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 REPORT 2013

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Wei Sheng Peng *(Chairman)*
Ms. Liu Li
Mr. Sun Zhaohui *(Chief Executive Officer)*

Independent Non-executive Directors
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

COMPANY SECRETARY
Mr. Ho Pui Lam, Joseph *(CPA)*

AUDIT COMMITTEE
Mr. Wong Yiu Kit *(Chairman)*
Mr. Tam Yuk Sang, Sammy
Mr. Kong Hing Ki

REMUNERATION COMMITTEE
Mr. Kong Hing Ki *(Chairman)*
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit

NOMINATION COMMITTEE
Mr. Tam Yuk Sang, Sammy *(Chairman)*
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

AUTHORISED REPRESENTATIVES
Ms. Liu Li
Mr. Ho Pui Lam, Joseph

REGISTERED OFFICE
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Room 3805, 38/F.
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

LEGAL ADVISERS
As to Hong Kong law
Louis K. Y. Pau & Co.

As to Cayman Islands law
Maples and Calder

AUDITOR
Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

With effect from 31 March 2014, will be relocated to:
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited, Baoying Sub-Branch
Industrial and Commercial Bank of China Limited,
Baoying Sub-Branch
China Construction Bank Corporation, Baoying Sub-Branch

STOCK CODE
3628

WEBSITE
www.renhengenterprise.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of RENHENG Enterprise Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

For the full year 2013, the Group achieved turnover of approximately HK$133,872,000, representing a decrease of approximately HK$11,589,000 which was principally attributable to the drop in revenue from the sale of pre-pressing packing machines ("PP system"). The net profit attributable to shareholders for the year was approximately HK$27,931,000 (2012: approximately HK$29,686,000).

The year 2013 marked another milestone in the development of RENHENG after its initial listing in 2011. The Company successfully transferred its listing of shares from Growth Enterprise Market ("GEM") to the Main Board of The Stock Exchange of Hong Kong Limited (The "Stock Exchange") on 25 November 2013. It is believed that such transfer will further enhance the trading liquidity of the shares of the Company and the corporate profile of the Group, as well as recognition from the investing public, including the institutional investors, which will be beneficial to the future growth and development of the Group.

Following our strategic measures, we continued to focus on new product research and development so as to expand our product range to our customers. During the year, gaining and combining our previous experience in delivering respective system projects to customers, our Group has completed the development of a new set of casing and flavouring system, equipping the operational features of moveable tanks and automated storage, retrieval and feeding devices. Together with the introduction of our new pneumatic feeding system ("PF system") and PP system earlier, we are confident and strongly believe that these new and enhanced series of catalogue special-purpose tobacco machinery products will become drive to our revenue and create the momentum of future growth of the Group.

Looking forward, we believe our customers, being mainly the cigarette manufacturers in the People's Republic of China (the "PRC"), are and will continue to focus on continuous technological improvements in their cigarette production process, which shall be beneficial to the business growth of the Group. Pursuant to a notice issued by the State Tobacco Monopoly Administration of the PRC, the sale and import of cigarettes which carry tar-level of over 11 milligrams per stock are prohibited from 1 January 2013 onwards. Accordingly, it is of the view that cigarette manufacturers will continue to strive to formulate production technologies that could maintain the flavor of cigarettes despite the reduction of tar content, which in turn lead to increased investment in flavour enhancement related machineries, and thus greater demand of the Group's product.

On behalf of the members of the Board, I would like to express my heartfelt thanks to our business partners, banks and shareholders for their continuous support, as well as our committed management and staff who has significant contribution to the development and success of the Group during past years.

Wei Sheng Peng
Chairman

19 March 2014

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wei Sheng Peng

Mr. Wei, aged 46, is an executive director of the Company, chairman of the Board and one of the founders of Bao Ying Ren Heng Industrial Co., Ltd. ("Baoying Renheng"). Mr. Wei is primarily responsible for the overall business planning and strategic development of our Group. He has more than 17 years of experience in the electrical and mechanical equipment industry. As a founding member of Baoying Renheng, Mr. Wei has gained knowledge and experience in the tobacco machinery industry during the last 12 years. Mr. Wei was a director and the legal representative of Baoying Renheng between November 2001 and March 2005, and he has served as the director of the holding companies of Baoying Renheng including Yanlord (Holdings) Industrial Limited ("Yanlord Industrial") since August 1992 and Yanlord Industry Investment Limited ("Yanlord Industry Investment") since May 2005 to monitor the operation of Baoying Renheng. Mr. Wei graduated from Lufeng County Donghai Secondary School in July 1987. In the last three years, he did not hold any directorship in any publicly listed company. Mr. Wei was appointed as an executive director on 2 February 2011 and is the spouse of Ms. Liu.

Ms. Liu Li

Ms. Liu, aged 43, is an executive director of the Company and is responsible for overseeing the human resources and administration functions of the Group. In February 2007, she was appointed as a director of Yanlord Industry Investment and has been responsible for overseeing the operation of Baoying Renheng thereafter since the completion of the transfer of equity interest in Baoying Renheng from Yanlord Industrial to Yanlord Industry Investment in 2008. Ms. Liu is principally responsible for the treasury, human resources and administrative functions of the company. She obtained a bachelor's degree in sport management from Beijing Sport University in July 1992. Ms. Liu was appointed as an executive director on 2 February 2011 and is the spouse of Mr. Wei.

Mr. Sun Zhaohui

Mr. Sun, aged 46, is an executive director and the chief executive officer of the Company. He is primarily responsible for the overall management and corporate development, acquisition and strategy implementation of Baoying Renheng. Mr. Sun has accumulated no less than 13 years of experience in engineering field. He joined IPACS Asia Pte Ltd. as a senior engineer in October 1997, and subsequently took up the position of vice general manager of IPACS Computer System Engineering (Shanghai) Co. Ltd. in December 1999. Mr. Sun then worked as the general manager of Quantum Automation (Shanghai) Co. Ltd. for over 8 years from September 2001 to March 2010. Mr. Sun graduated with a bachelor's degree in engineering mechanics from Harbin Institute of Technology in July 1990. He was appointed as an executive director on 20 October 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Yuk Sang, Sammy

Mr. Tam, aged 50, is an independent non-executive director and the chairman of the nomination committee, and a member of the remuneration committee and the audit committee of the Company. He has over 27 years of experience in accounting, auditing and finance. He is currently the president of Essentack Limited, a corporate strategy and management advisory company. He is an independent non-executive director and the audit committee chairman of Kith Holdings Limited (stock code: 1201), a company whose shares are listed on The Stock Exchange, an independent non-executive director of KEE Holdings Company Limited (stock code: 2011), a company whose shares are listed on The Stock Exchange and Opes Asia Development Limited (stock code: 810), a company whose shares are listed on The Stock Exchange. He had once been an independent non-executive director and the audit committee chairman of Long Success International (Holdings) Limited (stock code: 8017), a company whose shares are listed on GEM, up to 18 October 2013. Mr. Tam graduated from the Hong Kong Polytechnic University and is a fellow of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He was appointed as an independent non-executive director with effect from 20 October 2011.

Mr. Wong Yiu Kit

Mr. Wong, aged 46, is an independent non-executive director and the chairman of the audit committee, and a member of the remuneration committee and the nomination committee of the Company. Mr. Wong has over 21 years of experience in venture capital, corporate finance, business development, financial and general management. Currently he is the president and group chief financial officer of KVB Kunlun Holdings Limited ("KVB") which he joined in November 2011. KVB is an international financial services corporation providing forex, equities, commodities trading and asset management services with a listed arm in Hong Kong and operations in Auckland, Sydney, Melbourne, Toronto, Hong Kong, Beijing and Tokyo. Besides, he has served as the board director of Adamas Finance Asia Limited ("Adamas") (formerly known as China Private Equity Investment Holdings Limited ("CPE")). Adamas focuses on funding growth capital to small and medium enterprises and private equity investment. Adamas is a listed company on the Alternative Investment Market of the London Stock Exchange Plc. He also served as executive director and the chief financial officer of CPE from April 2008 to February 2014 and April 2008 to October 2011 respectively. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate member of the Institute of Chartered Accountants in England and Wales. He obtained a Bachelor's Degree of Business Administration from the University of Hong Kong, a Master of Science Degree in Investment Management from the Hong Kong University of Science and Technology and a Master of Science Degree in Electronic Engineering from the Chinese University of Hong Kong. He is also a charter-holder of Chartered Financial Analyst and a member of Hong Kong Securities Institute. He was appointed as an independent non-executive director with effect from 20 October 2011.

Mr. Kong Hing Ki

Mr. Kong, aged 43, is an independent non-executive director and the chairman of the remuneration committee, and a member of the audit committee and the nomination committee of the Company. He has over 16 years' experience in accounting, auditing and finance, gained from accountancy and commercial firms. Currently, he is a financial controller of a company whose ultimate holding company is listed on the main board of the Singapore Exchange Securities Trading Limited, and is an independent non-executive director and the audit committee chairman of Hing Lee (HK) Holdings Limited (stock code: 396), a company whose shares are listed on The Stock Exchange, and also an independent non-executive director of KEE Holdings Company Limited (stock code: 2011), a company whose shares are listed on The Stock Exchange. Mr. Kong obtained a Bachelor's Degree in Commerce from The Australian National University and a Master of Business Administration Degree from Deakin University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He was appointed as an independent non-executive director with effect from 20 October 2011.

Biographical Details in respect of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Xu Jiagui

Mr. Xu, aged 47, is a director and the general manager of Baoying Renheng. He is primarily responsible for the strategic planning, business development as well as overseeing the daily operations of Baoying Renheng. Mr. Xu has over 11 years of experience in research and development, production and general management relating to the tobacco machinery manufacturing industry. He joined Baoying Renheng in January 2002. Mr. Xu was awarded by Baoying County top ten technological worker and advanced technological worker in March 2000 and April 2001 respectively. He graduated with a college diploma in mechanical design and manufacturing process from Jiangsu Radio and TV University in July 1991 and obtained a certificate of completion for Class for Advanced Studies of Postgraduate Curricula in management science and engineering from Southeast University in December 2004.

Mr. Liu Yang

Mr. Liu, aged 41, is a director and vice general manager of Baoying Renheng. He is principally responsible for overseeing the sales and marketing activities of Baoying Renheng. Mr. Liu has over 17 years of experience in sales and marketing. He was the vice general manager for sales of Zhuhai Gang Zhuhai Ming An Enterprise Co. Ltd. between July 1994 to June 2002, and subsequently acquired knowledge and experience in the tobacco machinery industry after joining Baoying Renheng in June 2004. He graduated with a bachelor's degree in marketing from Changchun University of Science and Technology in July 1993. Mr. Liu is the brother of Ms. Liu.

Mr. An Zhanqi

Mr. An, aged 55, is the chief engineer of Baoying Renheng and is the head of the technical department as well as the procurement department of the Group. He has no less than 12 years of experience in the engineering field. Mr. An was the general manager of Yanlord Industrial (Shenzhen) Co., Ltd. from April 1995 to June 1996 and was appointed as the general manager of Zhuhai Special Economic Zone Ren Heng Electromechanical Company Limited from July 1996 to December 1997. He was the chief engineer of a company engaged in the provision of environmental technology consultancy services between 2001 and 2005 prior to joining the Group in January 2006. He graduated with a bachelor's degree in chemical engineering from Tsinghua University in November 1982.

Mr. Ho Pui Lam, Joseph

Mr. Ho, aged 33, is the company secretary and financial controller of our Company. He is a member of the Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in the audit and accounting profession. Prior to joining the Group in December 2010, Mr. Ho worked as an audit manager in an international accounting firm. He obtained a bachelor's degree of business administration in accounting and finance from the University of Hong Kong in December 2002.

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 system, PF system and PP system.

FINANCIAL REVIEW

For the year ended 31 December 2013, the turnover of the Group dropped by approximately HK$11,589,000 or 8.0% to HK$133,872,000 as compared to HK$145,461,000 for the previous year. Such decrease was mainly attributable to drop in revenue recognised from the PP system. For the year under review, the Group completed a PP system project with turnover of approximately HK$60,000, whereas the aggregate turnover recognised in 2012 amounted to approximately HK$13,551,000, representing a drop of approximately HK$13,491,000 or 99.6%. The gross profit margin of the Group remained stable at 44.3% and 44.8% for the year ended 31 December 2012 and 2013 respectively following the continuous effort in refining our respective system design and modification by our technical personnel.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK$29,889,000 (2012: approximately HK$24,461,000), representing an increase of approximately HK$5,428,000 or 22.2%. The overall increment was mainly attributable to the increase in entertainment expenses resulting from our visits to various potential customers, handling fee to be paid to China Tobacco Machinery (Group) Co., Ltd. ("CTMC") and charitable donation made to The Community Chest of Hong Kong upon the transfer of listing of the Company in November 2013.

The net profit of the Group for the year ended 31 December 2013 amounted to approximately HK$27,931,000. Despite the decrease in turnover and increase in operating expenditure, the net profit decreased by only approximately HK$1,755,000 or 5.9% as a result of more other income generated during the year. Such increment was mainly attributable to the receipt of a one-off subsidy income of approximately HK$2,513,000 and the increase in interest income of approximately HK$2,568,000 in 2013 and compared to prior year.

As at 31 December 2013, the capital structure of the Group remained strong with a current ratio of approximately 4.8 (2012: approximately 3.7), a positive cash inflow from operations and continuous business operation with zero bank borrowings (2012: zero). Such sound and stable financial position allowed the Group to meet the needs of current operations and future development, and to maintain the business in case of any adverse market condition.

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$117,104,000 or 87.5% of total turnover (2012: approximately HK$122,232,000 or 84.0% of total turnover). For the year ended 31 December 2013, the Group has completed projects in delivering casing and flavouring system to cigarette manufacturers located in Chongqing, Jiangxi and Jilin, and PF system to customers located in Henan, Shangdong and Chongqing. During the year, revenue generated from the sale of PP system was minimal and our sales and marketing personnel were actively identifying and discussing with respective tobacco redrying factories in respect of contracting PP system projects in coming year.

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 2013, the expenditure incurred on research and development amounted to approximately HK$7,012,000 (2012: approximately HK$10,294,000). During the year, the Group has completed the development of a new set of casing and flavouring system, equipping with the operational features of moveable tanks and automated storage, retrieval and feeding devices. The Group has also proceeded the formulation of an initial prototype for a new set of spraying device and the feasibility study of tobacco bale slicer and 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 has commenced during the year and is in the process of organising promotional activities to launch and 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 12.6% between 2007 and 2012 from RMB11.7 billion to RMB23.9 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 2013, bank balances and cash amounted to approximately HK$158,593,000 (2012: approximately HK$120,693,000) and the net current assets was approximately HK$207,140,000 (2012: approximately HK$172,581,000). As at 31 December 2013, the current ratio was approximately 4.8 (2012: approximately 3.7). The improvement was mainly resulted from the increase in operating cash flow during the year ended 31 December 2013.

The Group did not have any borrowings, mortgages or charges as at 31 December 2013 (2012: Nil).

CAPITAL EXPENDITURE

The Group purchased property, plant and equipment amounting to approximately HK$1,450,000 for the year ended 31 December 2013 (2012: approximately HK$1,161,000).

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2013 (2012: 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 2013 (2012: Nil).

PLEDGE OF ASSETS

As at 31 December 2013, restricted bank deposits of approximately HK$1,785,000 were pledged to a bank to secure certain construction contracts.

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had a total of 151 employees (2012: 146). Total staff costs (including directors' remuneration) were approximately HK$12,667,000 for the year ended 31 December 2013 as compared to approximately HK$11,377,000 for the year ended 31 December 2012.

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 2013 (2012: Nil).

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries for two years ended 31 December 2012 and 31 December 2013.

Management Discussion and Analysis

SEGMENT INFORMATION

The operating activities of the Group are attributable to a single operating segment focusing on manufacturing and sale of tobacco machinery products. The chief executive officer, who is the chief operating decision maker of the Group, regularly reviews revenue analysis by projects related to three types of catalogued special-purpose tobacco machinery products mentioned above.

Segment information about the business of the Group for the year ended 31 December 2013 is set out in note 7 to the consolidated financial statements.

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 2013 (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	Commenced and continuously develop 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	Continued the technical feasibility study of tobacco bale slicers
	Design and develop tobacco redrying system	Commenced the technical feasibility study of tobacco redrying system
	Recruit technical personnel	Completed the recruitment of technical personnel for product research and development

	Future plans and prospects	Actual business progress during the Relevant Period
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 discussion with potential constructors for the upgrade
Strengthening management information system	Evaluate, acquire and implement management information system	Completed installation and upgrade of management information system by service provider

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$'000)	Unused net proceeds as at 31 December 2013 (HK$'000)
Continuous product development and innovation *(Note 1)*	33,713	33,713	19,649	14,064
Enhancing corporate profile and increasing market penetration *(Note 2)*	3,700	3,700	340	3,360
Enhancing production processing capabilities *(Note 3)*	4,830	4,830	2,128	2,702
Strengthening management information system *(Note 4)*	480	480	446	34
Total	42,723	42,723	22,563	20,160

Notes:

1. The design and development of a new set of casing and flavouring system, PP system and PF system has been completed and approximately HK$11,515,000, HK$3,903,000 and HK$928,000 were used. In addition, approximately HK$2,003,000 was used for the development of new type of spraying device during the Relevant Period. The deviation between actual and proposed use of net proceeds during the Relevant Period was mainly due to (i) the delay of design and development of a new tobacco bale slicer as this product is still under the technical feasibility study stage in its development; and (ii) the design and development of the new tobacco redrying system being rescheduled as the Group would like to focus and utilise its resources on the completion of development of the new casing and flavouring system, new PP system and the new PF system.

   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$27,000. 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. The preparation of the promotional activities was in progress up to 31 December 2013.

3. The Group has purchased certain machinery and equipment, including computerised numerical control ("CNC") shearing machine, CNC press brake, automatic pipe welding machine, CNC lathes and turret punch machine during the Relevant Period. The 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 the discussion with potential constructors for the upgrade in the fourth quarter of 2013, pending feedback from the constructors for further negotiation and finalisation. It is expected that the upgrade will be completed in first half of 2014.

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 2013 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 2013 of approximately HK$20,126,000 designated for each six-month period during the year ending 31 December 2014 is summarised as follows:

	Six-month ending		
	30 June 2014 HK$'000	**31 December 2014 HK$'000**	**Total HK$'000**
Continuous product development and innovation	9,081	4,983	14,064
Enhancing corporate profile and increasing market penetration	3,360	–	3,360
Enhancing production processing capabilities	1,820	882	2,702
	14,261	5,865	20,126

Further information regarding the deployment of the unused net proceeds up to 31 December 2013 for each strategy is set out below.

1. **Continuous product development and innovation**

From 1 January 2014 to 30 June 2014	**From 1 July 2014 to 31 December 2014**
Design and develop new spraying device	Design and develop new spraying device
Design and develop new tobacco bale slicer	Design and develop new tobacco bale slicer
Design and develop new tobacco redrying system	Design and develop new tobacco redrying system
Funding requirements:	
HK$9,081,000	HK$4,983,000

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

From 1 January 2014 to 30 June 2014	**From 1 July 2014 to 31 December 2014**
Post advertisement in tobacco magazines	–
Organise promotional activities for existing and new products	–
Funding requirements:	
HK$3,360,000	Nil

3. **Enhancing production processing capabilities**

From 1 January 2014 to 30 June 2014	**From 1 July 2014 to 31 December 2014**
Purchase machinery and equipment	Purchase machinery and equipment
Upgrade production facilities	–
Funding requirements	
HK$1,820,000	HK$882,000

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 May to 12 May 2014, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration not later than 4:30 p.m. on 7 May 2014.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 29 to the consolidated financial statements.

Segment information about the business of the Group for the year ended 31 December 2013 is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income.

The Directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

GROUP FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2013 is set out on page 70 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

INVESTMENT PROPERTIES

The investment properties were revalued at 31 December 2013 and no fair value change was credited to the consolidated statement of profit or loss and other comprehensive income.

Details of the movements during the year in the investment properties of the Group are set out in note 16 to the consolidated financial statements.

USE OF PROCEEDS

The Company issued 50,000,000 new shares by way of placing in November 2011 at a price of HK$1.2 per share. The gross proceeds received by the Company amounted to HK$60,000,000. These proceeds were applied during the year in accordance with the principles set out in the Prospectus and the actual development of the tobacco industry in the PRC. Details of application of net proceeds are set out in the section of "Management discussion and analysis" to this annual report.

SHARE CAPITAL

Details of movements during the year in the share capital are set out in note 24 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out on page 32 of this annual report and in note 30 to the consolidated financial statements respectively.

At the end of the reporting date, the Company's reserve available for distribution amounted to approximately HK$34,647,000 (2012: HK$39,320,000). Under the Company Law of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of the Company's memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

BANK BORROWINGS

The Group did not have any bank borrowings during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2013, sales to the Group's five largest customers in aggregate accounted for approximately 82.3% (2012: 89.6%) of the total sales and sales to the largest customer accounted for approximately 61.1% (2012: 54.4%) of total sales. Purchases from the Group's five largest suppliers in aggregate accounted for approximately 42.0% (2012: 43.5%) of the total purchases and purchases from the largest supplier accounted for approximately 11.8% (2012: 14.4%) of total purchases.

None of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers during the year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:
Mr. Wei Sheng Peng
Ms. Liu Li
Mr. Sun Zhaohui

Independent Non-executive Directors
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

In accordance with article 16 of the articles of association of the Company (the "Articles of Association"), Mr. Sun Zhaohui and Mr. Tam Yuk Sang, Sammy will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Biographical details in respect of the Directors and senior management of the Group are set out in pages 4 to 6 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into service agreements with the Company for a period of three years commencing 20 October 2011 and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

Other than those disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

As at 31 December 2013, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the required standard of dealings by Directors as referred to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to The Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"), were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name	Capacity/ Nature of Interest	Number of issued ordinary shares held	Number of underlying shares subject to the Pre-IPO Share Option Scheme	Percentage of the issued share capital of the Company*
Directors				
Mr. Wei Sheng Peng [(1)]	Interest of a controlled corporation and family interest	150,000,000	–	75%
Ms. Liu Li [(2)]	Interest of a controlled corporation and family interest	150,000,000	–	75%
Mr. Sun Zhaohui	Personal interest	–	200,000	0.10%

* The percentage represents the number of shares/underlying shares interested divided by the number of the Company's issued share as at 31 December 2013.

Notes:

1. LinkBest Capital Group Limited ("LinkBest"), which is wholly owned by Mr. Wei Sheng Peng, is interested in 90,000,000 shares of the Company. Mr. Wei Sheng Peng is also the spouse of Ms. Liu Li, so he is deemed to be interested in 60,000,000 shares held by Open Venture Global Limited ("Open Venture"), being a corporation wholly owned by Ms. Liu Li.

2. Open Venture, which is wholly owned by Ms. Liu Li, is interested in 60,000,000 shares of the Company. Ms. Liu Li is also the spouse of Mr. Wei Sheng Peng, so she is deemed to be interested in 90,000,000 shares held by LinkBest, being a corporation wholly owned by Mr. Wei Sheng Peng.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2013.

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. During the year ended 31 December 2013, options to subscribe for 100,000 shares held by one employee of the Group were cancelled.

As at 31 December 2013, details of the options granted under the Pre-IPO Share Option Scheme were as follows:

Name of grantee	Date of grant (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per share (HK$)	Outstanding as at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2013	Percentage of issued share capital of the Company
Director										
Sun Zhaohui	20/10/2011	01/01/2013 – 19/10/2021	0.96	200,000	–	–	–	–	200,000	0.10%
Senior management and employees of the Group	20/10/2011	01/01/2013 – 19/10/2021	0.96	1,100,000	–	–	–	(100,000)	1,000,000	0.50%
				1,300,000	–	–	–	(100,000)	1,200,000	0.60%

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 31 December 2013, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

Details of the Share Option Scheme are set out in note 25 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to the relevant Listing Rules. The Company considers all independent non-executive Directors are independent.

CONNECTED TRANSACTION

The Directors are not aware of any connected transactions of the Group that shall be disclosed in this annual report under the relevant Listing Rules.

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

As at 31 December 2013, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and The Stock Exchange, as follows:

LONG POSITIONS

Ordinary shares of HK$0.01 each of the Company

Name of shareholders	Capacity/Nature of Interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
LinkBest [(1)]	Beneficial owner	90,000,000	45%
Open Venture [(2)]	Beneficial owner	60,000,000	30%
Mr. Wei Sheng Peng [(3)]	Interest of a controlled corporation and family interest	150,000,000	75%
Ms. Liu Li [(4)]	Interest of a controlled corporation and family interest	150,000,000	75%

Notes:

1. LinkBest is wholly owned by Mr. Wei Sheng Peng.

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

3. Mr. Wei Sheng Peng is the sole shareholder of LinkBest which is interested in 90,000,000 shares of the Company and as the spouse of Ms. Liu Li, he is deemed to be interested in 60,000,000 shares held by Open Venture, being a corporation wholly owned by Ms. Liu Li.

4. Ms. Liu Li is the sole shareholder of Open Venture which is interested in 60,000,000 shares of the Company and as the spouse of Mr. Wei Sheng Peng, she is deemed to be interested in 90,000,000 shares held by LinkBest, being a corporation wholly owned by Mr. Wei Sheng Peng.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2013.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management. Having regard of the Group's operating results, individual performance and competence, our remuneration is comparable according to market practices.

The Company has adopted a Share Option Scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 25 to the consolidated financial statements.

Details of Directors' emoluments are set out in note 11 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 year ended 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

CORPORATE GOVERNANCE

The corporate governance report adopted by the Company is set out in pages 21 to 27 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the year ended 31 December 2013 and as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant events that have taken place subsequent to 31 December 2013 and up to the date of approval of this report.

DONATIONS

For the year ended 31 December 2013, the Group made charitable donation amounting to HK$1,000,000 (2012: Nil).

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Wei Sheng Peng
Chairman

Hong Kong, 19 March 2014

CORPORATE GOVERNANCE REPORT

The Board considers that maintaining high standard of corporate governance and business ethics will serve the long-term interest of the Company and of its shareholders. The principles adopted by the Board emphasise a quality board, sound internal control, accountability to shareholders and thus an ethical corporate culture established.

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 year ended 31 December 2013, save and except the Code Provisions E.1.2 of the CG Code.

The chairman of the Board was unable to attend the annual general meeting of the Company due to other business engagement.

DIRECTORS' SECURITIES TRANSACTIONS

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 2013.

BOARD OF DIRECTORS

Board composition

Up to the date of this annual report, the Board comprises six Directors, including three executive Directors and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors
Mr. Wei Sheng Peng *(Chairman)*
Ms. Liu Li
Mr. Sun Zhaohui *(Chief Executive Officer)*

Independent non-executive Directors
Mr. Tam Yuk Sang, Sammy
Mr. Wong Yiu Kit
Mr. Kong Hing Ki

Biographical details of Directors are set out on pages 4 to 6 of this annual report.

The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties to the significant issues of overall business planning, management and strategic development of the Group.

Mr. Wei Sheng Peng is the spouse of Ms. Liu Li. Other than that, neither Directors have relation to each other and business relation with the Group, nor the chairman and the chief executive officer have relation to each other.

Board and general meetings

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. During the year ended 31 December 2013, there were four board meetings and one general meeting held.

The Directors can attend meetings in person or via telephone conference as permitted under the Articles of Association.

Details of individual attendance of all Directors at the board meetings and general meeting are as follows:

Name of Directors	Attendance of Board meetings	Attendance of general meeting
Executive Directors		
Mr. Wei Sheng Peng	4/4	0/1*
Ms. Liu Li	4/4	1/1
Mr. Sun Zhaohui	4/4	1/1
Independent non-executive Directors		
Mr. Tam Yuk Sang, Sammy	4/4	1/1
Mr. Wong Yiu Kit	4/4	1/1
Mr. Kong Hing Ki	4/4	1/1

* The chairman of the Board was unable to attend the annual general meeting due to other business engagement.

Information of material issues, due notice of meeting and minutes of each directors' meeting have been sent to each of the Directors for their information, comment and review.

The Board is responsible to set strategic plans, formulates policies and provides effective oversight over the management on the operational affairs, and members of the Board are individually and collectively accountable to the shareholders of the Company. The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Independent non-executive Directors

Each Director is required to keep abreast of his responsibilities as a director of the Company and of the Company's conduct, business activities and development. Given the essential unitary nature of the Board, independent non-executive Director has the same duties of care and skill and fiduciary duties as executive Directors. Independent non-executive Director brings a wide range of business and financial expertise, experience and independent judgement to the Board. Functions of independent non-executive Director include but should not be limited to the following:

i. participating in Board meetings to bring independent judgement;

ii. taking the lead where potential conflict of interests may arise;

iii. serving on the audit, nomination and remuneration committees if invited; and

iv. scrutinizing the Group's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Pursuant to Rule 3.10(1) and 3.10A of the Listing Rules, the Board has appointed three independent non-executive Directors, representing half of the Board and all of them have appropriate professional accounting qualifications or related experiences on financial management which is in compliance with Rule 3.10(2) of the Listing Rules. Each of the independent non-executive Directors is appointed for a period of three years, commencing on 20 October 2011. None of each has served the Group for more than nine years.

All independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Listing Rules by providing an annual confirmation of their independence. The Board has assessed their independence and considers that all independent non-executive Directors are independent as required under the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code Provisions A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the year ended 31 December 2013, the chairman of the Board is Mr. Wei Sheng Peng who is responsible for the overall business planning and strategic development of the Group and the chief executive officer is Mr. Sun Zhaohui who is responsible for the overall management and corporate development, acquisition and strategy implementation.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered a service agreement for a term of three years, and each of the independent non-executive Directors has been appointed for a term of three years.

Pursuant to Article 16 of the Articles of Association, one-third of the Directors are subject to retirement from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Sun Zhaohui and Mr. Tam Yuk Sang, Sammy will hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's business and the statutory and regulatory obligations of a director of a listed company.

During the year ended 31 December 2013, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Type of continuous professional development programmes (Notes)
Executive Directors	
Mr. Wei Sheng Peng	2
Ms. Liu Li	2
Mr. Sun Zhaohui	2
Independent non-executive Directors	
Mr. Tam Yuk Sang, Sammy	1 & 2
Mr. Wong Yiu Kit	1 & 2
Mr. Kong Hing Ki	1 & 2

Notes:

1. Attending seminars/courses for development of professional skills and knowledge.

2. Reading materials in relation to regular update to statutory requirements, listing rules and other relevant topics related to listed company.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit. The rest of members are Mr. Tam Yuk Sang, Sammy and Mr. Kong Hing Ki. At the discretion of the audit committee, executive Directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's financial statements, annual reports and interim reports, and to provide advice and comment thereon to the Board.

During the year ended 31 December 2013, the audit committee held five meetings to review the quarterly, interim and annual results during the year ended 31 December 2013 as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group. All members have attended these five meetings.

Nomination committee

The nomination committee comprises three independent non-executive Directors and is chaired by Mr. Tam Yuk Sang, Sammy. The rest of the members are Mr. Wong Yiu Kit and Mr. Kong Hing Ki. The primary role and function of the nomination committee are to review and monitor the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to carry out the Company's corporate strategies; to assess the independence of independent non-executive Directors; to review the board diversity policy and make recommendation for revision to the Board; and to make recommendations to the Board succession planning.

During the year ended 31 December 2013, the nomination committee held one meeting to perform the aforesaid functions. All members have attended the meeting.

Remuneration committee

The remuneration committee comprises three independent non-executive Directors and is chaired by Mr. Kong Hing Ki. The rest of the members are Mr. Tam Yuk Sang, Sammy and Mr. Wong Yiu Kit. The primary role and function of the remuneration committee are to review and make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration; and to review and make recommendations to the Board the remuneration packages of all Directors and senior management.

During the year ended 31 December 2013, the remuneration committee held four meetings and has considered and reviewed the service contracts of the executive Directors and senior management of the Group. All members have attended these four meetings.

REMUNERATION OF SENIOR MANAGEMENT

Biographical details of senior management are set out on page 6 of this annual report. The aggregate amount of their remuneration during the year ended 31 December 2013, split into salaries and allowances and retirement benefits scheme contributions, is set out below:

	2013 **HK$'000**
Salaries and allowances	**994**
Retirement benefits scheme contributions	**18**
Total	**1,012**

AUDITOR'S REMUNERATION

The remuneration of the audit service and non-audit services provided by the auditor of the Company to the Group for the year ended 31 December 2013 was mutually agreed with reference to the scope of services, amounting to HK$750,000 and HK$280,000 respectively. The nature of non-audit services is related to the transfer of listing of the shares of the Company from GEM to the Main Board of The Stock Exchange.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2013, which give a true and fair view of the financial position of the Group on a going concern basis.

INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective internal control system to safeguard the Group's assets against unauthorised use or disposition, and to protect the interest of shareholders of the Company. During the year ended 31 December 2013, review of the effectiveness of the Group's internal control systems has been conducted and the result has been summarised and reported to the audit committee and the Board.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 12 of the Articles of Association, extraordinary general meeting ("EGM") may be convened by the Board on written requisition of any two or more shareholders of the Company holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionist"). Such written requisition must specify the objects of the EGM and must be signed by the Requisitionist and deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such principal office, the registered office of the Company. Shareholders should follow the requirements and procedures as set out in such article for convening an EGM.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong or by email to info@renhengenterprise.com and for the attention of the company secretary.

Procedures for putting forward proposals at shareholders' meetings

There is no provision for shareholders to propose resolutions at general meetings under the Cayman Islands Companies Law. However, shareholders can follow the above procedure and request to convene an EGM.

Pursuant to article 16 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the company secretary notice in writing by a shareholder of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Accordingly shareholders who wish to propose a person for election as a director of the Company shall file a notice in writing to the principal place of business of the Company in Hong Kong for the attention of the company secretary and should follow the requirements and procedures as set out in such article.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publish and posting of notices, announcements and circulars on The Stock Exchange's website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

During the year ended 31 December 2013, changes to the Company's memorandum and articles of association were approved and adopted by a special resolution passed at the annual general meeting held on 9 May 2013 to cater changes in the Companies Laws of the Cayman Islands and for the purpose of transfer of listing of the Company's shares from GEM to the Main Board of The Stock Exchange. The latest version of the Company's memorandum and articles of association is available on the websites of The Stock Exchange and the Company.

Deloitte.
德勤

TO THE SHAREHOLDERS OF RENHENG ENTERPRISE HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of RENHENG Enterprise Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 69, which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

19 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Turnover	7	**133,872**	145,461
Cost of sales		**(73,875)**	(80,961)
Gross profit		**59,997**	64,500
Other income and gains	8	**11,680**	6,646
Other gains and losses	9	**(26)**	688
Selling and distribution costs		**(14,775)**	(8,228)
Administrative expenses		**(15,114)**	(16,233)
Research and development costs		**(7,012)**	(10,294)
Profit before taxation	10	**34,750**	37,079
Taxation	12	**(6,819)**	(7,393)
Profit for the year		**27,931**	29,686
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**7,719**	19
Total comprehensive income for the year		**35,650**	29,705
Earnings per share	13		
–Basic		**14.0 HK cents**	14.8 HK cents
–Diluted		**13.9 HK cents**	14.8 HK cents

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	14	**15,482**	15,093
Land use rights	15	**3,036**	2,997
Investment properties	16	**20,876**	20,101
		39,394	38,191
Current assets			
Inventories	17	**15,688**	11,730
Trade and other receivables	18	**81,889**	101,049
Land use rights	15	**77**	74
Amounts due from customers for contract work	19	**3,624**	2,212
Amounts due from related companies	20	**491**	437
Restricted bank deposits	21	**1,785**	–
Bank balances and cash	21	**158,593**	120,693
		262,147	236,195
Current liabilities			
Trade and other payables	22	**37,228**	38,699
Amounts due to customers for contract work	19	**12,366**	18,598
Tax payable		**5,413**	6,317
		55,007	63,614
Net current assets		**207,140**	172,581
Total assets less current liabilities		**246,534**	210,772
Non-current liabilities			
Deferred tax liabilities	23	**665**	553
		245,869	210,219
Capital and reserves			
Share capital	24	**2,000**	2,000
Reserves		**243,869**	208,219
Total equity		**245,869**	210,219

The consolidated financial statements on pages 30 to 69 were approved and authorised for issue by the Board of Directors on 19 March 2014 and are signed on its behalf by:

WEI SHENG PENG	**LIU LI**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note a)	Discretionary surplus reserve HK$'000 (Note b)	Statutory surplus reserve HK$'000 (Note b)	Capital reserve HK$'000 (Note c)	Property revaluation reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2012	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**
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**

Notes:

(a) 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 group reorganisation.

(b) 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 capitalisation issue.

(c) The capital reserve represented waiver of an amount due to a former shareholder of a subsidiary of the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Operating activities		
Profit before taxation	**34,750**	37,079
Adjustments for:		
Depreciation of property, plant and equipment	**1,604**	1,433
Loss on disposal and write-off of property, plant and equipment	**26**	16
Allowance for doubtful debts	**–**	36
Release of land use rights	**75**	74
Interest income	**(3,544)**	(976)
Gain on fair value changes of investment properties	**–**	(740)
Share option expenses	**–**	618
Operating cash flows before movements in working capital	**32,911**	37,540
(Increase) decrease in inventories	**(3,439)**	6,504
Decrease (increase) in trade and other receivables	**23,211**	(20,871)
(Increase) decrease in amounts due from customers for contract work	**(1,302)**	122
Increase in amounts due from related companies	**(36)**	–
Decrease in trade and other payables	**(2,792)**	(12,013)
(Decrease) increase in amounts due to customers for contract work	**(6,817)**	11,193
Cash generated from operations	**41,736**	22,475
PRC Enterprise Income Tax paid	**(7,856)**	(5,224)
Net cash from operating activities	**33,880**	17,251
Investing activities		
Interest received	**3,544**	976
Proceeds from disposal of property, plant and equipment	**9**	20
(Addition in) release of restricted bank deposits	**(1,751)**	265
Purchase of property, plant and equipment	**(1,450)**	(1,161)
Net cash from investing activities	**352**	100
Net increase in cash and cash equivalents	**34,232**	17,351
Cash and cash equivalents at beginning of the year	**120,693**	103,353
Effect of foreign exchange rate changes	**3,668**	(11)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**158,593**	120,693

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

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

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

In the current year, the Group has applied, for the first time, the following new and revised HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretation ("INT") (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendments to HKAS 1	Presentation of items of other comprehensive income
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine

Except as described below, the application of other new and revised HKFRSs 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 13 "Fair value measurement"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (see note 16 for the 2013 disclosure). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be subsequently reclassified to profit or loss; and (b) items that may be subsequently reclassified to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis-the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle[2]
HKFRS 9	Financial instruments[4]
HKFRS 14	Regulatory deferral accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
4 Available for application-the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
5 Effective for annual periods beginning on or after 1 January 2016.

The management anticipates that the application of the new and revised HKFRSs will have no material impact on the Group's financial performance and position.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties that are measured at fair values, and in accordance with HKFRSs. In addition, the consolidated financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consolidation given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Revenue from construction contracts is recognised using the percentage of completion method by reference to the value of work carried out during the year as determined by progress verification certificate issued by customers.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Rental income, including rental invoiced in advance from investment properties let under operating leases, is recognised on a straight line basis over the relevant lease terms.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by progress verification certificate issued by customers. Variations in contract work, claims and incentive payments are included to be extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances from customers. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and as a reduction of rental expense over the lease term on a straight line basis.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight line basis over the relevant lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land use rights

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is released over the lease term on a straight line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets comprise financial assets classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition (continued)

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated from the functional currency of the respective companies into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund ("MPF") Scheme, which are defined contribution schemes, are recognised as expenses when employees have rendered service entitling them to the contributions.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, are described below.

Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are made on trade and other receivables whenever there is any objective evidence that the balances may not be collectible. The Group makes judgment in assessing the collectability based on observable data including creditworthiness and payment history of the customers (for details please refer to note 18). When objective evidence for allowance exists, the amount of allowance is determined at the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the original effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

At 31 December 2013, the carrying amounts of trade and other receivables, net of allowance, is HK$78,845,000 (2012: HK$94,721,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31 December 2013, the carrying amounts of inventories is HK$15,688,000 (2012: HK$11,730,000).

Construction contracts

Revenue from construction contract is recognised under the percentage of completion method which requires estimation made by the management. Anticipated losses are fully provided on contracts when identified. The management estimates the contract costs and foreseeable losses of construction based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, the management reviews and revises the estimates of contract costs in the budget prepared for each contract in accordance to the contract progresses. Where the contract revenue is less than expected or actual contract costs are more than expected, additional losses may need to be recognised.

As at 31 December 2013, the carrying amounts due from (to) the customers for contract work are HK$3,624,000 and HK$12,366,000 (2012: HK$2,212,000 and HK$18,598,000), respectively.

Fair value measurements and valuation processes

The Group's investment properties are measured at fair value for financial reporting purposes. The board of directors of the Company has a designated team to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent it is available. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The Group will first consider and adopt Level 2 inputs where inputs can be derived observable quoted prices in the active market. When Level 2 inputs are not available, the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the board of directors of the Company. Information about the valuation techniques and inputs used in determining the fair value of the Group's investment properties are disclosed in note 16.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**239,714**	215,851
Financial liabilities		
Amortised cost	**24,788**	35,065

(b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, amounts due from related companies, restricted bank deposits, bank balances and cash, and trade and other payables.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk from prior year.

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Currency risk

The carrying amounts of the foreign currencies (other than the functional currency) denominated monetary assets of the Group, representing bank balances and cash, at the end of reporting period are as follows:

	2013 **HK$'000**	2012 HK$'000
Hong Kong dollars	**21,732**	27,253
United States dollars	**100**	100

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a 5% increase and decrease in its functional currency against the relevant foreign currencies. 5% is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary item and adjusts its translation at the year end for a 5% change in foreign currency rates.

A negative number indicates a decrease in profit for the year when its functional currency strengthens 5% against the relevant foreign currencies. For a 5% weakening of its functional currency against the relevant currencies, there would be an equal but opposite impact on the profit for the year.

	Hong Kong dollars		**United States dollars**	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Profit for the year	**(924)**	(1,158)	**(4)**	(4)

In the management's opinion, the sensitivity analysis above is unrepresentative for the foreign exchange risk as the exposure at the end of reporting period does not reflect the exposure during the year.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank deposits and bank balances (see note 21 for details of these deposits) at the end of the reporting period. The management considers the Group's exposure of the short-term bank deposits and balances to interest rate risk is not significant as interest bearing bank deposits and balances are within short maturity period.

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 59% (2012: 51%) of the aggregated amount of trade receivables and retention money receivables was due from the Group's five largest customers, which operate in the tobacco industry in the PRC. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table represented principal cash flows since the balances are non-interest bearing.

Liquidity tables

	Repayable on demand	Less than 3 months	Total undiscounted cash flows	Total carrying amounts
	HK$'000	HK$'000	HK$'000	HK$'000
2013				
Trade and other payables	**2,669**	**22,119**	**24,788**	**24,788**
2012				
Trade and other payables	4,419	30,646	35,065	35,065

6. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with general accepted pricing models based on discounted cash flow analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

7. 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:

	2013 **HK$'000**	2012 HK$'000
Sales of goods	**34,098**	47,222
Revenue from construction contracts of casing and flavouring system	**99,774**	98,239
	133,872	145,461

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 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.

7. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Entity-wide information

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

	2013 HK$'000	2012 HK$'000
Revenue from construction contracts of casing and flavouring system	**99,774**	98,239
Sales of		
– pneumatic feeding system	**17,270**	10,442
– pre-pressing packing machine	**60**	13,551
– other products	**16,768**	23,229
	133,872	145,461

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

	2013 HK$'000	2012 HK$'000
Customer A[1]	**81,860**	79,064

[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$39,394,000 (2012: HK$38,171,000) which are located in the PRC (excluding Hong Kong) and nil (2012: HK$20,000) which are located in Hong Kong.

8. OTHER INCOME AND GAINS

	2013 HK$'000	2012 HK$'000
Sales of materials, parts and components, net gain	**3,591**	2,563
Subsidy income *(note)*	**3,576**	1,912
Rental income	**964**	874
Interest income	**3,544**	976
Others	**5**	321
	11,680	6,646

8. OTHER INCOME AND GAINS (CONTINUED)

Note: During the year ended 31 December 2013, the Group received a subsidy income of HK$2,513,000 (2012: nil) and tax refund of HK$1,063,000 (2012: HK$1,912,000).

Pursuant to a document issued by the People's Government of Yangzhou, Baoying Renheng is entitled to one-off subsidy income for successful listing of the Company's shares on the GEM.

Based on another document issued by the People's Government of Baoying, Baoying Renheng is entitled to tax refunds representing approximately 12.5% of the excess value added tax paid in prior year as compared with the reference amount as stated in that document.

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

9. OTHER GAINS AND LOSSES

	2013 **HK$'000**	2012 HK$'000
Gain on fair value changes of investment properties	**–**	740
Allowance for doubtful debts	**–**	(36)
Loss on disposal and write-off of property, plant and equipment	**(26)**	(16)
	(26)	688

10. PROFIT BEFORE TAXATION

	2013 **HK$'000**	2012 HK$'000
Profit before taxation has been arriving at after charging:		
Directors' emoluments *(note 11)*	**1,167**	1,261
Other staff costs:		
Salaries, bonus and allowances	**10,545**	8,891
Retirement benefits scheme contributions	**955**	702
Share-based payment expenses	**–**	523
Total staff costs	**12,667**	11,377
Depreciation of property, plant and equipment	**1,604**	1,433
Auditor's remuneration	**750**	680
Cost of inventories recognised as an expense	**19,508**	28,563
Construction contract costs recognised as an expense	**54,367**	52,398
Release of land use rights	**75**	74
Operating lease rentals in respect of office premise	**271**	158

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable by the Group to directors of the Company and the chief executive of the Company are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payment expense HK$'000	Total emoluments HK$'000
2013					
Executive directors:					
Mr. Wei Sheng Peng	**–**	**120**	**6**	**–**	**126**
Ms. Liu Li	**–**	**120**	**6**	**–**	**126**
Mr. Sun Zhaohui	**–**	**540**	**15**	**–**	**555**
Independent non-executive directors:					
Mr. Tam Yuk Sang, Sammy	**120**	**–**	**–**	**–**	**120**
Mr. Wong Yiu Kit	**120**	**–**	**–**	**–**	**120**
Mr. Kong Hing Ki	**120**	**–**	**–**	**–**	**120**
	360	**780**	**27**	**–**	**1,167**
2012					
Executive directors:					
Mr. Wei Sheng Peng	–	120	6	–	126
Ms. Liu Li	–	120	6	–	126
Mr. Sun Zhaohui	–	540	14	95	649
Independent non-executive directors:					
Mr. Tam Yuk Sang, Sammy	120	–	–	–	120
Mr. Wong Yiu Kit	120	–	–	–	120
Mr. Kong Hing Ki	120	–	–	–	120
	360	780	26	95	1,261

Mr. Sun Zhaohui is also the chief executive officer of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive officer.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The five highest paid individuals of the Group included one (2012: one) executive director, details of whose emoluments are set out above. The emoluments of the remaining four (2012: four) highest paid employees of the Group are as follows:

	2013 **HK$'000**	2012 HK$'000
Employees		
– salaries and allowances	**711**	677
– performance related bonus	**670**	424
– retirement benefits scheme contributions	**42**	36
– share-based payment expense	**–**	48
	1,423	1,185

The emoluments of each of the five highest paid individuals during both years are below HK$1,000,000.

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments during both years.

12. TAXATION

	2013 **HK$'000**	2012 HK$'000
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**6,730**	6,670
– underprovision in prior year	**–**	530
	6,730	7,200
Deferred taxation *(note 23)*		
– current year	**89**	193
	6,819	7,393

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% (2012: 15%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation (the "EIT Law").

12. TAXATION (CONTINUED)

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. Tax concession has renewed by the local tax authority in 2013, and is therefore entitled to a reduced tax rate at 15% for 3 years.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 HK$'000	2012 HK$'000
Profit before taxation	**34,750**	37,079
Tax at the applicable tax rate of 15% (2012: 15%)	**5,213**	5,562
Tax effect of expenses not deductible for tax purposes	**1,693**	1,405
Tax effect of income not taxable for tax purposes	**(1)**	(15)
Effect of different tax rates of subsidiaries in other jurisdictions	**(86)**	(89)
Underprovision in prior year	**–**	530
Tax charge for the year	**6,819**	7,393

13. 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:

	2013 HK$'000	2012 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**27,931**	29,686
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	**265,538**	302,151
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**200,265,538**	200,302,151

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Total HK$'000
COST						
At 1 January 2012	16,942	451	304	2,677	5,828	26,202
Currency realignment	(4)	–	–	–	(1)	(5)
Additions	–	35	320	531	275	1,161
Disposals	–	–	(64)	–	(309)	(373)
At 31 December 2012	16,938	486	560	3,208	5,793	26,985
Currency realignment	653	24	19	120	246	1,062
Additions	–	217	–	–	1,233	1,450
Disposals and write-off	–	–	(47)	(155)	(33)	(235)
At 31 December 2013	**17,591**	**727**	**532**	**3,173**	**7,239**	**29,262**
DEPRECIATION						
At 1 January 2012	4,942	390	150	1,416	3,900	10,798
Currency realignment	(1)	–	–	–	(1)	(2)
Provided for the year	802	16	74	296	245	1,433
Eliminated on disposals	–	–	(59)	–	(278)	(337)
At 31 December 2012	5,743	406	165	1,712	3,866	11,892
Currency realignment	238	17	6	69	154	484
Provided for the year	817	74	107	320	286	1,604
Eliminated on disposals and write-off	–	–	(31)	(139)	(30)	(200)
At 31 December 2013	**6,798**	**497**	**247**	**1,962**	**4,276**	**13,780**
CARRYING VALUES						
At 31 December 2013	**10,793**	**230**	**285**	**1,211**	**2,963**	**15,482**
At 31 December 2012	11,195	80	395	1,496	1,927	15,093

The above items of property, plant and equipment are depreciated at the following rates, after taking into account of their estimated residual values, on a straight line basis:

Buildings	5%
Furniture, fixtures and office equipment	20% – 33%
Computer equipment	33%
Motor vehicles	10% – 20%
Plant and machinery	20%

The Group's buildings are held under medium-term leases and are situated in the PRC.

15. LAND USE RIGHTS

	2013 HK$'000	2012 HK$'000
CARRYING AMOUNT		
At beginning of the year	**3,071**	3,146
Currency realignment	**117**	(1)
Charge to profit or loss during the year	**(75)**	(74)
At end of the year	**3,113**	3,071
Non-current asset	**3,036**	2,997
Current asset	**77**	74
	3,113	3,071

The Group's leasehold interest in land is held under medium-term leases and is situated in the PRC.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2012	19,366
Currency realignment	(5)
Increase in fair value recognised in profit or loss	740
At 31 December 2012	20,101
Currency realignment	775
At 31 December 2013	**20,876**

The Group's investment properties are held under medium-term leases to earn rentals and are situated in the PRC.

The investment properties are measured using the fair value model at the end of the reporting period had been arrived at based on the valuation carried out on that date by Greater China Appraisal Limited ("Greater China Appraisal"), an independent qualified professional property valuer not connected to the Group.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

16. INVESTMENT PROPERTIES (CONTINUED)

The fair value of the Group's investment properties situated in the PRC at 31 December 2013 and 31 December 2012 carried out by Greater China Appraisal, were determined based on direct comparison method assuming sales of each property interests in their existing state and making references to comparable market observable transactions of similar properties in the same locations and conditions as available in the relevant market.

The following table gives information about how the fair values of the investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Carrying value of investment properties held by the Group in the consolidated statement of financial position	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**	**Sensitivity**
At 31 December 2013					
Commercial properties HK$20,876,000 (Certain factory building and land thereof located at No. 18 North Suzhong Road, Baoying County, Yongzhou, Jiangsu Province, the PRC)	Level 3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject properties. The key input is price per square metre with professional judgements.	Price per square metre of comparable properties taking into account of time, location and other individual factors such as road frontage, size of properties and facilities, of HK$1,462/square metre.	The higher the price per square metre, the higher the fair value.	If the price per square metre to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the properties would increase by approximately HK$1,044,000 and decrease by approximately HK$1,044,000 respectively.

There were no transfers into or out of Level 3 during the year.

17. INVENTORIES

	2013 HK$'000	2012 HK$'000
Raw materials	**10,404**	8,917
Work in progress	**5,284**	2,813
	15,688	11,730

18. TRADE AND OTHER RECEIVABLES

	2013 HK$'000	2012 HK$'000
Trade receivables	**42,804**	70,169
Less: Allowance for doubtful debts	**(2,455)**	(2,365)
	40,349	67,804
Retention money receivables	**32,353**	22,769
Prepayments and deposits	**3,044**	6,328
Sundry receivables	**6,691**	4,676
Less: Allowance for doubtful debts	**(548)**	(528)
	41,540	33,245
	81,889	101,049

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 HK$5,102,000 (2012: HK$3,990,000) 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.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

	2013 HK$'000	2012 HK$'000
0-90 days	**9,545**	44,086
91-365 days	**19,347**	8,368
1-2 years	**11,432**	15,325
Over 2 years	**25**	25
	40,349	67,804

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.

	2013 HK$'000	2012 HK$'000
91-365 days	**19,347**	8,368
1-2 years	**11,432**	15,325
Over 2 years	**25**	25
	30,804	23,718

The Group's management closely monitors the credit quality of receivables and considers those receivables that are neither past due nor impaired to be of a good credit quality.

Movement in the allowance for doubtful debts:

	2013 HK$'000	2012 HK$'000
At beginning of the year	**2,893**	2,857
Currency realignment	**110**	–
Provided for the year	**–**	36
At end of the year	**3,003**	2,893

The allowance for doubtful debts represented individually impaired trade and other receivables which have been placed under liquidation or in severe financial difficulties or assessed by the management that the relevant receivables are not expected to be recoverable. The Group does not hold any collateral over these balances.

19. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2013 **HK$'000**	2012 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**17,778**	49,121
Less: Progress billings	**(26,520)**	(65,507)
	(8,742)	(16,386)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**3,624**	2,212
Amounts due to customers for contract work	**(12,366)**	(18,598)
	(8,742)	(16,386)

Retentions by the customers for contract works, included in note 18, were amounted to HK$26,677,000 (2012: HK$15,362,000), and advances received from customers for contract work, included in note 22, were amounted to HK$5,969,000 (2012: nil).

20. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

Name of related company	**31.12.2013** **HK$'000**	31.12.2012 HK$'000	1.1.2012 HK$'000	**Maximum amount outstanding during the year** **2013** **HK$'000**	2012 HK$'000
Yangzhou Jinchuang Curtain Wall Engineering Company Limited (揚州金窗幕牆工程有限公司)	**251**	224	224	**251**	224
Yangzhou Longtai Electric Company Limited (揚州龍泰電器有限公司)	**240**	213	213	**240**	269
	491	437	437		

Note: Mr. Wei Sheng Peng and Ms. Liu Li, being directors and controlling shareholders of the Company, are also the controlling shareholders of these companies. The amounts are allowed for a credit period of three months, unsecured and interest-free.

20. AMOUNTS DUE FROM RELATED COMPANIES (CONTINUED)

The following is an aged analysis of trade balances with related companies for rental services based on the invoice date at the end of the reporting period.

	2013 **HK$'000**	2012 HK$'000
0-90 days	**491**	437

21. 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 3.25% (2012: 0.001% to 3.10%) per annum.

As at 31 December 2013, the restricted bank deposits represented deposits of HK$1,785,000 (2012: nil) with effective interest rate of 3.25% (2012: nil) per annum reserved in a bank, not available for use in the Group's daily operation.

22. TRADE AND OTHER PAYABLES

	2013 **HK$'000**	2012 HK$'000
Trade payables	**22,652**	32,845
Advances from customers	**8,664**	1,093
Accrued welfare expense	**1,838**	1,770
Valued added tax payable	**1,938**	771
Other payables	**2,136**	2,220
	37,228	38,699

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

	2013 **HK$'000**	2012 HK$'000
0-90 days	**21,472**	30,662
91-365 days	**868**	1,852
1-2 years	**8**	4
Over 2 years	**304**	327
	22,652	32,845

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

23. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current or prior year:

	Provision for trade and other receivables HK$'000	Provision for inventories HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1 January 2012	430	484	(1,274)	(360)
Credit (charge) to profit or loss for the year	5	–	(198)	(193)
At 31 December 2012	435	484	(1,472)	(553)
Currency realignment	16	19	(58)	(23)
Charge to profit or loss for the year	–	–	(89)	(89)
At 31 December 2013	**451**	**503**	**(1,619)**	**(665)**

As at 31 December 2013, the Group does not recognise deferred tax liability in relation to withholding tax on undistributed profits of a PRC subsidiary of HK$127,852,000 (2012: HK$98,553,000), because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. SHARE CAPITAL

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

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2012, 31 December 2012 and 31 December 2013	**1,000,000,000**	**10,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2012, 31 December 2012 and 31 December 2013	**200,000,000**	**2,000**

There were no change in the Company's share capital during both years.

25. SHARE OPTION SCHEMES

(a) Share option scheme

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on 20 October 2011 (the "Share Option Scheme"), the Company may grant options to eligible directors of the Company, eligible employees of the Group and other selected participants, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$10 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

(i) the closing price of the Company's shares on the Stock Exchange on the date of grant;

(ii) the average of closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and

(iii) the nominal value of the Company's shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of Company.

Up to the date of issuance of the consolidated financial statements, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

(b) Pre-IPO share option scheme

The principal terms of the Pre-IPO share option scheme, approved by a written resolution of the shareholders of the Company dated 20 October 2011, are substantially the same as the terms of the Share Option Scheme except that:

(i) the exercise price of the share option is 80% of HK$1.20; and

(ii) the option shall only be exercisable on or after 1 January 2013 and expire not later than 10 years from the date of grant.

25. SHARE OPTION SCHEMES (CONTINUED)

(b) Pre-IPO share option scheme (continued)

The following table sets out the movements in the share options of the Company during the period:

Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2012 and 31.12.2012	Cancelled during the year	Outstanding as at 31.12.2013
A director of the Company:					
20.10.2011	1.1.2013 to 19.10.2021	0.96	200,000	–	200,000
Employees:					
20.10.2011	1.1.2013 to 19.10.2021	0.96	1,100,000	(100,000)	1,000,000
Exercisable at the end of the year			1,300,000	(100,000)	1,200,000

26. LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under an non-cancellable operating lease for its office premise which fall due as follows:

	2013 HK$'000	2012 HK$'000
Within one year	**264**	7

Lease was negotiated and rental was fixed originally for a lease term of two years (2012: two years).

26. LEASE COMMITMENTS (CONTINUED)

The Group as lessor

At the end of the reporting period, the Group had contracted with related companies, companies controlled by the directors of the Company, for the following future minimum lease payments:

	2013 HK$'000	2012 HK$'000
Within one year	983	947

The investment properties have committed tenants for lease terms of one year.

27. RETIREMENT BENEFITS SCHEME

The Group participates in the MPF Scheme registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs with a cap of monthly contributions of HK$1,250 to the MPF Scheme, which contribution is matched by employee.

The employees of the Group's PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of its payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The amounts incurred for retirement benefit scheme contributions are disclosed in notes 10 and 11. According to the respective schemes, those contributions are not refundable nor forfeitable.

28. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related companies disclosed in the respective notes, the Group entered into the following transactions with related companies. Mr. Wei Sheng Peng and Ms. Liu Li, being directors and controlling shareholders of the Company, are also the controlling shareholders of these related companies.

Nature of transactions	2013 HK$'000	2012 HK$'000
Rental income	964	874
Purchase of goods	313	296
Subcontracting work	78	13

Compensation of key management personnel

Details of the remuneration of key management personnel, which are the directors and five highest paid employees, during the year, were set out in note 11.

29. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2013	2012	
RENHENG Global	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
RENHENG Tech Limited	Hong Kong	HK$1	**100%**	100%	Investment holding
Baoying Renheng (wholly foreign-owned enterprise)	PRC	RMB62,857,143	**100%**	100%	Manufacture and sale of tobacco machinery products

Note: RENHENG Global is directly held by the Company. Other subsidiaries are indirectly held by the Company.

None of the subsidiaries had issued any debt securities during the year and at the end of the year.

30. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company is set out below:

	2013 HK$'000	2012 HK$'000
Investment in a subsidiary	**378**	378
Amount due from a subsidiary *(Note)*	**16,437**	16,033
Other receivables	**182**	33
Bank balances and cash	**21,681**	27,251
Other payables	**(968)**	(1,255)
Net assets	**37,710**	42,440
Share capital	**2,000**	2,000
Reserves	**35,710**	40,440
Total equity	**37,710**	42,440

Note: The amounts are unsecured, interest-free and repayable on demand.

30. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Movement in share capital and reserves is set out below:

	Share capital HK$'000	**Share premium** HK$'000 (Note a)	**Other reserve** HK$'000 (Note b)	**Share option reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2012	2,000	52,940	378	124	(9,059)	46,383
Loss and total comprehensive expense for the year	–	–	–	–	(4,561)	(4,561)
Recognition of equity-settled share-based payments	–	–	–	618	–	618
At 31 December 2012	2,000	52,940	378	742	(13,620)	42,440
Loss and total comprehensive expense for the year	–	–	–	–	(4,730)	(4,730)
Transfer upon cancellation of share options	–	–	–	(57)	57	–
At 31 December 2013	**2,000**	**52,940**	**378**	**685**	**(18,293)**	**37,710**

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to HK$34,647,000 (2012: HK$39,320,000).

(b) Other reserve represented the net asset value of RENHENG Global which was acquired by the Company at nil consideration pursuant to the group reorganisation underwent in prior years.

Financial Summary

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	72,616	91,713	156,044	145,461	**133,872**
Profit before taxation	16,733	27,738	28,578	37,079	**34,750**
Taxation	(5,748)	(7,805)	(2,899)	(7,393)	**(6,819)**
Profit for the year	10,985	19,933	25,679	29,686	**27,931**

	As at 31 December				
	2009	2010	2011	2012	**2013**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	94,503	153,124	242,773	274,386	**301,541**
Total liabilities	(23,130)	(59,043)	(62,877)	(64,167)	**(55,672)**
Net assets	71,373	94,081	179,896	210,219	**245,869**

The results and summary of assets and liabilities for year ended 31 December 2009 and 2010 are extracted from the Company's prospectus dated 28 October 2011.