



RENHENG ENTERPRISE HOLDINGS LIMITED

仁恒實業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8012)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

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 announcement, 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 announcement.

This announcement, 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, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and (ii) there are no other matters the omission of which would make any statement herein or this announcement misleading.

HIGHLIGHTS

- Turnover for the year ended 31 December 2012 was approximately HK\$145,461,000, representing a decrease of approximately 6.8% as compared with 2011;
- Profit attributable to shareholders of the Company for the year ended 31 December 2012 was approximately HK\$29,686,000, representing an increase of approximately 15.6% as compared with 2011;
- Basic earnings per share was HK14.8 cents, representing a decrease of approximately 9.8% as compared with 2011; and
- The Directors do not recommend the payment of a dividend and propose that the profit attributable to shareholders of the Company be retained.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of Directors (the “Board”) of 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 2012 together with the comparative figures for 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	<i>NOTES</i>	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment	11	15,093	15,404
Land use rights		2,997	3,072
Investment properties		20,101	19,366
		<u>38,191</u>	<u>37,842</u>
Current assets			
Inventories	12	11,730	18,238
Trade and other receivables	13	101,049	80,230
Land use rights		74	74
Amounts due from customers for contract work		2,212	2,334
Amounts due from related companies		437	437
Restricted bank deposits	14	-	265
Bank balances and cash	14	120,693	103,353
		<u>236,195</u>	<u>204,931</u>
Current liabilities			
Trade and other payables	15	38,699	50,768
Amounts due to customers for contract work		18,598	7,406
Tax payable		6,317	4,343
		<u>63,614</u>	<u>62,517</u>
Net current assets		<u>172,581</u>	<u>142,414</u>
Total assets less current liabilities		<u>210,772</u>	<u>180,256</u>
Non-current liabilities			
Deferred tax liabilities		553	360
		<u>210,219</u>	<u>179,896</u>
Capital and reserves			
Share capital	16	2,000	2,000
Reserves		208,219	177,896
Total equity		<u>210,219</u>	<u>179,896</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital	Share premium	Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Share option reserve	Translation reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	390	-	48,701	3,338	4,877	999	2,775	-	4,121	28,880	94,081
Profit for the year	-	-	-	-	-	-	-	-	-	25,679	25,679
Exchange differences arising on translation	-	-	-	-	-	-	-	-	5,072	-	5,072
Total comprehensive income for the year	-	-	-	-	-	-	-	-	5,072	25,679	30,751
Issue of shares arising from the Group Reorganization	(390)	-	390	-	-	-	-	-	-	-	-
Placing of shares	500	59,500	-	-	-	-	-	-	-	-	60,000
Capitalization issue	1,500	(1,500)	-	-	-	-	-	-	-	-	-
Expenses incurred in connection with the placing of shares	-	(5,060)	-	-	-	-	-	-	-	-	(5,060)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	124	-	-	124
Transfer	-	-	-	-	1,176	-	-	-	-	(1,176)	-
At 31 December 2011	2,000	52,940	49,091	3,338	6,053	999	2,775	124	9,193	53,383	179,896
Profit for the year	-	-	-	-	-	-	-	-	-	29,686	29,686
Exchange differences arising on translation	-	-	-	-	-	-	-	-	19	-	19
Total comprehensive income for the year	-	-	-	-	-	-	-	-	19	29,686	29,705
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	618	-	-	618
Transfer	-	-	-	-	6,265	-	-	-	-	(6,265)	-
At 31 December 2012	2,000	52,940	49,091	3,338	12,318	999	2,775	742	9,212	76,804	210,219

Notes:

- The merger reserve represented the aggregate amount of paid-in capital of Bao Ying Ren Heng Industrial Co. Limited ("Baoying Renheng") and share capital of RENHENG Global Limited ("RENHENG Global"), subsidiaries of the Company, acquired pursuant to the Group Reorganization (as defined in Note 2).
- As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), Baoying Renheng is required to maintain two reserves, being a statutory surplus reserve and a discretionary surplus reserve which are non-distributable. Appropriations to such reserves are made out of profit after taxation of Baoying Renheng based on the relevant accounting principles and financial regulations applicable to PRC enterprises while the amount and allocation basis are decided by its board of directors annually. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve and the discretionary surplus reserve can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalization issue.
- The capital reserve represented waiver of an amount due to a former shareholder of a subsidiary of the Company.

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

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

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

2. BASIS OF PRESENTATION AND GROUP REORGANIZATION

In preparation for the listing of the shares of the Company on the GEM, the Company underwent a group reorganization (the “Group Reorganization”) which includes the following steps:

(a) Prior to 28 October 2009, the business of the Group carried out by Baoying Renheng was under control by the Controlling Shareholders through a direct held wholly-owned subsidiary Yanlord Industry Investment Limited (“Yanlord Industry”). On 15 October 2009, RENHENG Global was incorporated in the British Virgin Islands and owned by Yanlord Industry, a company beneficially owned by the Controlling Shareholders.

(b) On 28 October 2009, RENHENG Tech Limited, a wholly owned subsidiary of RENHENG Global, was incorporated and acquired the entire beneficial interests in Baoying Renheng from Yanlord Industry at nil consideration.

(c) On 15 December 2010, LinkBest Capital Group Limited (“LinkBest”) and Open Venture Global Limited (“Open Venture”), companies wholly owned by Mr. Wei Sheng Peng and Ms. Liu Li respectively, acquired the entire beneficial interests in RENHENG Global from Yanlord Industry at 60% and 40% respectively.

(d) On 2 February 2011, the Company was incorporated by LinkBest and Open Venture, and registered as an exempted company with limited liability in the Cayman Islands. Pursuant to a share swap agreement dated 2 February 2011, the Company acquired the entire equity interests in RENHENG Global by issuing and allotting a total of 100 shares of HK\$0.01 each to LinkBest and Open Venture. Thereafter, the Company has become the holding company of the Group since 2 February 2011.

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

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

The Group has applied all the standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group’s financial year beginning 1 January 2012.

The Group has not early applied any new and revised HKFRSs that have been issued but are not yet effective for the year ended 31 December 2012.

4. TURNOVER AND SEGMENT INFORMATION

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

	2012	2011
	HK\$’000	HK\$’000
Sales of goods	47,222	44,884
Revenue from construction contracts of casing and flavouring system	98,239	111,160
	<u>145,461</u>	<u>156,044</u>

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

Entity-wide information

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

	2012	2011
	HK\$’000	HK\$’000
Revenue from construction contracts of casing and flavouring systems	98,239	111,160
Sales of		
- PF systems	10,442	18,469
- PP systems	13,551	11,343
- other products	23,229	15,072
	<u>145,461</u>	<u>156,044</u>

4. TURNOVER AND SEGMENT INFORMATION (Continued)

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

	2012	2011
	HK\$'000	HK\$'000
Customer A ¹	79,064	63,364
Customer B ²	-	53,298
	<u><u>79,064</u></u>	<u><u>116,662</u></u>

¹ Revenue from construction contracts of casing and flavouring system.

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

All of the Group's turnover are derived in the PRC, which are determined by the location where the systems or products being installed or delivered. The Group's non-current assets comprise of approximately HK\$38,171,000 (2011: approximately HK\$37,802,000) which are located in the PRC (excluding Hong Kong) and approximately HK\$20,000 (2011: approximately HK\$40,000) which are located in Hong Kong.

5. OTHER INCOME AND GAINS

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

Note: Based on a document issued by the People's Government of Baoying, Baoying Renheng is entitled to one-off tax refunds based on the PRC Enterprise Income Tax paid in prior year and approximately 12.5% of the excess value added tax paid in prior year as compared with the reference amount as stated in that document. There were no unfulfilled conditions attached to these refunds, therefore, the Group recognized the refunds upon receipts.

6. OTHER GAINS AND LOSSES

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

7. PROFIT BEFORE TAXATION

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

8. TAXATION

	2012 HK\$'000	2011 HK\$'000
The charge comprises:		
PRC Enterprise Income Tax		
- current year	6,670	6,284
- under(over)provision in prior year	530	(3,295)
	<u>7,200</u>	<u>2,989</u>
Withholding tax on distributed profits	-	673
Deferred taxation		
- attributable to change in tax rate	-	(177)
- current year	193	(586)
	<u>193</u>	<u>(763)</u>
	<u>7,393</u>	<u>2,899</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% (2011: 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 recognized as a HNTE and is therefore entitled to a reduced tax rate at 15% for 3 years which is applied retrospectively to prior year. Such tax concession is subject to renewal by the local tax authority. An overprovision of PRC Enterprise Income Tax amounted to approximately HK\$3,295,000 has been adjusted in the year ended 31 December 2011. In addition, the deferred tax balance has been adjusted to reflect the tax rate that is expected to apply in the respective periods when the assets are realized or the liabilities are settled.

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:

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

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

For the year ended 31 December 2011, the computation of diluted earnings per share has not assumed the exercise of the Company's share options because the adjusted exercise price of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period.

10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

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

12. INVENTORIES

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

13. TRADE AND OTHER RECEIVABLES

	2012 HK\$'000	2011 HK\$'000
Trade receivables	70,169	50,852
Less: Allowance for doubtful debts	<u>(2,365)</u>	<u>(2,365)</u>
	<u>67,804</u>	<u>48,487</u>
Retention money receivables	22,769	19,088
Prepayments and deposits	6,328	8,202
Sundry receivables	4,676	4,945
Less: Allowance for doubtful debts	<u>(528)</u>	<u>(492)</u>
	<u>33,245</u>	<u>31,743</u>
	<u>101,049</u>	<u>80,230</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. Included in retention money receivables with carrying amount of approximately HK\$3,990,000 (31.12.2011: Nil) which is past due but not impaired as the management of the Group considers that there has not been a significant change in credit quality and the amount is recoverable. The Group does not hold any collateral over the balance.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period.

	2012 HK\$'000	2011 HK\$'000
0 - 90 days	44,086	14,484
91 - 365 days	8,368	32,291
1 - 2 years	15,325	1,687
Over 2 years	25	25
	<u>67,804</u>	<u>48,487</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.

	2012 HK\$'000	2011 HK\$'000
91 - 365 days	8,368	32,291
1 - 2 years	15,325	1,687
Over 2 years	25	25
	<u>23,718</u>	<u>34,003</u>

14. RESTRICTED BANK DEPOSITS/ BANK BALANCES AND CASH

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

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

15. TRADE AND OTHER PAYABLES

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

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

	2012 HK\$'000	2011 HK\$'000
0 - 90 days	30,662	35,812
91 - 365 days	1,852	3,685
1 - 2 years	4	660
2 - 3 years	327	315
	<u>32,845</u>	<u>40,472</u>

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

16. SHARE CAPITAL

The movement in share capital of the Company are as follows:

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
On 2 February 2011 (date of incorporation)	38,750,000	388
Increase in authorised share capital	961,250,000	9,612
At 31 December 2011 and 31 December 2012	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
Issue of shares upon the Group Reorganization on 2 February 2011 (date of incorporation)	100	-
Capitalization issue	149,999,900	1,500
Placing of shares	50,000,000	500
At 31 December 2011 and 31 December 2012	<u>200,000,000</u>	<u>2,000</u>

The Company was incorporated on 2 February 2011 with an authorised share capital of HK\$387,500 divided into 38,750,000 ordinary shares of HK\$0.01 each. Pursuant to a share swap agreement dated 2 February 2011, the Company acquired the entire issued share capital of RENHENG Global, and in consideration thereof, a total of 100 shares of the Company were issued and allotted to LinkBest and Open Venture, which are wholly owned by Mr. Wei Sheng Peng and Ms. Liu Li, respectively.

Pursuant to the shareholders' resolutions which were passed to approve the matters set out in the paragraph headed "Written resolutions of all shareholders" in Appendix V to the Company's prospectus dated 28 October 2011 (the "Prospectus"):

- (i) the authorized share capital of the Company was increased from HK\$387,500 to HK\$10,000,000 by the creation of an additional 961,250,000 ordinary shares each ranking pari passu in all respects; and
- (ii) the Directors were hereby authorised to capitalize HK\$1,499,999 standing to credit of the share premium account of the Company, as a result of the placing of shares, and to apply such sum in paying up in full at par 149,999,900 ordinary shares of HK\$0.01 each for allotment and issue to holders of shares whose names appeared on the register of members of the Company at the close of business on 20 October 2011 in proportion.

On 17 November 2011, 50,000,000 ordinary shares of HK\$0.01 each of the Company were issued at HK\$1.20 per share by way of placing (the "Placing"). On 18 November 2011, the Company's shares were listed on GEM.

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, PF systems and PP Systems.

FINANCIAL REVIEW

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

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

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

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

BUSINESS REVIEW

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

BUSINESS REVIEW (Continued)

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

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

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

BUSINESS OUTLOOK

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

CAPITAL EXPENDITURE

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

CAPITAL COMMITMENTS

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

GEARING RATIO

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

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

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2012 (31.12.2011: Nil).

PLEDGE OF ASSETS

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

Remuneration in the form of salaries and bonus is determined by reference to our employees' respective experience, responsibilities, qualifications and competence displayed and our operation results. Our employees also receive reimbursements for expenses which are necessarily and reasonably incurred for providing services to our Group or executing their functions in relation to our operations. Our Directors and employees may also receive options granted under the share option scheme after listing.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held by us as at 31 December 2012 (31.12.2011: Nil).

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries for two years ended 31 December 2011 and 31 December 2012.

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 with our actual business progress for the period from 24 October 2011, being the latest practicable date as defined in the Prospectus, to 31 December 2012 (the “Relevant Period”) is set out below:

	Future plans and prospects	Actual business progress during the Relevant Period
Continuous product development and innovation	Design and develop new set of PP system	Completed the development of a new set of PP system
	Design and develop new set of spraying device	Continued the technical feasibility study of a new type of spraying device
	Design and develop new casing and flavouring system	Commenced and continuously developed a new set of casing and flavouring system
	Design and develop new PF system	Completed the development of a new set of PF system
	Design and develop tobacco bale slicers	Continued the technical feasibility study of new tobacco bale slicers
	Recruit technical personnel	Recruited technical personnel for product research and development
Enhancing corporate profile and increasing market penetration	Post advertisement in tobacco magazines	Posted advertisement in local publications
	Design and distribute corporate and product brochures as well as video compact disc	Engaged a service provider to commence the design of corporate and product brochures and video
	Participate in trade exhibitions	Explored the opportunity of any trade exhibitions
	Organize product launch promotional activities for casing and flavouring systems	Formulated initial plan for product launch for casing and flavouring system
Enhancing production processing capabilities	Purchase machinery and equipment	Purchased one Computerized Numerical Control (“CNC”) press brake, one CNC shearing machine, one lathes and one automatic pipe welding machine
	Upgrade production facilities	Scheduled the upgrade to commence in year 2013
Strengthening management information system	Evaluate, acquire and implement management information system	Completed installation and upgrade of management information system by service provider

USE OF PROCEEDS

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

	Planned use of proceeds as stated in the Prospectus during the Relevant Period (HK\$'000)	Actual use of proceeds during the Relevant Period (HK\$'000)
Continuous product development and innovation (Note 1)	16,600	12,283
Enhancing corporate profile and increasing market penetration (Note 2)	1,450	83
Enhancing production processing capabilities (Note 3)	2,940	929
Strengthening management information system (Note 4)	480	382
Total	21,470	13,677

Notes:

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

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

2. The Group has engaged a service provider to design corporate and product brochures and videos. Meanwhile, the Group is finalizing a marketing and promotion plan including the posting of advertisement in tobacco magazines and is exploring the opportunity of any trade exhibitions in the PRC. For the product launch promotional activities for casing and flavouring systems, the Group has formulated an initial plan with schedule to be determined upon the outcome of the corporate and product brochures and videos.
3. CNC shearing machine, CNC press brake and automatic pipe welding machine were purchased during the Relevant Period as planned. The Group also purchased a set of lathes instead of a set of CNC lathes according to our latest production need. The upgrade of production facilities has been scheduled to year 2013 in order to avoid any significant disturbance to existing system production.
4. The Group completed the installation and upgrade of management information system during the Relevant Period and is in the process of monitoring the results of the implementation.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29 April to 2 May 2013, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to entitle for the attendance of the forthcoming annual general meeting of the Company, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 26 April 2013.

CORPORATE GOVERNANCE PRACTICES

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

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

AUDIT COMMITTEE

The audit committee comprises 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 annual results for the year ended 31 December 2012 of the Group have been reviewed by the audit committee and which was of the opinion that such results complied with the applicable accounting principles, standards and practices and that adequate disclosures had been made.

By order of the Board
RENHENG Enterprise Holdings Limited
Wei Sheng Peng
Chairman

Hong Kong, 7 March 2013

As at the date of this announcement, 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the Company's website at www.renhengenterprise.com.