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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 2014

HIGHLIGHTS

- Turnover for the year ended 31 December 2014 was approximately HK\$97,473,000, representing a decrease of approximately 27.2% as compared with the corresponding year in 2013;
- Profit attributable to shareholders of the Company for the year ended 31 December 2014 was approximately HK\$10,608,000, representing a decrease of approximately 62.0% as compared with the corresponding year in 2013; and
- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014.

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 2014 together with the audited comparative figures for the corresponding year in 2013 as follows:

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

For the year ended 31 December

	<i>Notes</i>	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Turnover	4	97,473	133,872
Cost of sales		<u>(53,225)</u>	<u>(73,875)</u>
Gross profit		44,248	59,997
Other income and gains	5	9,340	11,680
Other losses	6	(821)	(26)
Selling and distribution costs		(10,580)	(14,775)
Administrative expenses		(13,218)	(15,114)
Research and development costs		<u>(6,618)</u>	<u>(7,012)</u>
Profit before taxation		22,351	34,750
Taxation	8	<u>(11,743)</u>	<u>(6,819)</u>
Profit for the year		10,608	27,931
Other comprehensive (expense) income for the year:			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation		<u>(2,412)</u>	<u>7,719</u>
Total comprehensive income for the year		<u>8,196</u>	<u>35,650</u>
Earnings per share	9	HK cents	HK cents
- Basic		<u>5.3</u>	<u>14.0</u>
- Diluted		<u>5.3</u>	<u>13.9</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	Notes	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	14,314	15,482
Land use rights		2,929	3,036
Investment properties		19,901	20,876
		<u>37,144</u>	<u>39,394</u>
Current assets			
Inventories		16,321	15,688
Trade and other receivables	12	82,098	81,889
Land use rights		76	77
Amounts due from customers for contract work		6,126	3,624
Amounts due from related companies		1,090	491
Restricted bank deposits		9,402	1,785
Bank balances and cash		158,337	158,593
		<u>273,450</u>	<u>262,147</u>
Current liabilities			
Trade and other payables	13	45,889	37,228
Amounts due to customers for contract work		4,306	12,366
Tax payable		5,115	5,413
		<u>55,310</u>	<u>55,007</u>
Net current assets		<u>218,140</u>	<u>207,140</u>
Total assets less current liabilities		255,284	246,534
Non-current liabilities			
Deferred tax liabilities		1,219	665
		<u>254,065</u>	<u>245,869</u>
Capital and reserves			
Share capital		2,000	2,000
Reserves		252,065	243,869
Total equity		<u>254,065</u>	<u>245,869</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share	Share	Merger	Discretionary Statutory		Capital	Property	Share	Translation	Accumulated	Total
	capital	premium		surplus	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 2013	2,000	52,940	49,091	3,338	12,318	999	2,775	742	9,212	76,804	210,219
Profit for the year	-	-	-	-	-	-	-	-	-	27,931	27,931
Exchange differences arising on translation	-	-	-	-	-	-	-	-	7,719	-	7,719
Total comprehensive income for the year	-	-	-	-	-	-	-	-	7,719	27,931	35,650
Transfer upon cancellation of share options	-	-	-	-	-	-	-	(57)	-	57	-
Transfer	-	-	-	-	4,398	-	-	-	-	(4,398)	-
At 31 December 2013	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 (expense) income for the year	-	-	-	-	-	-	-	-	(2,412)	10,608	8,196
Transfer upon cancellation of share options	-	-	-	-	-	-	-	(114)	-	114	-
Transfer	-	-	-	-	3,126	-	-	-	-	(3,126)	-
At 31 December 2014	2,000	52,940	49,091	3,338	19,842	999	2,775	571	14,519	107,990	254,065

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, Uglund 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. 32).

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. 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:

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Sales of goods	27,416	34,098
Revenue from construction contracts of casing and flavouring system	70,057	99,774
	97,473	133,872

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 turnover by products is as follows:

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Revenue from construction contracts of casing and flavouring system	70,057	99,774
Sales of		
- pneumatic feeding system	18,903	17,270
- pre-pressing packing machine	-	60
- other products	8,513	16,768
	97,473	133,872

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:

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Customer A ¹	<u>57,999</u>	<u>81,860</u>

¹ Revenue from sales of all products.

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 HK\$37,144,000 (2013: HK\$39,394,000) which are located in the PRC (excluding Hong Kong).

5. OTHER INCOME AND GAINS

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Sales of materials, parts and components, net gain	3,148	3,591
Subsidy income (note)	1,147	3,576
Rental income	978	964
Interest income	4,028	3,544
Others	39	5
	<u>9,340</u>	<u>11,680</u>

Note: Based on a document issued by the People's Government of Baoying, Baoying Renheng Industrial Co., Ltd ("Baoying Renheng") is entitled to and received tax refunds of HK\$1,147,000 (2013: HK\$1,063,000) 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.

Pursuant to a document issued by the People's Government of Yangzhou, Baoying Renheng was entitled to and received one-off subsidy income of HK\$2,513,000 for successful listing of the Company's shares on the GEM during the year ended 31 December 2013 (2014: nil).

There were no unfulfilled conditions attached to these subsidy income and refunds, therefore, the Group recognised the income upon receipts.

6. OTHER LOSSES

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Loss on fair value changes of investment properties	(765)	-
Loss on disposal and write-off of property, plant and equipment	<u>(56)</u>	<u>(26)</u>
	<u>(821)</u>	<u>(26)</u>

7. DEPRECIATION AND AMORTISATION

During the year ended 31 December 2014, depreciation and amortisation amounting to HK\$1,939,000 and HK\$76,000 (2013: HK\$1,604,000 and HK\$75,000) were charged to profit or loss in respect of the Group's property, plant and equipment and land use rights respectively.

8. TAXATION

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
The charge comprise:		
PRC Enterprise Income Tax		
- current year	4,302	6,730
- underprovision in prior year	<u>581</u>	<u>-</u>
	4,883	6,730
Withholding tax on distributed profit	6,296	-
Deferred taxation		
- current year	<u>564</u>	<u>89</u>
	<u>11,743</u>	<u>6,819</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% (2013: 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 on distributed and undistributed profit 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:

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>10,608</u>	<u>27,931</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	200,000,000	200,000,000
Effect of dilutive potential shares		
Share options	<u>404,557</u>	<u>265,538</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>200,404,557</u>	<u>200,265,538</u>

10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2014, the Group purchased property, plant and equipment amounting to HK\$1,040,000 (2013: HK\$1,450,000).

12. TRADE AND OTHER RECEIVABLES

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Trade receivables	43,769	42,804
Less: Allowance for doubtful debts	<u>(2,430)</u>	<u>(2,455)</u>
	<u>41,339</u>	<u>40,349</u>
Retention money receivables	30,354	32,353
Prepayments and deposits	3,132	3,044
Sundry receivables	7,816	6,691
Less: Allowance for doubtful debts	<u>(543)</u>	<u>(548)</u>
	<u>40,759</u>	<u>41,540</u>
	<u>82,098</u>	<u>81,889</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\$15,297,000 (2013: HK\$5,102,000) 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.

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
0 – 90 days	26,916	9,545
91 – 365 days	5,861	19,347
1 – 2 years	2,326	11,432
Over 2 years	6,236	25
	41,339	40,349

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.

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
91 – 365 days	5,861	19,347
1 – 2 years	2,326	11,432
Over 2 years	6,236	25
	14,423	30,804

13. TRADE AND OTHER PAYABLES

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
Trade payables	22,089	22,652
Bills payables	8,955	-
	31,044	22,652
Advances from customers	2,753	8,664
Accrued welfare expense	1,819	1,838
Valued added tax payables	1,301	1,938
Other payables	2,534	1,930
Other tax payables	6,438	206
	45,889	37,228

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

	2014 HK\$'000 (Audited)	2013 HK\$'000 (Audited)
0 – 90 days	24,930	21,472
91 – 365 days	4,708	868
1 – 2 years	1,081	8
Over 2 years	325	304
	31,044	22,652

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 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 system”) and pre-pressing packing machines (“PP system”).

FINANCIAL REVIEW

For the year ended 31 December 2014, the turnover of the Group dropped by approximately HK\$36,399,000 or 27.2% to approximately HK\$97,473,000 as compared to approximately HK\$133,872,000 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\$70,057,000 (2013: approximately HK\$99,774,000), which was approximately HK\$29,717,000 less than that recognised in prior year. The drop was because two casing and flavouring systems projects, which were located in Shandong and Zhejiang Province, re-scheduled their installation progress to 2015. The gross profit margin of the Group remained stable at 44.8% and 45.4% for the year ended 31 December 2013 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\$11,680,000 in 2013 to approximately HK\$9,340,000 in 2014, representing to approximately HK\$2,340,000 or 20.0%. The decrease was mainly due to no one-off subsidy income for the year under review. For the year ended 31 December 2013, we received one-off subsidy income approximately HK\$2,513,000 from the People’s Government of Yangzhou for our successful listing of the Company’s shares on the GEM of the Stock Exchange.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK\$23,798,000 (2013: approximately HK\$29,889,000), representing a decrease of approximately HK\$6,091,000 or 20.4%. The overall decrement was mainly attributable to the decrease in handling fee to be paid to China Tobacco Machinery (Group) Co., Ltd. (“CTMC”) and the decrease in legal and professional fee and charitable donation made to The Community Chest of Hong Kong upon the transfer of listing of the Company both in 2013.

Taxation increased from approximately HK\$6,819,000 in 2013 to approximately HK\$11,743,000 in 2014, representing to approximately HK\$4,924,000 or 72.2%. The increase was mainly because we provided withholding tax on distributed and undistributed profit arisen from our PRC subsidiary in 2014.

The net profit of the Group for the year ended 31 December 2014 amounted to approximately HK\$10,608,000, which was decreased by approximately HK\$17,323,000 or 62.0%.

BUSINESS REVIEW

The sale of catalogued special-purpose tobacco machinery products continued to contribute the majority of the turnover of the Group, amounting to approximately HK\$88,960,000 or 91.3% of total turnover (2013: approximately HK\$117,104,000 or 87.5% of total turnover). For the year ended 31 December 2014, the Group has completed projects in delivering casing and flavouring system to cigarette manufacturers located in Henan, Yunnan and Gansu Province and PF system to customers located in Henan, Jiangxi and Yunnan Province respectively. During the year, our sales and marketing personnel were still identifying and discussing with respective tobacco redrying factories in respect of contracting PP system projects.

Our technical personnel is always committed to new product design and development and strives to bring along extended range of products to customers. For the year ended 31 December 2014, the expenditure incurred on research and development amounted to approximately HK\$6,618,000 (2013: approximately HK\$7,012,000). During the year, the Group completed the development of tobacco bale slicers and spraying device. The Group also commenced 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 16.0% between 2008 and 2013 from RMB14.5 billion to RMB30.4 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 2014, bank balances and cash amounted to approximately HK\$158,337,000 (2013: approximately HK\$158,593,000) and the net current assets was approximately HK\$218,140,000 (2013: approximately HK\$207,140,000). As at 31 December 2014, the current ratio was approximately 4.9 (2013: approximately 4.8). The improvement was mainly resulted from the increase in operating cash flow during the year ended 31 December 2014.

The Group did not have any borrowings, mortgages or charges as at 31 December 2014 (2013: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group had a total of 162 employees (2013: 151). Total staff costs (including directors’ remuneration) were approximately HK\$13,132,000 for the year ended 31 December 2014 as compared to approximately HK\$12,667,000 for the year ended 31 December 2013.

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 2013 and 31 December 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 31 December 2014 (the “Relevant Period”) is set out below:

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

	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	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	Commenced 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	Commenced 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:

	Proposed use of net proceeds in the Prospectus (HK\$'000)	Planned use of net proceeds as stated in the Prospectus during the Relevant Period (HK\$'000)	Actual use of net proceeds during the Relevant Period (HK\$'000)	Unused net proceeds as at 31 December 2014 (HK\$'000)
Continuous product development and innovation (<i>Note 1</i>)	33,713	33,713	26,267	7,446
Enhancing corporate profile and increasing market penetration (<i>Note 2</i>)	3,700	3,700	408	3,292
Enhancing production processing capabilities (<i>Note 3</i>)	4,830	4,830	2,867	1,963
Strengthening management information system (<i>Note 4</i>)	480	480	446	34
Total	42,723	42,723	29,988	12,735

Notes:

1. The design and development of a new set of casing and flavouring system, PP system, PF system, spraying device and bale slicer has been completed and approximately HK\$11,515,000, HK\$3,903,000, HK\$928,000, HK\$4,194,000 and HK\$3,427,000 were used. In addition, approximately HK\$1,000,000 was used for the development of tobacco redrying system during the Relevant Period. The deviation between actual and proposed use of net proceeds during the Relevant Period was mainly due to the design and development of the tobacco redrying system being rescheduled.

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\$95,000. 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. The postponement of upgrade to production facilities was to avoid any significant disturbance to the production and delivery of products to customers in the previous year, whereas the delay in purchase of certain machineries was because the spending was still pending review by the management of Baoying Renheng on their appropriateness and production capacity to meet the Group's production needs. Baoying Renheng commenced for the upgrade in the fourth quarter of 2014 with the selected contractor. It is expected that the upgrade will be completed in first half of 2015.

FUTURE PLANS AND USE OF PROCEEDS (Continued)

Notes:

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 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 31 December 2014 of approximately HK\$12,701,000 designated for each six-month period during the year ending 31 December 2015 is summarised as follows:

	Six-month ending		Total HK\$'000
	30 June 2015 HK\$'000	31 December 2015 HK\$'000	
Continuous product development and innovation	4,240	3,206	7,446
Enhancing corporate profile and increasing market penetration	2,000	1,292	3,292
Enhancing production processing capabilities	1,963	-	1,963
	<hr/>	<hr/>	<hr/>
	8,203	4,498	12,701
	<hr/>	<hr/>	<hr/>

Further information regarding the deployment of the unused net proceeds up to 31 December 2014 for each strategy is set out below.

1. Continuous product development and innovation

**From 1 January 2015 to
30 June 2015**

Design and develop new tobacco redrying system

Funding requirements:

HK\$4,240,000

**From 1 July 2015 to
31 December 2015**

Design and develop new tobacco redrying system

HK\$3,206,000

FUTURE PLANS AND USE OF PROCEEDS (Continued)

2. Enhancing corporate profile and increasing market penetration

**From 1 January 2015 to
30 June 2015**

**From 1 July 2015 to
31 December 2015**

Post advertisement in tobacco magazines

Post advertisement in tobacco magazines

Organise promotional activities for existing and
new products

Organise promotional activities for existing and
new products

Funding requirements:

HK\$2,000,000

HK\$1,292,000

3. Enhancing production processing capabilities

**From 1 January 2015 to
30 June 2015**

**From 1 July 2015 to
31 December 2015**

Purchase machinery and equipment

-

Upgrade production facilities

-

Funding requirements

HK\$1,963,000

-

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May to 22 May 2015, 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 19 May 2015.

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

During the year ended 31 December 2014, 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 2014, 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 2014.

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 2014. 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 2014 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, 20 March 2015

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, Mr. Kong Hing Ki and Mr. Wu Wei.