RENHENG Enterprise Holdings Limited

仁 恒 實 業 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3628)

Interim Report 2018

HIGHLIGHTS

- Revenue for the six months ended 30 June 2018 was HK$60,305,000, representing an increase of 363.6% as compared with the corresponding period in 2017;
- Profit attributable to shareholders of the Company for the six months ended 30 June 2018 was HK$3,111,000, while loss attributable to shareholders of the Company for the six months ended 30 June 2017 was HK$2,359,000; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018.

The board (the "Board") of directors (the "Directors") of RENHENG Enterprise Holdings Limited (the "Company") hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 together with the unaudited comparative figures for the corresponding year in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2018	2017
		HK$'000	*HK$'000*
	Notes	***(Unaudited)***	*(Unaudited)*
Revenue	*3*	**60,305**	13,009
Cost of sales		**(38,518)**	(7,357)
Gross profit		**21,787**	5,652
Other income and gains	*4*	**1,483**	1,707
Selling and distribution costs		**(7,917)**	(2,960)
Administrative expenses		**(9,328)**	(6,758)
Profit (loss) before taxation	*5*	**6,025**	(2,359)
Taxation	*6*	**(2,914)**	–
Profit (loss) for the period		**3,111**	(2,359)
Other comprehensive (expense) income for the period:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		**(1,628)**	1,766
Total comprehensive income (expense) for the period		**1,483**	(593)
Earnings (loss) per share	*7*	**HK cents**	HK cents
– Basic		**0.4**	(0.3)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**10,336**	10,679
Prepaid lease payment		**2,489**	2,558
Investment properties		**19,434**	19,693
Other receivables	11	**295**	299
		32,554	33,229
Current assets			
Inventories	10	**30,218**	18,171
Prepaid lease payment		**71**	72
Trade and other receivables	11	**26,617**	46,221
Amounts due from customers for contract work		**–**	8,671
Financial assets designated as at fair value through profit or loss		**–**	33,622
Restricted bank deposits	12	**14,731**	12,234
Bank balances and cash	12	**64,092**	16,836
		135,729	135,827
Current liabilities			
Trade and other payables	13	**35,661**	50,199
Contract liabilities		**10,110**	–
Tax payable		**7,002**	5,051
		52,773	55,250
Net current assets		**82,956**	80,577
Total assets less current liabilities		**115,510**	113,806
Non-current liabilities			
Deferred tax liabilities		**1,570**	1,349
		113,940	112,457
Capital and reserves			
Share capital	14	**2,010**	2,010
Share premium		**41,818**	41,818
Reserves		**84,456**	86,084
Accumulated losses		**(14,344)**	(17,455)
Total equity		**113,940**	112,457

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share premium	Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Translation reserve	Accumulated loss	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017 (Audited)	2,010	41,818	49,091	3,338	22,156	999	2,775	1,007	(14,088)	109,106
Loss for the period	–	–	–	–	–	–	–	–	(2,359)	(2,359)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	1,766	–	1,766
Total comprehensive income (expense) for the period	–	–	–	–	–	–	–	1,766	(2,359)	(593)
At 30 June 2017 (Unaudited)	2,010	41,818	49,091	3,338	22,156	999	2,775	2,773	(16,447)	108,513
At 1 January 2018 (Audited)	2,010	41,818	49,091	3,338	22,293	999	2,775	7,588	(17,455)	112,457
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,111**	**3,111**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,628)**	**-**	**(1,628)**
Total comprehensive (expense) income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,628)**	**3,111**	**1,483**
At 30 June 2018 (Unaudited)	**2,010**	**41,818**	**49,091**	**3,338**	**22,293**	**999**	**2,775**	**5,960**	**(14,344)**	**113,940**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash from (used in) operating activities	**15,463**	(20,357)
Investing activities		
Release of restricted bank deposits	**12,234**	8,367
Receipt of bank interests	**728**	356
Placement of restricted bank deposits	**(14,731)**	(38,376)
Release of financial assets designated as at fair value through profit or loss	**33,622**	–
Purchase of property, plant and equipment	**(603)**	(91)
Net cash from (used in) investing activities	**31,250**	(29,744)
Financing activity		
Advance from a director	**2,000**	–
Net cash from financing activity	**2,000**	–
Net increase (decrease) in cash and cash equivalents	**48,713**	(50,101)
Cash and cash equivalents at beginning of the period	**16,836**	68,291
Effect of foreign exchange rate changes	**(1,457)**	1,047
Cash and cash equivalents at end of the period, represented by bank balances and cash	**64,092**	19,237

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2018 were unaudited but have been reviewed by the audit committee of the Company. The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical basis except for investment properties and financial assets designated as at fair value through profit or loss that are measured at fair values at the end of the reporting period.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The adoption of these new and amendments to HKFRSs in the current interim period has had no significant financial effect on the financial position or performance of the Group set out in these condensed consolidated financial statements except HKFRS 15 and HKFRS 9.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Revenue from sales of goods (including pneumatic feeding system, pre-pressing packing machine and other products)

- Revenue from construction of casing and flavouring system

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening balance of equity and comparative information has not been restated, i.e. the information presented for 2017 has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognises revenue (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously received and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an assets that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

For the sales of goods, revenue was recognised at the point when the customers acknowledged the receipt of goods, which was taken to be the point at which the customer accepts the goods and the related risks and rewards of ownership transferred. Under HKFRS 15, revenue is recognised when a customer obtains control of the goods and the sales of goods continue to measure on the same bases as measured before the effective of HKFRS 15.

For the construction of casing and flavouring system, contract revenue was recognised by reference to the stage of completion of the contract using output methods under HKAS 11. Under the application of HKFRS 15, not until a customer certifies the entire project being completed at the customer's premise, the Group does not has an enforceable right to payment for contracts completed at any point of time. Accordingly, the revenue from construction of casing and flavouring system is recognised at a point in time under HKFRS 15. The management of the Company has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that no material impact on financial results exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

The following reclassification and adjustments were made to the amounts recognised in the condensed consolidated financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2017** *HK$'000* *(Audited)*	**Impacts of adopting HKFRS 15** *HK$'000*	**Carrying amounts under HKFRS 15 at 1 January 2018*** *HK$'000*
Current assets				
Inventories	*(a), (b)*	18,171	11,310	29,481
Trade and other receivables	*(a)*	46,520	(2,639)	43,881
Amounts due from customers for contract works	*(b)*	8,671	(8,671)	–
Current liabilities				
Trade and other payables	*(c)*	50,199	(13,931)	36,268
Contract liabilities	*(c)*	–	13,931	13,931

* The amounts in this column are before the adjustments from the application of HKFRS 9.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Notes:

a) The Group's contacts with customers for construction of casing and flavouring system are tailor-made based on customers' specification with no alternative use to the Group. Taking into account the contract terms, the legal and regulatory environment in the People's Republic of China (the "PRC"), the Group does not has an enforceable right to payment for performance completed at any point of time and should be recognised at point in time upon application of HKFRS 15. HK$2,639,000 have been adjusted to inventories with corresponding adjustments of HK$2,639,000 from trade receivables.

b) In relation to contracts with customers for construction of casing and flavouring system previously accounted under HKAS 11, HK$8,671,000 amounts due from customers for contract work were reclassified to inventories under HKFRS 15.

c) As at 1 January 2018, advances from customers of HK$13,931,000 in respect of 17 contracts previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the current interim period and its condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impacts on condensed consolidated statement of profit and loss and other comprehensive income for the six months ended 30 June 2018

	As reported	Impacts of adopting HKFRS 15	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Revenue	60,305	9,218	69,523
Cost of sales	(38,518)	(6,200)	(44,718)
Taxation	(2,914)	(755)	(3,669)
Profit for the period	3,111	2,263	5,374
Total comprehensive income for the period	1,483	2,263	3,746

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Impacts on the condensed consolidated statement of financial position as at 30 June 2018

	As reported *HK$'000*	Impacts of adopting HKFRS 15 *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current assets			
Inventories	30,218	(6,200)	24,018
Trade and other receivables	26,912	9,218	36,130
Current liabilities			
Trade and other payables	35,661	10,110	45,771
Contract liabilities	10,110	(10,110)	–
Tax payable	7,002	755	7,757
Capital and reserves			
Accumulated losses	14,344	(2,263)	12,081

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9 i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and carrying amounts as at 1 January 2018 are recognised in the opening balance of equity, without restating comparative information, if any.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on the trade receivables are assessed individually. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators or credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the opening results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

The Group recognises an impairment gain or loss in profit of loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

The Group has performed an assessment and concluded that no additional impairment for financial assets as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECL model is immaterial. Apart from the foregoing, the application of HKFRS 9 has had no material effect on classification and measurement of financial assets in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Sales of goods	**12,372**	11,149
Revenue from construction contracts of casing and flavouring system	**47,933**	1,860
	60,305	13,009

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products. An analysis of the Group's revenue by products is as follows:

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Revenue from construction contracts of casing and flavouring system	**47,933**	1,860
Sales of		
– pneumatic feeding system	**7,884**	9,730
– pre-pressing packing machine	**3,251**	388
– other products	**1,237**	1,031
	60,305	13,009

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the chief executive officer of the Company, being the chief operating decision maker of the Company. Accordingly, no segment information is presented. All of the Group's revenue are derived in the PRC and the Group's non-current assets are all located in the PRC (excluding Hong Kong).

4. OTHER INCOME AND GAINS

	For the six months ended 30 June **2018** ***HK$'000*** ***(Unaudited)***	2017 *HK$'000* *(Unaudited)*
Sales of scrap materials, parts and components, net gain	**693**	711
Rental income from investment properties	**62**	207
Bank interest income	**728**	356
Subsidy income *(note)*	**–**	433
	1,483	1,707

Note: Based on the document issued by the People's Government of Baoying, Bao Ying Ren Heng Industrial Co. Limited, subsidiary of the Company is entitled to tax refunds representing approximately 12.5% of the excess value added tax paid in prior year as compared with the reference amount as stated in that document.

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

5. PROFIT (LOSS) BEFORE TAXATION

	For the six months ended 30 June **2018** ***HK$'000*** ***(Unaudited)***	2017 *HK$'000* *(Unaudited)*
Profit (loss) before taxation has been arriving at after charging:		
Directors' emoluments	**810**	870
Other staff costs:		
Salaries, bonus and allowances	**5,936**	4,042
Retirement benefits scheme contributions	**379**	323
Total staff costs	**7,125**	5,235
Auditor's remuneration	**450**	375
Construction contract costs recognised as an expense	**32,227**	3,291
Cost of inventories recognised as an expense	**6,291**	4,066
Depreciation of property, plant and equipment	**835**	890
Operating lease rentals in respect of office premise	**132**	132
Release of prepaid lease payment	**37**	37

6. TAXATION

	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
The charge comprise:		
PRC Enterprise Income Tax – current period	**2,666**	–
Deferred taxation	**248**	–
	2,914	–

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2018 and 2017 as the Group has no assessable profit arisen in, or was derived from Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at 25% (six months ended 30 June 2017: 25%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation.

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to owners of the Company for both periods is based on the following data:

	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Profit (loss)		
Profit (loss) for the period attributable to owners of the Company for the purposes of basic earnings (loss) per share	**3,111**	(2,359)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings (loss) per share	**804,000,000**	804,000,000

No diluted earnings (loss) per share were presented for both periods as there was no potential ordinary shares in issue for both periods.

8. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group purchased property, plant and equipment amounting to HK$603,000 (six months ended 30 June 2017: HK$91,000).

10. INVENTORIES

	As at 30 June 2018 *HK$'000* *(Unaudited)*	As at 31 December 2017 *HK$'000* *(Audited)*
Raw materials	**11,267**	13,946
Work in progress	**18,951**	4,225
	30,218	18,171

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 *HK$'000* *(Unaudited)*	As at 31 December 2017 *HK$'000* *(Audited)*
Trade and bills receivables	**9,406**	35,902
Less: Allowance for doubtful debts	**(2,766)**	(3,212)
	6,640	32,690
Retention money receivables	**14,309**	6,445
Prepayments and deposits	**3,485**	4,362
Other receivables	**3,042**	3,526
Less: Allowance for doubtful debts	**(564)**	(503)
	20,272	13,830
	26,912	46,520
Analysed for reporting purpose as:		
Current assets	**26,617**	46,221
Non-current assets	**295**	299
	26,912	46,520

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.

11. TRADE AND OTHER RECEIVABLES (Continued)

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

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
0 – 90 days	**3,739**	23,238
91 – 365 days	**2,357**	8,192
1 – 2 years	**309**	60
Over 2 years	**235**	1,200
	6,640	32,690

The following is an aged analysis of trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period which are past due but not impaired as the management of the Group considers that there has not been a significant change in credit quality and the amounts are considered recoverable. The Group does not hold any collateral over these balances.

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
91 – 365 days	**2,357**	8,192
1 – 2 years	**309**	60
Over 2 years	**235**	1,200
	2,901	9,452

12. 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 0.001% to 3.60% (31 December 2017: 0.001% to 3.50%) per annum.

As at 30 June 2018, restricted bank deposits represented deposits of approximately HK$14,731,000 (31 December 2017: HK$12,234,000) with effective interest rate of 1.50% (31 December 2017: 1.45%) per annum withheld in a bank for settlement of bills payables and to secure certain construction contracts.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Trade payables	**11,389**	17,783
Bills payables	**13,163**	8,661
	24,552	26,444
Advances from customers	**–**	13,931
Amounts due to a director *(note)*	**2,000**	–
Accrued welfare expense	**1,701**	1,723
Valued added tax payable	**411**	3,971
Other payables	**5,042**	4,101
Other tax payables	**1,955**	29
	35,661	50,199

Note: The amounts due to a director represented an advance from a director of the Company who is also the substantial shareholder with significant influence to the Company. The amounts are non-trade in nature, unsecured, non-interest bearing and repayable in one year term.

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

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
0 – 90 days	**13,830**	21,573
91 – 365 days	**9,883**	4,415
1 – 2 years	**706**	49
Over 2 years	**133**	407
	24,552	26,444

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

14. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.0025 each		
Authorised:		
At 1 January 2017, 31 December 2017 (Audited) and 30 June 2018 (Unaudited)	**4,000,000,000**	**10,000**
Issued and fully paid:		
At 1 January 2017, 31 December 2017 (Audited) and 30 June 2018 (Unaudited)	**804,000,000**	**2,010**

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 and pre-pressing packing machines.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the Group's revenue increased significantly by HK$47,296,000 or 363.6% from HK$13,009,000 for the six months ended 30 June 2017 to HK$60,305,000 in the current period. Such increase in revenue was mainly attributable to the increase in revenue from construction contracts of casing and flavouring system which both the numbers of construction contracts completed and the average contract sum were more/higher than the corresponding period. Revenue from construction contracts of casing and flavouring system were amounted to HK$47,933,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$1,860,000). Sales of pneumatic feeding systems has been dropped slightly for HK$1,846,000 or 19.0% from HK$9,730,000 during the six months ended 30 June 2017 to HK$7,884,000 in the same period in 2018.

Gross Profit

Gross profit margin for the six months ended 30 June 2018 was 36.1% (six months ended 30 June 2017: 43.4%). The decrease in gross profit margin was mainly resulted from different sales mix between the two periods. The gross profit margin from the construction contracts of casing and flavouring system are traditionally in lower gross profit as these constructions are larger in scale with longer construction durations and required more manpower to complete.

Operating expenditure

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK$17,245,000 and HK$9,718,000 for the six months ended 30 June 2018 and 2017 respectively. The increase in operating expenditure was resulted from the increase in staff costs, research and development costs, entertainment and travel expense and etc. Our marketing personnel have been endeavouring great effort to promote our products and explore new opportunities.

Taxation

Tax expense of HK$2,914,000 was incurred for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil). Tax expense was resulted from the profit earned by the PRC subsidiary and deferred taxation on the withholding tax on undistributed profit. The net profit for the six months ended 30 June 2018 was HK$3,111,000 while it was a net loss of HK$2,359,000 for the six months ended 30 June 2017.

Financial Position, Liquidity and Financial Resources

As at 30 June 2018, the Group had a stable capital structure with net current assets of HK$82,956,000 (31 December 2017: HK$80,577,000). Bank balances and cash of the Group as at 30 June 2018 amounted to HK$64,092,000 (31 December 2017: HK$16,836,000), which were mainly denominated in Renminbi and Hong Kong dollars. The increase in bank balance and cash during the period was mainly resulted from the cash inflow from operating activities and release of financial assets designated as at fair value through profit or loss in early January 2018. During the six months ended 30 June 2018, an advance amounted to HK$2,000,000 was received from a director who is also the substantial shareholder of the Company (31 December 2017: Nil) and there was no other borrowings, mortgages or charges as at 30 June 2018 (31 December 2017: Nil).

SEGMENTAL INFORMATION

An analysis of the Group's performance for the six months ended 30 June 2018 by business segment is set out in note 3 to the condensed consolidated financial statements.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

The Group's investing activities mainly include the placement and withdrawal of short term fixed deposits and purchase of property, plant and equipment.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries during the six months ended 30 June 2018.

BUSINESS REVIEW

Benefiting from our quality focus strategy and long-standing relationships with customers, the group has successfully turned around to a profit of HK$3,111,000 for the six months ended 30 June 2018. The revenue recognised for the first half of this year had already surpassed the full year amount of the previous year.

During this period, the Group generated majority of the revenue from the sale of catalogued special-purpose tobacco machinery products, amounting to HK$59,068,000 (six months ended 30 June 2017: HK$11,978,000) with a drastic increase of HK$47,090,000 or 393.1% against the preceding six months period. The revenue from construction contracts of casing and flavouring system was leading the growth. During the period under review, the Group has concluded three construction contracts of casing and flavouring system which contributed around 77.0% of the total sales. Based on the past experience, the duration to complete the manufacturing and installation of the systems and machineries vary by the design and complexity of the products.

With the strong backlog that we have on hand, we anticipate the Group to achieve annual improvement for the year 2018. Whereas on a longer-term basis, we believe that we are entering into a challenging era in identifying new cigarette manufacturers and tobacco redrying factories in the PRC. Our sales and marketing personnel will continue to strive to seek new opportunities and expand to other segment.

PRE-IPO SHARE OPTION SCHEME

The Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011. The purpose of the Pre-IPO Share Option Scheme is to grant options to the participants as incentive or rewards for their contributions to the Group.

Options to subscribe for an aggregate of 1,300,000 shares at an exercise price of HK$0.96 were granted to 10 participants including one executive Director, four members of the senior management of the Group and five employees of the Group, each at a consideration of HK$10.00 under the Pre-IPO Share Option Scheme on 20 October 2011.

Up to 30 June 2018, no outstanding options were resulted.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

Up to 30 June 2018, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group has a total of 125 employees (31 December 2017: 121 employees). Total staff costs (including directors' emoluments) were HK$7,125,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$5,235,000).

Remuneration in the form of salaries and bonus is determined by reference to our employees' respective experience, responsibilities, qualification 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the required standard of dealings by Directors as referred to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, were as follows:

Long positions

Ordinary shares of HK$0.0025 each of the Company

Name	Capacity/Nature of Interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Directors			
Ms. Liu Li [1]	Interest of controlled corporations	600,000,000	74.6%
Mr. Xu Jiagui	Beneficial interest	800,000	0.1%

Note:

1. Open Venture Global Limited ("Open Venture"), which is wholly owned by Ms. Liu Li, is interested in 240,000,000 shares of the Company while LinkBest Capital Limited ("LinkBest") was wholly owned by Mr. Wei Sheng Peng, spouse of Ms. Liu Li who passed away in May 2016. Under the grant of probate, the entire share of LinkBest was transferred to Ms. Liu Li in July 2017. LinkBest is interested in 360,000,000 shares of the Company.

   The Company was advised by Ms. Liu Li that she has applied to the Securities and Futures Commission of Hong Kong ("SFC") for a waiver pursuant to Note 6(a) to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers and Share Buy-backs ("Takeovers Code") to dispense with the obligation to make a mandatory general offer for the shares of the Company arising from the share transfer of LinkBest. The waiver has been granted by the SFC on 5 March 2018.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2018.

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

As at 30 June 2018, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and the Stock Exchange, as follows:

Long positions

Ordinary shares of HK$0.0025 each of the Company

Name of the shareholders	Capacity/Nature of Interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
LinkBest [(1)]	Beneficial owner	360,000,000	44.8%
Open Venture [(2)]	Beneficial owner	240,000,000	29.8%
Ms. Liu Li	Interest of controlled corporations	600,000,000	74.6%

Notes:

1. LinkBest was wholly owned by Mr. Wei Sheng Peng, the spouse of Ms. Liu Li who passed away in May 2016. Under the grant of probate, the entire issued share capital of LinkBest was transferred to Ms. Liu Li in July 2017. A waiver pursuant to Note 6(a) to Rule 26.1 of the Takeover Codes had been granted by the SFC on 5 March 2018 to dispense with Ms. Liu Li's obligation to make a mandatory general offer of the shares of the Company arising from the share transfer of LinkBest.

2. Open Venture is wholly owned by Ms. Liu Li.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2018.

COMPETING INTERESTS

None of the Directors nor their respective associates (as defined under the Listing Rules) had any interest in a business that competes or may compete with the business of the Group.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

Pursuant to the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules which sets out the principles of good corporate governance and the code provisions (the "Code Provisions"), the Company has applied all the Code Provisions as set out in the CG Code during the six months ended 30 June 2018, save and except the Code Provision A.2.1 of the CG Code as follows:

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

AUDIT COMMITTEE

The Company has established an audit committee on 20 October 2011, currently comprising three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit, Ernest. The rest of the members are Mr. Kong Hing Ki and Mr. Wu Wei. The interim report for the six months ended 30 June 2018 have been reviewed by the audit committee in accordance with Listing Rules. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

By order of the Board
RENHENG Enterprise Holdings Limited
Liu Li
Chairman & Chief Executive Officer

Hong Kong, 17 August 2018

As at the date of this report, the executive Directors are 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.