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## **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)

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **HIGHLIGHTS**

- Revenue for the year ended 31 December 2015 was approximately HK\$69,383,000, representing a decrease of approximately 28.8% as compared with the corresponding year in 2014;
- Profit attributable to shareholders of the Company for the year ended 31 December 2015 was approximately HK\$1,180,000, representing a decrease of approximately 88.9% as compared with the corresponding year in 2014; and
- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015.

The board (the “Board”) of directors (the “Directors”) of RENHENG Enterprise Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2015 together with the audited comparative figures for the corresponding year in 2014 as follows:

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

*For the year ended 31 December*

	<i>Notes</i>	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
<b>Revenue</b>	4	<b>69,383</b>	97,473
Cost of sales		<u>(35,488)</u>	<u>(53,225)</u>
<b>Gross profit</b>		<b>33,895</b>	44,248
Other income and gains	5	<b>7,205</b>	9,340
Other losses	6	<b>(6,869)</b>	(821)
Selling and distribution costs		<b>(10,705)</b>	(10,580)
Administrative expenses		<b>(15,641)</b>	(13,218)
Research and development costs		<u>(2,925)</u>	<u>(6,618)</u>
<b>Profit before taxation</b>		<b>4,960</b>	22,351
Taxation	8	<u>(3,780)</u>	<u>(11,743)</u>
<b>Profit for the year</b>		<b>1,180</b>	10,608
Other comprehensive expense for the year:			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation		<u>(6,999)</u>	<u>(2,412)</u>
Total comprehensive (expense) income for the year		<u>(5,819)</u>	<u>8,196</u>
			(Restated)
<b>Earnings per share</b>	9	<b>HK cents</b>	HK cents
- Basic		<u><b>0.1</b></u>	<u>1.3</u>
- Diluted		<u><b>0.1</b></u>	<u>1.3</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	Notes	2015 HK\$'000 (Audited)	2014 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	12,271	14,314
Land use rights		2,686	2,929
Investment properties		18,735	19,901
		<u>33,692</u>	<u>37,144</u>
<b>Current assets</b>			
Inventories		16,130	16,321
Trade and other receivables	12	50,939	82,098
Land use rights		72	76
Amounts due from customers for contract work		903	6,126
Amounts due from related companies		2,379	1,090
Restricted bank deposits		1,894	9,402
Bank balances and cash		60,919	158,337
		<u>133,236</u>	<u>273,450</u>
<b>Current liabilities</b>			
Trade and other payables	13	31,251	45,889
Amounts due to customers for contract work		-	4,306
Tax payable		6,007	5,115
		<u>37,258</u>	<u>55,310</u>
<b>Net current assets</b>		<u>95,978</u>	<u>218,140</u>
<b>Total assets less current liabilities</b>		<b>129,670</b>	<b>255,284</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		1,064	1,219
		<u>128,606</u>	<u>254,065</u>
<b>Capital and reserves</b>			
Share capital		2,010	2,000
Reserves		126,596	252,065
<b>Total equity</b>		<u>128,606</u>	<u>254,065</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share	Share	Merger	Discretionary Statutory		Capital	Property	Share	Translation	Accumulated	Total
	capital	premium		reserve	surplus						
	HK\$'000	HK\$'000	HK\$'000	reserve	reserve	reserve	reserve	reserve	reserve	profits	Total
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
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 year	-	-	-	-	-	-	-	-	-	10,608	10,608
Exchange differences arising on translation	-	-	-	-	-	-	-	-	(2,412)	-	(2,412)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	(2,412)	10,608	8,196
Transfer upon cancellation of share options	-	-	-	-	-	-	-	(114)	-	114	-
Transfer	-	-	-	-	3,126	-	-	-	-	(3,126)	-
<b>At 31 December 2014</b>	<b>2,000</b>	<b>52,940</b>	<b>49,091</b>	<b>3,338</b>	<b>19,842</b>	<b>999</b>	<b>2,775</b>	<b>571</b>	<b>14,519</b>	<b>107,990</b>	<b>254,065</b>
Profit for the year	-	-	-	-	-	-	-	-	-	1,180	1,180
Exchange differences arising on translation	-	-	-	-	-	-	-	-	(6,999)	-	(6,999)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	-	(6,999)	1,180	(5,819)
Issue of share upon exercise of share options	10	1,521	-	-	-	-	-	(571)	-	-	960
Transfer	-	-	-	-	1,213	-	-	-	-	(1,213)	-
Special dividend recognised as distribution	-	(12,643)	-	-	-	-	-	-	-	(107,957)	(120,600)
<b>At 31 December 2015</b>	<b>2,010</b>	<b>41,818</b>	<b>49,091</b>	<b>3,338</b>	<b>21,055</b>	<b>999</b>	<b>2,775</b>	<b>-</b>	<b>7,520</b>	<b>-</b>	<b>128,606</b>

## **NOTES TO ANNUAL 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. Its shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM”) since 18 November 2011. On 25 November 2013, the listing of the shares of the Company has been transferred from the GEM to the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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 address of the registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of the principal place of business of the Company is Room 3805, 38/F., Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The functional currency of the Company is Renminbi as it is the currency in which the majority of the Group’s transactions are denominated. The consolidated financial statements of the Group are presented in Hong Kong dollars (“HK\$”) as the management considers this presentation to be more useful for its current and potential investors.

### **2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

In the current year, the Group has applied, for the first time, the amendments to HKFRSs and a new interpretation, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The application of these amendments to HKFRSs and new interpretation in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and by the Hong Kong Companies Ordinance (Cap. 622).

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties that are measured at fair values at the end of each reporting period.

#### 4. REVENUE AND SEGMENT INFORMATION

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

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
Sales of goods	<b>17,003</b>	27,416
Revenue from construction contracts of casing and flavouring system	<b>52,380</b>	70,057
	<b>69,383</b>	97,473

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products in the PRC. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief executive officer of the Company, the chief operating decision maker of the Company. The chief executive officer of the Company regularly reviews revenue analysis by products, including casing and flavouring system, pneumatic feeding system, pre-pressing packing machine and other products. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products. The chief executive officer of the Company reviews the revenue and the profit for the year of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the chief executive officer of the Company. Accordingly, no segment information is presented.

##### Entity-wide information

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

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
Revenue from construction contracts of casing and flavouring system	<b>52,380</b>	70,057
Sales of		
- pneumatic feeding system	<b>9,669</b>	18,903
- pre-pressing packing machine	<b>2,961</b>	-
- other products	<b>4,373</b>	8,513
	<b>69,383</b>	97,473

#### 4. REVENUE AND SEGMENT INFORMATION (Continued)

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

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
Customer A <sup>1</sup>	<b>35,727</b>	57,999
Customer B <sup>2</sup>	<b>8,734</b>	-

<sup>1</sup> Revenue from sales of all products.

<sup>2</sup> Revenue from sales of all products. The revenue contributed did not exceed 10% of the total revenue of the Group during the year ended 31 December 2014.

All of the Group's revenue are derived in the PRC, which are determined by the location where the systems or products being installed or delivered. The Group's non-current assets comprise of HK\$33,692,000 (2014: HK\$37,144,000) which are located in the PRC (excluding Hong Kong).

#### 5. OTHER INCOME AND GAINS

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
Sales of materials, parts and components, net gain	<b>4,092</b>	3,148
Subsidy income (note)	<b>475</b>	1,147
Rental income	<b>658</b>	978
Interest income	<b>1,932</b>	4,028
Others	<b>48</b>	39
	<b>7,205</b>	9,340

Note: These granted are accounted for immediate financial support with no future related costs nor related to any assets, therefore, the Group recognised upon receipts.

## 6. OTHER LOSSES

	2015 HK\$'000 (Audited)	2014 HK\$'000 (Audited)
Loss on fair value changes of investment properties	-	(765)
Loss on disposal and write-off of property, plant and equipment	(54)	(56)
Exchange loss, net	<u>(6,915)</u>	<u>-</u>
	<u>(6,869)</u>	<u>(821)</u>

## 7. DEPRECIATION AND AMORTISATION

During the year ended 31 December 2015, depreciation and amortisation amounting to HK\$2,012,000 and HK\$74,000 (2014: HK\$1,939,000 and HK\$76,000) were charged to profit or loss in respect of the Group's property, plant and equipment and land use rights respectively.

## 8. TAXATION

	2015 HK\$'000 (Audited)	2014 HK\$'000 (Audited)
The charge comprise:		
PRC Enterprise Income Tax		
- current year	2,843	4,302
- underprovision in prior year	<u>477</u>	<u>581</u>
	3,320	4,883
Withholding tax on distributed profit	546	6,296
Deferred taxation		
- current year	<u>(86)</u>	<u>564</u>
	<u>3,780</u>	<u>11,743</u>

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

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purpose at 15% (2014: 15%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation (the "EIT Law").

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. Baoying Renheng has been recognised and approved as a HNTE since 2011 and renewed its status in 2013, and is therefore entitled to a reduced tax rate at 15% for 3 years.

The provision for withholding tax is arisen from its PRC subsidiary at a tax rate of 5%.



## 9. EARNINGS PER SHARE

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

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited) (Restated)
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>1,180</u>	<u>10,608</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>804,000,000</b>	800,000,000
Effect of dilutive potential shares		
Share options	<u>-</u>	<u>404,557</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u><b>804,000,000</b></u>	<u>800,404,557</u>

The weighted average number of ordinary shares for the purpose of basic earnings per shares has been adjusted for share split on 2 October 2015.

## 10. DIVIDEND

Special dividend of HK\$0.15 per ordinary share amounting to approximately HK\$120,600,000 was paid during the year ended 31 December 2015 (2014: nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2015, the Group purchased property, plant and equipment amounting to HK\$831,000 (2014: HK\$1,040,000).

## 12. TRADE AND OTHER RECEIVABLES

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
Trade receivables	<b>30,455</b>	43,769
Less: Allowance for doubtful debts	<u>(2,287)</u>	<u>(2,430)</u>
	<u><b>28,168</b></u>	<u>41,339</u>
Retention money receivables	<b>15,367</b>	30,354
Prepayments and deposits	<b>2,087</b>	3,132
Sundry receivables	<b>5,828</b>	7,816
Less: Allowance for doubtful debts	<u>(511)</u>	<u>(543)</u>
	<u><b>22,771</b></u>	<u>40,759</u>
	<u><b>50,939</b></u>	<u>82,098</u>

## 12. TRADE AND OTHER RECEIVABLES (Continued)

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 (including construction contracts of casing and flavouring system, and sales of pneumatic feeding system and other products) but before the expiry of the warranty period given by the Group, which in general, a period of 12 months. Included in retention money receivables with carrying amount of HK\$6,817,000 (2014: HK\$15,297,000) which is past due but not impaired as the management of the Group considers that there has not been a significant change in credit quality and the amount is considered recoverable. The Group does not hold any collateral over the balance.

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>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
0 – 90 days	<b>17,465</b>	26,916
91 – 365 days	<b>3,946</b>	5,861
1 – 2 years	<b>1,837</b>	2,326
Over 2 years	<b>4,920</b>	6,236
	<b><u>28,168</u></b>	<u>41,339</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>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
91 – 365 days	<b>3,946</b>	5,861
1 – 2 years	<b>1,837</b>	2,326
Over 2 years	<b>4,920</b>	6,236
	<b><u>10,703</u></b>	<u>14,423</u>

### 13. TRADE AND OTHER PAYABLES

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
Trade payables	<b>16,674</b>	22,089
Bills payables	<b>1,776</b>	8,955
	<b>18,450</b>	31,044
Advances from customers	<b>6,185</b>	2,753
Accrued welfare expense	<b>1,713</b>	1,819
Valued added tax payables	<b>2,111</b>	1,301
Other payables	<b>2,570</b>	2,534
Other tax payables	<b>222</b>	6,438
	<b>31,251</b>	45,889

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

	<b>2015</b> <b>HK\$'000</b> <b>(Audited)</b>	2014 HK\$'000 (Audited)
0 – 90 days	<b>16,795</b>	24,930
91 – 365 days	<b>832</b>	4,708
1 – 2 years	<b>125</b>	1,081
Over 2 years	<b>698</b>	325
	<b>18,450</b>	31,044

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

## 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 revenue primarily from projects related to three types of catalogued special-purpose tobacco machinery products, namely the casing and flavouring systems, pneumatic feeding systems (“PF system”) and pre-pressing packing machines (“PP system”).

### FINANCIAL REVIEW

For the year ended 31 December 2015, the revenue of the Group dropped by approximately HK\$28,090,000 or 28.8% to approximately HK\$69,383,000 as compared to approximately HK\$97,473,000 for the previous year. Such decrease was mainly attributable to drop in revenue recognised from the casing and flavouring systems. For the year under review, the Group recognised revenue from casing and flavouring systems amounting to approximately HK\$52,380,000 (2014: approximately HK\$70,057,000), which was approximately HK\$17,677,000 less than that recognised in prior year. The drop was mainly because revenue recognised from customer A decreased from approximately HK\$57,999,000 in 2014 to HK\$35,727,000 in 2015. From the year ended 31 December 2015, the Group completed 9 projects (2014: 14 projects) to customer A, less number of projects was completed during the year under review. The gross profit margin of the Group remained stable at 48.9% and 45.4% for the year ended 31 December 2015 and 2014 respectively following the continuous effort in refining our respective system design and modification by our technical personnel.

Other income and gains decreased from approximately HK\$9,340,000 in 2014 to approximately HK\$7,205,000 in 2015, representing to approximately HK\$2,135,000 or 22.9%. The decrease was mainly due to less subsidy and interest income for the year under review.

Other losses increased from approximately HK\$821,000 in 2014 to approximately HK\$6,869,000 in 2015, representing to approximately HK\$6,148,000 or 748.8%. The increase was mainly due to the exchange loss recognised from the depreciation of Renminbi during the current year.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK\$26,346,000 (2014: approximately HK\$23,798,000), representing an increase of approximately HK\$2,548,000 or 10.7%. The overall increment was mainly attributable to increase in staff costs and legal and professional fee in relation to the share subdivision.

Taxation decreased from approximately HK\$11,743,000 in 2014 to approximately HK\$3,780,000 in 2015, representing to approximately HK\$7,963,000 or 67.8%. The decrease was mainly because less PRC enterprise income tax was paid.

The net profit of the Group for the year ended 31 December 2015 amounted to approximately HK\$1,180,000, which was decreased by approximately HK\$9,428,000 or 88.9%.

Special dividend of HK\$0.15 per ordinary share amounting to approximately HK\$120,600,000 was paid during the year ended 31 December 2015 (2014: nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: nil). Together with the special dividend of HK\$0.15 per ordinary share, the total dividend payment in 2015 is HK\$0.15 per ordinary share (2014: nil).

## **BUSINESS REVIEW**

The sale of catalogued special-purpose tobacco machinery products continued to contribute the majority of the revenue of the Group, amounting to approximately HK\$65,010,000 or 93.7% of total revenue (2014: approximately HK\$88,960,000 or 91.3% of total revenue). For the year ended 31 December 2015, the Group has completed projects in delivering casing and flavouring system to cigarette manufacturers located in Jiangxi, Shandong and Zhejiang Province and PF system to customers located in Fujian and Shandong Province respectively. During the year, the Group has also completed project in PP system to tobacco redrying factory located in Henan Province.

Our technical personnel is always committed to new product design and development and strives to bring along extended range of products to customers. For the year ended 31 December 2015, the expenditure incurred on research and development amounted to approximately HK\$2,925,000 (2014: approximately HK\$6,618,000). During the year, the Group completed the development of tobacco redrying system.

Following the completion of development of respective products, in particular the new set of casing and flavouring system, our sales and marketing personnel continued exploring opportunity of trade exhibitions in the PRC to introduce these new products in a large scale basis to existing and potential customers, with expectation of building business relationship and to further enhance our penetration into the tobacco machinery market.

## **BUSINESS OUTLOOK**

According to the National Bureau of Statistics of China, the fixed asset investment in the tobacco products industry in urban areas grew at a compound annual growth rate of approximately 11% between 2008 and 2014 from RMB14.5 billion to RMB26.5 billion. Considering the trend in the tobacco products industry as described above, it is believed that the tobacco machinery industry would be in a steady and modest growth momentum.

Leveraging on the Group's competitive strengths in product customisation and development capabilities, and the completion of development of a new set of PF system, PP system and casing and flavouring system, as well as our long standing relationships with customers, which enables both the sales and technical personnel to obtain good and timely understanding of customers' requests in the prevailing PRC tobacco industry, the Group is capable of capturing market opportunities for its specialised products and securing contracts with cigarette manufacturers and tobacco redrying factories in the foreseeable future, hence delivering greater value to our shareholders.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

Our operations were financed principally by revenues generated from business operations, available bank balances and the net proceeds from the placing of shares upon the initial public offering (the “Placing”). As at 31 December 2015, bank balances and cash amounted to approximately HK\$60,919,000 (2014: approximately HK\$158,337,000) and the net current assets was approximately HK\$95,978,000 (2014: approximately HK\$218,140,000). As at 31 December 2015, the current ratio was approximately 3.6 (2014: approximately 4.9). The decrease was mainly due to the distribution of special dividend to our shareholders during the year.

The Group did not have any borrowings, mortgages or charges as at 31 December 2015 (2014: nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2015, the Group had a total of 159 employees (2014: 162). Total staff costs (including directors’ remuneration) were approximately HK\$15,112,000 for the year ended 31 December 2015 as compared to approximately HK\$13,132,000 for the year ended 31 December 2014.

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.

## **MATERIAL ACQUISITION AND DISPOSAL**

The Group had no material acquisition and disposal of subsidiaries for two years ended 31 December 2014 and 31 December 2015.

## **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 31 December 2015 (the “Relevant Period”) is set out below:

**COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS (Continued)**

	<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 set 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	Completed the development of tobacco bale slicers
	Design and develop tobacco redrying system	Completed the development of tobacco redrying system
	Recruit technical personnel	Completed the recruitment of technical personnel for product research and development
Enhancing corporate profile and increasing market penetration	Post advertisement in tobacco magazines	Posted advertisement in local publications
	Design and distribute corporate and product brochures as well as video compact disc	Completed the design of corporate and product brochures and videos
	Participate in trade exhibitions	Explored the opportunity of 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	Completed the upgrade
Strengthening management information system	Evaluate, acquire and implement management information system	Completed installation and upgrade of management information system by service provider

## FUTURE PLANS AND USE OF PROCEEDS

The net proceeds from the Placing were approximately HK\$45.7 million, which is approximately HK\$1.6 million lower than that was anticipated in the Prospectus due to the underestimated listing expenses and related disbursements. During the Relevant Period, the net proceeds from the Placing had been applied as follows:

	<b>Proposed use of net proceeds in the Prospectus (HK\$'000)</b>	<b>Planned use of net proceeds as stated in the Prospectus during the Relevant Period (HK\$'000)</b>	<b>Actual use of net proceeds during the Relevant Period (HK\$'000)</b>	<b>Unused net proceeds as at 31 December 2015 (HK\$'000)</b>
Continuous product development and innovation ( <i>Note 1</i> )	33,713	33,713	29,192	4,521
Enhancing corporate profile and increasing market penetration ( <i>Note 2</i> )	3,700	3,700	666	3,034
Enhancing production processing capabilities ( <i>Note 3</i> )	4,830	4,830	3,899	931
Strengthening management information system ( <i>Note 4</i> )	480	480	446	34
<b>Total</b>	<b>42,723</b>	<b>42,723</b>	<b>34,203</b>	<b>8,520</b>

### Notes:

1. The design and development of a new set of casing and flavouring system, PP system, PF system, spraying device, bale slicer and tobacco redrying system has been completed and approximately HK\$11,515,000, HK\$3,903,000, HK\$928,000, HK\$4,194,000, HK\$3,427,000 and HK\$3,925,000 were used. All design and development of new set of products was completed by the end of 2015.

The remaining balance was used to employ technical personnel and the recruitment was completed 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\$353,000. 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 CTMC.
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, turret punch machine and hydraulic press machine during the Relevant Period. Baoying Renheng commenced for the upgrade in the fourth quarter of 2014 and was completed in 2015.
4. The Group completed the installation and upgrade of management information system during the Relevant Period and the result of the implementation is satisfactory. 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 31 December 2015 were placed as interest bearing deposits with licensed banks in Hong Kong and the PRC.



## **CHANGE IN USE OF PROCEEDS**

In order to seize the business opportunities in tobacco machinery industry, the Board resolved to change the use of unused net proceeds as at 31 December 2015 as follows:

- (i) as working capital of the Group amounting to approximately HK\$8,520,000.

The Board believe that the change in the use of unused net proceeds will not affect the existing operation and business of the Group and is in the interest of the Company and its shareholders as a whole.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 7 June to 10 June 2016, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to be eligible for the attendance of the forthcoming annual general meeting of the Company, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 6 June 2016.

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

During the year ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

## **CORPORATE GOVERNANCE**

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 Code during the year ended 31 December 2015, save and except the Code Provisions A.2.1 of the CG Code.

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 year ended 31 December 2015.

## **SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU**

The financial figures in this announcement have been agreed by the Company's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2015. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on this announcement.

## **REVIEW OF ANNUAL RESULTS**

The audited consolidated results for the year ended 31 December 2015 have been reviewed by the audit committee of the Company. 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 and Chief Executive Officer*

Hong Kong, 31 March 2016

*As at the date of this announcement, the executive Directors are Mr. Wei Sheng Peng, Ms. Liu Li and Mr. Xu Jiagui and the independent non-executive Directors are Mr. Wong Yiu Kit, Ernest, Mr. Kong Hing Ki and Mr. Wu Wei.*