



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



Interim Report

2013

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

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

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

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 six months ended 30 June 2013 was approximately HK\$44,723,000, representing a decrease of approximately 15.5% as compared with the corresponding period in 2012;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2013 was approximately HK\$6,134,000, representing an increase of approximately 18.3% as compared with the corresponding period in 2012; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013.

The board of Directors (the “Board”) of the Company is pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the three months and the six months ended 30 June 2013 together with the unaudited comparative figures for the corresponding period in 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2013	2012	2013	2012
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	4	24,684	36,431	44,723	52,908
Cost of sales		(14,123)	(21,190)	(25,961)	(30,856)
Gross profit		10,561	15,241	18,762	22,052
Other income and gains	5	3,541	959	5,740	1,485
Other gains and losses	6	–	(42)	(26)	(42)
Selling and distribution costs		(3,008)	(2,461)	(5,140)	(4,022)
Administrative expenses		(4,262)	(4,556)	(6,877)	(7,928)
Research and development costs		(2,084)	(2,706)	(4,011)	(4,171)
Profit before taxation	7	4,748	6,435	8,448	7,374
Taxation	8	(1,609)	(1,775)	(2,314)	(2,187)
Profit for the period		3,139	4,660	6,134	5,187
Other comprehensive income:					
Items that may be reclassified subsequently to profit and loss:					
Exchange differences arising on translation of a foreign subsidiary		2,653	(2,857)	3,416	(786)
Total comprehensive income for the period		5,792	1,803	9,550	4,401
		HK cents	HK cents	HK cents	HK cents
Earnings per share	9				
– Basic		1.57	2.30	3.07	2.60
– Diluted		1.57	2.30	3.06	2.60

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	11	14,675	15,093
Land use rights		3,013	2,997
Investment properties		20,462	20,101
		<u>38,150</u>	<u>38,191</u>
Current assets			
Inventories	12	18,591	11,730
Trade and other receivables	13	76,277	101,049
Land use rights		75	74
Amounts due from customers for contract work		6,153	2,212
Amounts due from related companies		482	437
Restricted bank deposits	14	9,232	–
Bank balances and cash	14	136,811	120,693
		<u>247,621</u>	<u>236,195</u>
Current liabilities			
Trade and other payables	15	50,576	38,699
Amounts due to customers for contract work		11,525	18,598
Tax payable		3,344	6,317
		<u>65,445</u>	<u>63,614</u>
Net current assets		<u>182,176</u>	<u>172,581</u>
Total assets less current liabilities		220,326	210,772
Non-current liabilities			
Deferred tax liabilities		557	553
		<u>219,769</u>	<u>210,219</u>
Capital and reserves			
Share capital	16	2,000	2,000
Reserves		217,769	208,219
Total equity		<u>219,769</u>	<u>210,219</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total	
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	Merger reserve HK\$'000 (unaudited)	Discretionary surplus reserve HK\$'000 (unaudited)	Statutory surplus reserve HK\$'000 (unaudited)	Capital reserve HK\$'000 (unaudited)	Property revaluation reserve HK\$'000 (unaudited)	Share option reserve HK\$'000 (unaudited)	Translation reserve HK\$'000 (unaudited)	Accumulated profits HK\$'000 (unaudited)	Total HK\$'000 (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	-	-	-	-	-	-	-	-	-	5,187	5,187
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	-	(786)	-	(786)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(786)	5,187	4,401
Transfer	-	-	-	-	6,248	-	-	-	-	(6,248)	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	309	-	-	309
At 30 June 2012	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>12,301</u>	<u>999</u>	<u>2,775</u>	<u>433</u>	<u>8,407</u>	<u>52,322</u>	<u>184,606</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	-	-	-	-	-	-	-	-	-	6,134	6,134
Exchange differences arising on translation of a foreign subsidiary	-	-	-	-	-	-	-	-	3,416	-	3,416
Total comprehensive income for the period	-	-	-	-	-	-	-	-	3,416	6,134	9,550
Transfer	-	-	-	-	4,398	-	-	-	-	(4,398)	-
At 30 June 2013	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>16,716</u>	<u>999</u>	<u>2,775</u>	<u>742</u>	<u>12,628</u>	<u>78,540</u>	<u>219,769</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	For the six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	21,222	1,401
Net cash (used in) from investing activities	(7,704)	414
Net cash from financing activities	–	–
	<hr/>	<hr/>
Net increase in cash and cash equivalents	13,518	1,815
Cash and cash equivalents at the beginning of period	120,693	103,353
Effect of foreign exchange rate changes	2,600	(1,252)
	<hr/>	<hr/>
Cash and cash equivalents at the end of period, represented by bank balances and cash	<u>136,811</u>	<u>103,916</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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, Uglund 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 financial results for the six months ended 30 June 2013 were unaudited but have been reviewed by the audit committee of the Company. The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the GEM Listing Rules.

The accounting policies used in the preparation of the unaudited consolidated financial statements for the six months ended 30 June 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 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Sales of goods	4,979	5,573	9,552	18,502
Revenue from construction contracts of casing and flavouring system	19,705	30,858	35,171	34,406
	24,684	36,431	44,723	52,908

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 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Revenue from construction contracts of casing and flavouring system	19,705	30,858	35,171	34,406
Sales of				
– pneumatic feeding system	834	2,425	2,237	5,215
– pre-pressing packing machine	–	–	–	644
– other products	4,145	3,148	7,315	12,643
	24,684	36,431	44,723	52,908

5. OTHER INCOME AND GAINS

	For the three months ended 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Sales of materials, parts and components, net gain	1,158	554	1,263	811
Rental income	241	218	478	436
Interest income	1,081	187	1,698	238
Subsidy income (note)	1,060	–	2,296	–
Others	1	–	5	–
	<u>3,541</u>	<u>959</u>	<u>5,740</u>	<u>1,485</u>

Note: The amount for the six months ended 30 June 2013 comprises a subsidy income and a tax refund of approximately HK\$1,236,000 and HK\$1,060,000 respectively granted by the People's Government of Baoying to Bao Ying Ren Heng Industrial Co., Ltd. ("Baoying Renheng").

Pursuant to a document issued by the People's Government of Yangzhou in promoting enterprise of Yangzhou and underneath counties to seek public listing, Baoying Renheng is eligible for a subsidy income after its successful listing.

Based on another document issued by the People's Government of Baoying, Baoying Renheng is entitled to tax refunds representing 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 the subsidy and refund, therefore, the Group recognized the income and refund upon receipts.

6. OTHER GAINS AND LOSSES

	For the three months ended 30 June		For the six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Allowance for doubtful debts	–	36	–	36
Loss on disposal of property, plant and equipment	–	6	26	6
	–	42	26	42

7. PROFIT BEFORE TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit before taxation has been arriving at after charging:				
Directors' emoluments	292	303	584	618
Other staff costs:				
Salaries, bonus and allowances	3,698	3,709	5,813	5,716
Retirement benefits scheme contributions	248	238	436	378
Share-based payment expense	–	131	–	262
Total staff costs	4,238	4,381	6,833	6,974
Depreciation of property, plant and equipment	386	351	775	705
Auditor's remuneration	200	175	400	350
Cost of inventories recognized as an expense	2,908	6,065	5,828	13,713
Construction contract costs recognized as an expense	11,215	15,125	20,133	17,143
Operating lease rentals in respect of land use rights	18	18	37	37
office premise	66	39	132	79

8. TAXATION

For the three months ended 30 June		For the six months ended 30 June	
2013	2012	2013	2012
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

The charge comprise:

PRC Enterprise Income Tax				
– current period	<u>1,609</u>	<u>1,775</u>	<u>2,314</u>	<u>2,187</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% (six months ended 30 June 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 30 June		For the six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Earnings				
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>3,139</u>	<u>4,660</u>	<u>6,134</u>	<u>5,187</u>
Number of shares				
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<u>200,000,000</u>	200,000,000	<u>200,000,000</u>	200,000,000
Effect of dilutive potential shares				
Share options	<u>307,676</u>	–	<u>296,273</u>	–
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>200,307,676</u>	<u>200,000,000</u>	<u>200,296,273</u>	<u>200,000,000</u>

For the six months ended 30 June 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 six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment with an aggregate amount of approximately HK\$175,000 (six months ended 30 June 2012: approximately HK\$110,000).

12. INVENTORIES

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
Raw materials	15,572	8,917
Work in progress	<u>3,019</u>	<u>2,813</u>
	<u>18,591</u>	<u>11,730</u>

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
Trade receivables	43,586	70,169
Less: Allowance for doubtful debts	<u>(2,407)</u>	<u>(2,365)</u>
	<u>41,179</u>	<u>67,804</u>
Retention money receivables	23,534	22,769
Prepayments and deposits	4,522	6,328
Sundry receivables	7,579	4,676
Less: Allowance for doubtful debts	<u>(537)</u>	<u>(528)</u>
	<u>34,647</u>	<u>33,245</u>
	<u>76,277</u>	<u>101,049</u>

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.

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.

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
0 – 90 days	21,244	44,086
91 – 365 days	13,052	8,368
1 – 2 years	6,858	15,325
Over 2 years	25	25
	<u>41,179</u>	<u>67,804</u>

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.

	As at 30 June 2013 HK\$'000 (Unaudited)	As at 31 December 2012 HK\$'000 (Audited)
91 – 365 days	13,052	8,368
1 – 2 years	6,858	15,325
Over 2 years	25	25
	<u>19,935</u>	<u>23,718</u>

14. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances comprise 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 0.001% to 2.85% (31.12.2012: 0.001% to 3.10%) per annum.

As at 30 June 2013, restricted bank deposits represent deposits of approximately HK\$424,000 and HK\$8,808,000 with effective interest rate ranged from 2.85% to 3.25% per annum pledged to banks to secure a construction contract and certain bills payables respectively.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
Trade payables	30,276	32,845
Bills payables	8,808	–
Advances from customers	4,203	1,093
Accrued welfare expense	1,802	1,770
Valued added tax payables	225	771
Other payables	5,262	2,220
	<u>50,576</u>	<u>38,699</u>

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

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
0 – 90 days	29,499	30,662
91 – 365 days	737	1,852
1 – 2 years	4	4
2 – 3 years	36	327
	<u>30,276</u>	<u>32,845</u>

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

16. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorized:		
At 1 January 2012, 31 December 2012 (Audited) and 30 June 2013 (Unaudited)	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
At 1 January 2012, 31 December 2012 (Audited) and 30 June 2013 (Unaudited)	<u>200,000,000</u>	<u>2,000</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 six months ended 30 June 2013, the Group's revenue decreased by approximately 15.5% to HK\$44,723,000 (six months ended 30 June 2012: approximately HK\$52,908,000) as compared to the corresponding period last year. Such decrease in revenue was mainly due to the decrease of revenue from the sale of PF systems and other products (comprising the sale of dedusting system, swelling agent delivery system and hot stamped foil), which decreased by approximately 57.1% to HK\$2,237,000 (six months ended 30 June 2012: approximately HK\$5,215,000) and decreased by approximately 42.1% to HK\$7,315,000 (six months ended 30 June 2012: approximately HK\$12,643,000) respectively. During the period under review, there was no revenue generated from the sale of dedusting system whereas the Group recognised revenue of approximately HK\$8,813,000 from a project in Guizhou in the previous period, with an aggregate contract value of approximately RMB8.4 million. Gross profit margin for the 2 periods remained stable at approximately 41.7% and 42.0% for the six months ended 30 June 2012 and 2013 respectively.

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK\$11,950,000 and HK\$12,017,000 for the six months ended 30 June 2012 and 2013 respectively. The net profit for the six months ended 30 June 2013 was approximately HK\$6,134,000 (six months ended 30 June 2012: approximately HK\$5,187,000), representing an increase of approximately 18.3%. Such increment was mainly contributed by the receipt and recognition of a subsidy income of HK\$1,236,000 (six months ended 30 June 2012: nil) and a tax refund of HK\$1,060,000 (six months ended 30 June 2012: nil) by the Group during the period under review.

As at 30 June 2013, the Group had a sound capital structure with a net current assets of approximately HK\$182,176,000 (as at 31 December 2012: approximately HK\$172,581,000) and continued with zero bank borrowings (as at 31 December 2012: zero). As at 30 June 2013, trade receivables balance (net of allowance for doubtful debt) decreased by approximately HK\$26,625,000 or 39.3% to HK\$41,179,000 (as at 31 December 2012: approximately HK\$67,804,000).

BUSINESS REVIEW

For the six months ended 30 June 2013, the Group generated majority of the revenue from the sale of catalogued special-purpose tobacco machinery products, amounting to approximately HK\$37,408,000 (six months ended 30 June 2012: approximately HK\$40,265,000) with a decrease of approximately HK\$2,857,000 or 7.1% as compared with the same period last year. During the period under review, the Group has provided our casing and flavouring system to customers located in Chongqing, Jiangxi and Jilin.

Revenue arising from PF systems for the six months ended 30 June 2013 amounted to only HK\$2,237,000, representing a drop of approximately 57.1% as compared to approximately HK\$5,215,000 for the six months ended 30 June 2012. Projects in providing PF systems to cigarette manufacturers located in Qingdao, Yunnan and Henan were undergoing and expected to be completed in the second half of this year. Meanwhile, our sales and marketing personnel were actively identifying and discussing with respective tobacco redrying factories in respect of contracting PP system projects in the market.

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 six months ended 30 June 2013, the Group continued the development of a new set of casing and flavouring system and has so far completed the key and fundamental modules, and is undergoing the software design and integration of respective modules. Feasibility study for tobacco bale slice was under progress, whereas the Group has proceeded the formulation of an initial prototype for spraying device.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group did not have any borrowings, mortgages or charges as at 30 June 2013 (31.12.2012: Nil). As at 30 June 2013, we had bank balances and cash of approximately HK\$136,811,000 (31.12.2012: HK\$120,693,000). As at 30 June 2013, we had net current assets of approximately HK\$182,176,000 (31.12.2012: HK\$172,581,000). Current ratio as at 30 June 2013 was 3.8 (31.12.2012: 3.7).

Our operations were financed principally by revenues generated from business operations, available bank balances and the net proceeds from the Placing. The improvement was mainly resulted from our continuous growth in business operations during the six months ended 30 June 2013.

CAPITAL EXPENDITURE

The Group purchased property, plant and equipments amounting to approximately HK\$175,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: approximately HK\$110,000).

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 30 June 2013 (31.12.2012: Nil).

GEARING RATIO

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

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

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2013 (31.12.2012: Nil).

PLEDGE OF ASSETS

As at 30 June 2013, restricted bank deposits represent deposits of approximately HK\$424,000 and HK\$8,808,000 with effective interest rate ranged from 2.85% to 3.25% per annum pledged to banks to secure a construction contract and certain bills payables respectively.

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2013, the Group had a total of 147 employees (31.12.2012: 146). Total staff costs (including directors' remuneration) were approximately HK\$6,833,000 for the six months ended 30 June 2013 as compared to approximately HK\$6,974,000 for the six months ended 30 June 2012.

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 30 June 2013 (31.12.2012: Nil).

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

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 six months ended 30 June 2013 is set out in note 4 to the unaudited consolidated financial statements.

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. During the six months ended 30 June 2013, options to subscribe for 100,000 shares held by one employee of the Group were cancelled.

As at 30 June 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	Cancelled during the period	Outstanding as at 30 June 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	-	-	-	(100,000)	1,000,000	0.50%
				<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>1,200,000</u>	<u>0.60%</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 30 June 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 30 June 2013, the interests and short positions 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 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 30 June 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 30 June 2013.

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

As at 30 June 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 30 June 2013.

COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS

An analysis comparing the section headed “Future plans and prospects” as set out in the prospectus of the Company 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 30 June 2013 (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	Commenced and continuously develop 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 of a new set of PF system
	Design and develop tobacco bale slicers	Continued the technical feasibility study of tobacco bale slicers
	Design and develop tobacco redrying system	Rescheduled the design and development of tobacco redrying system to the second half of 2013
	Recruit technical personnel	Recruited technical personnel for product research and development

	Future plans and prospects	Actual business progress during the Relevant Period
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	Continued the design of corporate and product brochures and videos
	Participate in trade exhibitions	Explored the opportunity of any trade exhibitions in the PRC
	Organise promotional activities for existing and new products	Formulated initial plan for product launch for casing and flavouring system
Enhancing production processing capabilities	Purchase machinery and equipment	Purchased certain machinery and equipment
	Upgrade production facilities	Scheduled the upgrade to commence in the second half of 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 of shares upon the initial public offering (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:

	Proposed use of net proceeds in the Prospectus <i>HK\$'000</i>	Planned use of net proceeds as stated in the Prospectus during the Relevant Period <i>HK\$'000</i>	Actual use of net proceeds during the Relevant Period <i>HK\$'000</i>	Unused net proceeds as at 30 June 2013 <i>HK\$'000</i>
Continuous product development and innovation (Note 1)	33,713	29,953	16,648	17,065
Enhancing corporate profile and increasing market penetration (Note 2)	3,700	2,490	169	3,531
Enhancing production processing capabilities (Note 3)	4,830	3,610	1,198	3,632
Strengthening management information system (Note 4)	480	480	382	98
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>42,723</u>	<u>36,533</u>	<u>18,397</u>	<u>24,326</u>

Notes:

1. The design and development of a new set of PP system and PF system has been completed and approximately HK\$3,903,000 and HK\$928,000 were used. In addition, approximately HK\$10,166,000 was used for the design and development of a new casing and flavouring system equipping the operating features of movable tanks and automated storage, retrieval and feeding devices, and approximately HK\$351,000 was used for the feasibility studies of new type of spraying device during the Relevant Period. The deviation between actual and proposed use of net proceeds during the Relevant Period was mainly due to (i) the delay of development of a new tobacco bale slicer as this product is still under the technical feasibility study stage in its development; and (ii) the design and development of the new tobacco redrying system being rescheduled to commence in the second half of year 2013 as the Group would like to focus and utilise its resources on the completion of the new PP system and the new PF system development and the design and development of the casing and flavouring system in progress with the intention to providing an extended range of these products to customers earlier.

The remaining balance was used to employ technical personnel and recruitment during the Relevant Period.

2. The amounts represented the partial payment made to a service provider for designing corporate and product brochures and videos of approximately HK\$155,000, and certain advertisement and promotional expenses of approximately HK\$14,000. The deviation between actual and proposed use of net proceeds during the Relevant Period was mainly due to promotional activities for the product launch of casing and flavouring system being put on hold, and the corporate and product brochures and videos planned to release to customers in the promotional activities were yet to be completed. The Group is also exploring the opportunity of any trade exhibitions in the PRC.
3. The Group has purchased a computerized numerical control ("CNC") shearing machine, a CNC press brake, an automatic pipe welding machine and a lathes during the Relevant Period. During the six months ended 30 June 2013, the Group paid a deposit of approximately HK\$269,000 for the purchase of CNC lathes. The postponement of upgrade to production facilities was to avoid any significant disturbance to the production and delivery of products to customers in the previous year, whereas the delay in purchase of certain machineries was because the spending was still pending review by the management of Baoying Renheng on their appropriateness and production capacity to meet the Group's production needs.
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 saved amount of approximately HK\$98,000 may be used by the Group if further upgrades are to be made to the system in future.

The remaining net proceeds as at 30 June 2013 were placed as interest bearing deposits with licensed banks in Hong Kong and the PRC.

To cope with the Group's ongoing operation and business development, the Director has updated the implementation plan, adopting the same strategies as disclosed in the Prospectus with adjustment to the execution time frame. The breakdown of expected application of the unused net proceeds up to 30 June 2013 of approximately HK\$24,228,000 designated for each six-month period during the six months ending 31 December 2013 and the year ending 31 December 2014 is summarized as follows:

	Six month ending			Total
	31 December 2013	30 June 2014	31 December 2014	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuous product development and innovation	3,760	8,462	4,843	17,065
Enhancing corporate profile and increasing market penetration	2,291	1,240	–	3,531
Enhancing production processing capabilities	2,832	800	–	3,632
	<u>8,883</u>	<u>10,502</u>	<u>4,843</u>	<u>24,228</u>

Further information regarding the deployment of the unused net proceeds up to 30 June 2013 for each strategy is set out below.

1. Continuous product development and innovation

From 1 July 2013 to 31 December 2013	From 1 January 2014 to 30 June 2014	From 1 July 2014 to 31 December 2014
Design and develop new casing and flavouring system	Design and develop new spraying device	Design and develop new spraying device
Design and develop new spraying device	Design and develop new tobacco bale slicer	Design and develop new tobacco bale slicer
Design and develop new tobacco bale slicer	Design and develop new tobacco redrying system	Design and develop new tobacco redrying system
Design and develop new tobacco redrying system		
<i>Funding requirements:</i>		
HK\$3,760,000	HK\$8,462,000	HK\$4,843,000

2. Enhancing corporate profile and increasing market penetration

From 1 July 2013 to 31 December 2013	From 1 January 2014 to 30 June 2014	From 1 July 2014 to 31 December 2014
Post advertisement in tobacco magazines	Post advertisement in tobacco magazines	–
Design and distribute corporate and product brochures as well as video compact disc	Organise promotional activities for existing and new products	
Organise promotional activities for existing and new products		
<i>Funding requirements:</i>		
HK\$2,291,000	HK\$1,240,000	–

3. Enhancing production processing capabilities

From 1 July 2013 to 31 December 2013	From 1 January 2014 to 30 June 2014	From 1 July 2014 to 31 December 2014
Purchase machinery and equipment	Purchase machinery and equipment	–
Upgrade production facilities		
<i>Funding requirements:</i>		
HK\$2,832,000	HK\$800,000	–

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 six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

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 six months ended 30 June 2013.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding the directors' securities transactions in securities of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard of dealings as set out in the adopted code of conduct regarding directors' securities transactions.

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 30 June 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 financial statements and results announcement for the six months ended 30 June 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
Wei Sheng Peng
Chairman

Hong Kong, 8 August 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.