme	Approximate percentage of the issued share capital of the Company*
Directors				
Mr. Wei Sheng Peng ⁽¹⁾	Interest of a controlled corporation and family interest	150,000,000	–	75%
Ms. Liu Li ⁽²⁾	Interest of a controlled corporation and family interest	150,000,000	–	75%
Mr. Sun Zhaohui	Personal interest	–	200,000	0.10%

* The percentage represents the number of shares/underlying shares interested divided by the number of the Company's issued share as at 31 March 2013.

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 March 2013.

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

As at 31 March 2013, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and the Stock Exchange, as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

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

Notes:

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2013.

COMPETING INTERESTS

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

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

During the three months ended 31 March 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Shenyin Wanguo Capital (H.K.) Limited ("Shenyin Wanguo"), the compliance adviser of the Company, neither Shenyin Wanguo nor its directors or employees or associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 March 2013.

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

AUDIT COMMITTEE

The Company has established an audit committee on 20 October 2011, currently comprising three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit. The rest of the members are Mr. Tam Yuk Sang, Sammy and Mr. Kong Hing Ki. The unaudited consolidated results for the three months ended 31 March 2013 have been reviewed by the audit committee in accordance with GEM Listing Rules. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

By order of the Board
RENHENG Enterprise Holdings Limited
Sun Zhaohui
Chief Executive Officer

Hong Kong, 9 May 2013

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