



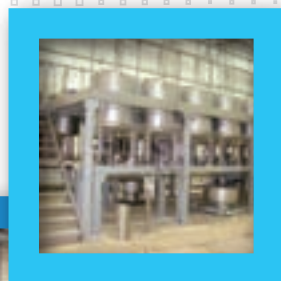
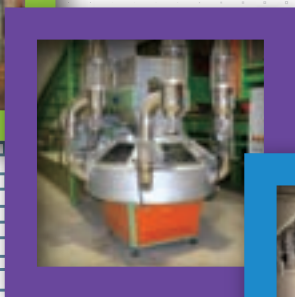
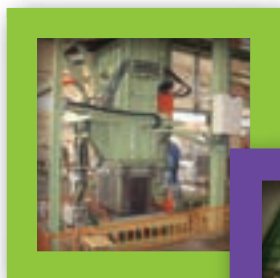
# RENHENG Enterprise Holdings Limited

## 仁恒實業控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 3628)

Interim Report 2014



## HIGHLIGHTS

- Turnover for the six months ended 30 June 2014 was approximately HK\$46,828,000, representing an increase of approximately 4.7% as compared with the corresponding period in 2013;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2014 was approximately HK\$6,523,000, representing an increase of approximately 6.3% as compared with the corresponding period in 2013; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014.

The board (the “Board”) of directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) is pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2014 together with the unaudited comparative figures for the corresponding year in 2013 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		<b>For the six months ended 30 June</b>	
		<b>2014</b>	2013
		<b>HK\$'000</b>	HK\$'000
	<i>Notes</i>	<b>(Unaudited)</b>	(Unaudited)
<b>Turnover</b>	4	<b>46,828</b>	44,723
Cost of sales		<b>(25,797)</b>	(25,961)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>21,031</b>	18,762
Other income and gains	5	<b>3,828</b>	5,740
Other gains and losses	6	–	(26)
Selling and distribution costs		<b>(5,117)</b>	(5,140)
Administrative expenses		<b>(6,794)</b>	(6,877)
Research and development costs		<b>(3,995)</b>	(4,011)
		<hr/>	<hr/>
<b>Profit before taxation</b>	7	<b>8,953</b>	8,448
Taxation	8	<b>(2,430)</b>	(2,314)
		<hr/>	<hr/>
<b>Profit for the period</b>		<b>6,523</b>	6,134
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		<b>(3,487)</b>	3,416
		<hr/>	<hr/>
Total comprehensive income for the period		<b>3,036</b>	9,550
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share</b>	9	<b>HK cents</b>	HK cents
– Basic		<b>3.26</b>	3.07
		<hr/> <hr/>	<hr/> <hr/>
– Diluted		<b>3.26</b>	3.06
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2014 <b>HK\$'000</b> <b>(Unaudited)</b>	As at 31 December 2013 <i>HK\$'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	11	14,402	15,482
Land use rights		2,949	3,036
Investment properties		20,534	20,876
		<u>37,885</u>	<u>39,394</u>
<b>Current assets</b>			
Inventories	12	19,601	15,688
Trade and other receivables	13	83,406	81,889
Land use rights		76	77
Amounts due from customers for contract work		6,782	3,624
Amounts due from related companies		719	491
Restricted bank deposits	14	6,224	1,785
Bank balances and cash	14	147,586	158,593
		<u>264,394</u>	<u>262,147</u>
<b>Current liabilities</b>			
Trade and other payables	15	35,844	37,228
Amounts due to customers for contract work		13,155	12,366
Tax payable		3,816	5,413
		<u>52,815</u>	<u>55,007</u>
<b>Net current assets</b>		<u>211,579</u>	<u>207,140</u>
<b>Total assets less current liabilities</b>		<u>249,464</u>	<u>246,534</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		559	665
		<u>248,905</u>	<u>245,869</u>
<b>Capital and reserves</b>			
Share capital	16	2,000	2,000
Reserves		246,905	243,869
<b>Total equity</b>		<u>248,905</u>	<u>245,869</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)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	
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	-	-	-	-	-	-	-	-	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>
At 1 January 2014	2,000	52,940	49,091	3,338	16,716	999	2,775	685	16,931	100,394	245,869
Profit for the period	-	-	-	-	-	-	-	-	-	6,523	6,523
Exchange differences arising on translation	-	-	-	-	-	-	-	-	(3,487)	-	(3,487)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(3,487)	6,523	3,036
Transfer	-	-	-	-	3,116	-	-	-	-	(3,116)	-
At 30 June 2014	<u>2,000</u>	<u>52,940</u>	<u>49,091</u>	<u>3,338</u>	<u>19,832</u>	<u>999</u>	<u>2,775</u>	<u>685</u>	<u>13,444</u>	<u>103,801</u>	<u>248,905</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
<i>Note</i>	<b>(Unaudited)</b>	(Unaudited)
Net cash (used in) from operating activities	<b>(7,088)</b>	21,222
Net cash used in investing activities	<b>(15,299)</b>	(7,704)
Net cash from financing activities	–	–
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	<b>(22,387)</b>	13,518
Cash and cash equivalents at the beginning of period	<b>158,593</b>	120,693
Effect of foreign exchange rate changes	<b>(1,218)</b>	2,600
	<hr/>	<hr/>
Cash and cash equivalents at the end of period	<b>14</b> 134,988	<b>136,811</b>
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO INTERIM 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 2014 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 (the "HKICPA"), and the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (The "Stock Exchange").

The accounting policies used in the preparation of the unaudited consolidated financial statements for the six months ended 30 June 2014 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2013.

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

The Group has applied all the standards, amendments and interpretations issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2014. 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 six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Sales of goods	17,103	9,552
Revenue from construction contracts of casing and flavouring system	29,725	35,171
	<u>46,828</u>	<u>44,723</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 six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Revenue from construction contracts of casing and flavouring system	29,725	35,171
Sales of		
– pneumatic feeding system	12,630	2,237
– other products	4,473	7,315
	<u>46,828</u>	<u>44,723</u>



## 5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Sales of materials, parts and components, net gain	1,442	1,263
Rental income	487	478
Interest income	1,861	1,698
Subsidy income ( <i>note</i> )	–	2,296
Others	38	5
	<b>3,828</b>	5,740

*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 the refund, therefore, the Group recognised the income and refund upon receipts.

## 6. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Loss on disposal of property, plant and equipment	—	26

## 7. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2014 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)
Profit before taxation has been arriving at after charging:		
Directors' emoluments	584	584
Other staff costs:		
Salaries, bonus and allowances	7,594	5,813
Retirement benefits scheme contributions	510	436
Total staff costs	<u>8,688</u>	<u>6,833</u>
Depreciation of property, plant and equipment	788	775
Auditor's remuneration	375	400
Cost of inventories recognised as an expense	7,933	5,828
Construction contract costs recognised as an expense	17,864	20,133
Release of land use rights	38	37
Operating lease rentals in respect of office premise	<u>132</u>	<u>132</u>

## 8. TAXATION

<b>For the six months ended 30 June</b>	
<b>2014</b>	2013
<b>HK\$'000</b>	HK\$'000
<b>(Unaudited)</b>	(Unaudited)

The charge comprise:

PRC Enterprise Income Tax – current period	<u><b>2,430</b></u>	<u>2,314</u>
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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 2013: 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:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u><b>6,532</b></u>	<u>6,134</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>200,000,000</b>	200,000,000
Effect of dilutive potential shares		
Share options	<u><b>255,400</b></u>	<u>296,273</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u><b>200,255,400</b></u>	<u>200,296,273</u>

## 10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group purchased property, plant and equipment amounting to approximately HK\$123,000 (six months ended 30 June 2013: approximately HK\$175,000).

## 12. INVENTORIES

	As at <b>30 June</b> <b>2014</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2013 <i>HK\$'000</i> (Audited)
Raw materials	<b>10,686</b>	10,404
Work in progress	<b>8,915</b>	5,284
	<b><u>19,601</u></b>	<b><u>15,688</u></b>

## 13. TRADE AND OTHER RECEIVABLES

	As at <b>30 June</b> <b>2014</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 31 December 2013 <i>HK\$'000</i> (Audited)
Trade receivables	<b>45,930</b>	42,804
Less: Allowance for doubtful debts	<b>(2,415)</b>	(2,455)
	<b><u>43,515</u></b>	<b><u>40,349</u></b>
Retention money receivables	<b>29,721</b>	32,353
Prepayments and deposits	<b>2,306</b>	3,044
Sundry receivables	<b>8,403</b>	6,691
Less: Allowance for doubtful debts	<b>(539)</b>	(548)
	<b><u>39,891</u></b>	<b><u>41,540</u></b>
	<b><u>83,406</u></b>	<b><u>81,889</u></b>

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.

	<b>As at 30 June 2014 HK\$'000 (Unaudited)</b>	As at 31 December 2013 HK\$'000 (Audited)
0 – 90 days	<b>16,113</b>	9,545
91 – 365 days	<b>13,953</b>	19,347
1 – 2 years	<b>10,398</b>	11,432
Over 2 years	<b>3,051</b>	25
	<b><u>43,515</u></b>	<u>40,349</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.

	<b>As at 30 June 2014 HK\$'000 (Unaudited)</b>	As at 31 December 2013 HK\$'000 (Audited)
91 – 365 days	<b>13,953</b>	19,347
1 – 2 years	<b>10,398</b>	11,432
Over 2 years	<b>3,051</b>	25
	<b><u>27,402</u></b>	<u>30,804</u>

#### 14. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances include a short-term bank deposit with an original maturity of more than three months carried at prevailing market deposit rate amounting to approximately HK\$12,598,000 (31.12.2013: Nil). The effective interest rate of these deposits ranged from 0.001% to 3.05% (31.12.2013: 0.001% to 3.25%) per annum.

As at 30 June 2014, restricted bank deposits represent deposits of approximately HK\$6,224,000 (31.12.2013: HK\$1,785,000) with effective interest rate ranged from 2.85% to 3.25% (31.12.2013: 3.25%) per annum reserved to banks, not available for use in the Group's daily operation.

#### 15. TRADE AND OTHER PAYABLES

	As at <b>30 June</b> <b>2014</b> <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
Trade payables	19,571	22,652
Bills payables	4,884	–
Advances from customers	5,651	8,664
Accrued welfare expense	1,808	1,838
Valued added tax payable	1,005	1,938
Other payables	2,925	2,136
	<u>35,844</u>	<u>37,228</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 <b>30 June</b> <b>2014</b> <i>HK\$'000</i> (Unaudited)	As at 31 December 2013 <i>HK\$'000</i> (Audited)
0 – 90 days	16,805	21,472
91 – 365 days	2,695	868
1 – 2 years	57	8
Over 2 years	14	304
	<u>19,571</u>	<u>22,652</u>

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

**16. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2013, 31 December 2013 (Audited) and 30 June 2014 (Unaudited)	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
At 1 January 2013, 31 December 2013 (Audited) and 30 June 2014 (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 2014, the Group's revenue increased by approximately 4.7% to HK\$46,828,000 (six months ended 30 June 2013: approximately HK\$44,723,000) as compared to the corresponding period last year. Such increase in revenue was mainly due to the increase of revenue from the sale of PF systems, which increased by approximately 464.6% to HK\$12,630,000 (six months ended 30 June 2013: approximately HK\$2,237,000) and decrease of revenue from construction contracts of casing and flavouring system by approximately 15.5% to HK\$29,725,000 (six months ended 30 June 2013: approximately HK\$35,171,000) respectively. Gross profit margin for the six months ended 30 June 2014 increased to 44.9% (six months ended 30 June 2013: 42.0%). The increase in gross profit margin was mainly due to increase in revenue from the sale of PF systems during the current period and our PF systems resulted with a higher gross profit margin than our other products during the current period.

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK\$12,017,000 and HK\$11,911,000 for the six months ended 30 June 2013 and 2014 respectively. The other income and gains decreased from approximately HK\$5,740,000 for 30 June 2013 to approximately HK\$3,828,000 for 30 June 2014, the decrease in other income and gains was because tax refunds from the People's Government of Baoying was still under application during the current period while there were subsidy income and tax refunds amounting to approximately HK\$2,296,000 for the six months ended 30 June 2013. The net profit for the six months ended 30 June 2014 was approximately HK\$6,523,000 (six months ended 30 June 2013: approximately HK\$6,134,000), representing an increase of approximately 6.3%. Such increment was mainly due to the combination of more total revenue and less other income and gains recognised by the Group and during the period under review.

As at 30 June 2014, the Group had a sound capital structure with a net current assets of approximately HK\$211,579,000 (as at 31 December 2013: approximately HK\$207,140,000) and continued with zero bank borrowings (as at 31 December 2013: zero). As at 30 June 2014, trade receivables balance (net of allowance for doubtful debt) increased by approximately HK\$3,166,000 or 7.8% to HK\$43,515,000 (as at 31 December 2013: approximately HK\$40,349,000).

## **BUSINESS REVIEW**

For the six months ended 30 June 2014, the Group generated majority of the revenue from the sale of catalogued special-purpose tobacco machinery products, amounting to approximately HK\$42,355,000 (six months ended 30 June 2013: approximately HK\$37,408,000) with an increase of approximately HK\$4,947,000 or 13.2% as compared with the same period last year. During the period under review, the Group has provided our casing and flavouring system to customers mainly located in Henan and Yunan.

Revenue arising from PF systems for the six months ended 30 June 2014 amounted to HK\$12,630,000, representing an increase of approximately 464.6% as compared to approximately HK\$2,237,000 for the six months ended 30 June 2013. During the period under review, the Group has provided our PF system to customers mainly located in Henan and Jiangxi. Meanwhile, our sales and marketing personnel were still 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 2014, the Group completed the design and development of a new type of spraying device and commenced the design and development of tobacco bale slice and tobacco redrying system.

### 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 1,200,000 shares at an exercise price of HK\$0.96 were granted to 9 participants including one executive Director, four members of the senior management of the Group and four 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 30 June 2014, 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 2014	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 30 June 2014	Percentage of issued share capital of the Company
<b>Director</b>										
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	1,000,000	-	-	-	-	1,000,000	0.50%
				<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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 2014, 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 2014, 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 the Model Code for Securities Transactions by Directors of Listed issuers contained in Appendix 10 to the 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	Percentage of the issued share capital of the Company*
<b>Directors</b>				
Mr. Wei Sheng Peng <sup>(1)</sup>	Interest of a controlled corporation and family interest	150,000,000	–	75%
Ms. Liu Li <sup>(2)</sup>	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 2014.

*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 2014.

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

As at 30 June 2014, 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 <sup>(1)</sup>	Beneficial owner	90,000,000	45%
Open Venture <sup>(2)</sup>	Beneficial owner	60,000,000	30%
Mr. Wei Sheng Peng <sup>(3)</sup>	Interest of a controlled corporation and family interest	150,000,000	75%
Ms. Liu Li <sup>(4)</sup>	Interest of a controlled corporation and family interest	150,000,000	75%

*Notes:*

- LinkBest is wholly owned by Mr. Wei Sheng Peng.
- Open Venture is wholly owned by Ms. Liu Li.
- 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.
- 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 2014.

## 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 (“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 2014 (the “Relevant Period”) is set out below:

	<b>Future plans and prospects</b>	<b>Actual business progress during the Relevant Period</b>
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 type of spraying device	Completed the development of a new type of spraying device
	Design and develop new casing and flavouring system	Completed the development of 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	Commenced the development of tobacco bale slicers
	Design and develop tobacco redrying system	Commenced the development of tobacco redrying system
	Recruit technical personnel	Recruited technical personnel for product research and development

	<b>Future plans and prospects</b>	<b>Actual business progress during the Relevant Period</b>
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	Completed 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 plan and arrangement in progress for product launch for casing and flavouring system
Enhancing production processing capabilities	Purchase machinery and equipment	Purchased certain machinery and equipment
	Upgrade production facilities	Finalising the discussion with one specific constructor for the upgrade
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 2014 <i>(HK\$'000)</i>
Continuous product development and innovation <i>(Note 1)</i>	33,713	33,713	25,230	8,483
Enhancing corporate profile and increasing market penetration <i>(Note 2)</i>	3,700	3,700	527	3,173
Enhancing production processing capabilities <i>(Note 3)</i>	4,830	4,830	2,206	2,624
Strengthening management information system <i>(Note 4)</i>	480	480	446	34
Total	<u>42,723</u>	<u>42,723</u>	<u>28,409</u>	<u>14,314</u>

*Notes:*

1. The design and development of a new set of casing and flavouring system, PF system and PP system has been completed in or before year 2013 and approximately HK\$11,515,000, HK\$928,000 and HK\$3,903,000 were used respectively. In addition, approximately HK\$4,195,000 was used for the design and development of a new type of spraying device during the Relevant Period. The Group delayed and commenced the design and development of tobacco bale slicer and tobacco redrying system in the first half of year 2014, since the Group would like to focus and utilise its resources on the completion of the design and development of new casing and flavouring system, PF system and PP system before year 2013.

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

2. The amounts represented the payment made to a service provider for designing corporate and product brochures and videos of approximately HK\$313,000, and certain advertisement and promotional expenses of approximately HK\$214,000. The deviation between actual and proposed use of net proceeds during the Relevant Period was mainly due to the delay of promotional activities for the product launch of casing and flavouring system as the Group required more time in the arrangement especially the liaison with existing and potential cigarette manufacturers, as well as China Tobacco Machinery (Group) Co., Ltd..
3. The Group has purchased certain machinery and equipment, including computerised numerical control ("CNC") shearing machine, CNC press brake, automatic pipe welding machine, CNC lathes and turret punch machine during the Relevant Period. The Group was finalising the discussion with one specific constructor regarding the update to production facilities and the construction work is expected to commence in second half of 2014.
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\$34,000 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 2014 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 2014 of approximately HK\$14,280,000 designated for the six months ending 31 December 2014 is summarised as follows:

	<b>Six month ending 31 December 2014 HK\$'000</b>
Continuous product development and innovation	8,483
Enhancing corporate profile and increasing market penetration	3,173
Enhancing production processing capabilities	2,624
	<u>14,280</u>

Further information regarding the deployment of the unused net proceeds up to 30 June 2014 for each strategy is set out below.

#### **1. Continuous product development and innovation**

##### **From 1 July 2014 to 31 December 2014**

Design and develop new tobacco bale slicer

Design and develop new tobacco redrying system

*Funding requirements:*

HK\$8,483,000

## **2. Enhancing corporate profile and increasing market penetration**

### **From 1 July 2014 to 31 December 2014**

Post advertisement in tobacco magazines

Participate in trade exhibitions

Organise promotional activities for existing and new products

*Funding requirements:*

HK\$3,173,000

## **3. Enhancing production processing capabilities**

### **From 1 July 2014 to 31 December 2014**

Purchase machinery and equipment

Upgrade production facilities

*Funding requirements:*

HK\$2,624,000

## **COMPETING INTERESTS**

None of the Directors or controlling shareholders of the Company nor their respective associates (as defined under the 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 2014, 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 “CG Code”) contained in Appendix 14 to the Listing Rules which sets out the principles of good corporate governance and the code provisions (the “Code Provisions”), the Company has applied all the Code Provisions as set out in the CG Code during the six months ended 30 June 2014. In July 2014, the Code Provisions A.2.1 of the CG Code was not complied as follows:

The roles of chairman and chief executive officer are performed by the same individual.

The Company has applied the principles of the required standard of securities transactions by our Directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company was confirmed that all Directors have complied with or they were not aware of any non-compliance with the required standard of dealings as set out in the Listing Rules during the six months ended 30 June 2014.

## **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 interim report for the six months ended 30 June 2014 has been reviewed by the audit committee in accordance with Listing Rules. The audit committee was of the opinion that such report 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 & Chief Executive Officer*

Hong Kong, 18 August 2014

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