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
2016

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Liu Li *(Chairman and Chief Executive Officer)*
Mr. Xu Jiagui

Independent Non-executive Directors

Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki
Mr. Wu Wei

COMPANY SECRETARY

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

AUDIT COMMITTEE

Mr. Wong Yiu Kit, Ernest *(Chairman)*
Mr. Kong Hing Ki
Mr. Wu Wei

REMUNERATION COMMITTEE

Mr. Kong Hing Ki *(Chairman)*
Mr. Wong Yiu Kit, Ernest
Mr. Wu Wei

NOMINATION COMMITTEE

Mr. Wu Wei *(Chairman)*
Mr. Wong Yiu Kit, Ernest
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
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 of Directors (the "Board") 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 2016.

Looking backward to 2016, it was an unusual year to the Company, we feel deeply sorry that we lost our founder of the Company, Mr. Wei Sheng Peng who passed away in May 2016. Despite that, we will continue new product development in the past few years in order to strengthen our series of catalogue special-purpose tobacco machinery products, ranging from casing and flavouring system, pneumatic feeding system to pre-pressing packing machines.

Considering the trend of compound annual growth rate at 11.1% per annum in the tobacco products industry, we believe that our customers, being mainly the cigarette manufacturers in China, will keep focusing on technology advancement in their cigarettes in order to expand their cigarette business. This will be the growth momentum in the tobacco products industry.

On behalf 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.

Liu Li
Chairman & Chief Executive Officer

29 March 2017

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Liu Li

Ms. Liu, aged 46, is an executive director of the Company and is responsible for overall business planning, strategic development, human resources and administration functions of our 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 (formerly known as Beijing Institute of Physical Education) in July 1992. Ms. Liu was appointed as an executive director on 2 February 2011.

Mr. Xu Jiagui

Mr. Xu, aged 50, is the director and 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 14 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Yiu Kit, Ernest

Mr. Wong, aged 49, 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 24 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. He is now also the chief financial officer and company secretary of KVB's listed subsidiary, KVB Kunlun Financial Group Limited (stock code: 8077), a company whose shares are listed on the GEM of the Stock Exchange. KVB is an international financial services corporation providing forex, equities, commodities trading and asset management services with operations in Auckland, Sydney, Melbourne, Toronto, Hong Kong, Beijing and Tokyo. Currently, he is also an independent non-executive director of HongDa Financial Holding Limited (stock code: 1822), Legend Strategy International Holdings Group Company Limited (HKEx Stock Code: 1355) and Progressive Path Group Holdings Limited (HKEx Stock Code: 1581) companies whose shares are listed on the Stock Exchange. Besides, he has served as the board director of Adamas Finance Asia (previously known as China Private Equity Investment Holdings Limited ("CPE")) since April 2008. Adamas Finance Asia is a listed investment company in the Alternative Investment Market of the London Stock Exchange Plc. He also served as the chief financial officer of CPE from April 2008 to October 2011. 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 a charter-holder of Chartered Financial Analyst and a member of Hong Kong Securities Institute. He is also the president of Hong Kong University Graduates Association, the deputy chairman of the HKU Convocation, a court member of The University of Hong Kong, a committee member of Association of Chartered Certified Accountants Hong Kong and an executive director of Hong Kong Society of Financial Analysts. He was appointed as an independent non-executive director with effect from 20 October 2011.

Mr. Kong Hing Ki

Mr. Kong, aged 46, 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 19 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) from 24 November 2010 to 17 February 2016, 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.

Mr. Wu Wei

Mr. Wu, aged 43, is an independent non-executive director and the chairman of the nomination committee, and a member of the audit committee and the remuneration committee of the Company. He holds a Bachelor's Degree of Arts from Columbia University. He has over 18 years experience in enterprise investment and investment banking. He is a partner of Maison Capital Co. Ltd., a private equity fund manager. Mr. Wu previously served as executive director of CITIC Securities International Company Limited where he was responsible for its private equity business. He also served in Deutsche Bank AG, Henderson Global Investors (Hong Kong) Limited and Lehman Brothers Asia Limited. He is now an independent non-executive Director, the chairman of the nomination committee, member of the audit committee and the remuneration committee of AVIC International Holdings Limited (stock code: 161), a company whose shares are listed on the Stock Exchange. He was appointed as an independent non-executive director with effect from 31 October 2014.

SENIOR MANAGEMENT

Mr. Liu Yang

Mr. Liu, aged 44, 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 20 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 58, is the chief engineer of Baoying Renheng and is the head of the technical department, the production department as well as the procurement department of our Group. He has no less than 15 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 our 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 36, 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 13 years of experience in the audit and accounting profession. Prior to joining our 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 systems, pneumatic feeding systems ("PF system") and pre-pressing packing machines ("PP system").

FINANCIAL REVIEW

For the year ended 31 December 2016, the revenue of the Group dropped by approximately HK$29,273,000 or 42.2% to approximately HK$40,110,000 as compared to approximately HK$69,383,000 for the previous year. Such decrease was continuously attributable to drop in revenue recognised from the casing and flavouring systems. For the year under review, the Group recognised revenue from casing and flavouring systems amounting to approximately HK$22,498,000 (2015: approximately HK$52,380,000), which was approximately HK$29,882,000 less than that recognised in prior year. The drop was mainly because revenue recognised from customer A decreased from approximately HK$35,727,000 in 2015 to HK$14,762,000 in 2016. For the year ended 31 December 2016, the average contract sum from our largest customer A was approximately HK$1.6 million (2015: HK$3.2 million), which caused the revenue dopped. The gross profit margin of the Group was 27.5% and 48.9% for the year ended 31 December 2016 and 2015 respectively because more costs incurred for our projects for the year.

Other income and gains decreased from approximately HK$7,205,000 in 2015 to approximately HK$4,603,000 in 2016, representing to approximately HK$2,602,000 or 36.1%. The decrease was mainly due to less sales of materials, plants and components and interest income for the year under review.

Other losses decreased from approximately HK$6,869,000 in 2015 to approximately HK$1,207,000 in 2016, representing to approximately HK$5,662,000 or 82.4%. The decrease was mainly due to a significant exchange loss recognised from the depreciation of Renminbi in previous year.

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to approximately HK$24,894,000 (2015: approximately HK$26,346,000), representing a decrease of approximately HK$1,452,000 or 5.5%. The overall decrement was net off of (1) continuous cost control and (2) increase in legal and professional fee.

Taxation was approximately HK$3,780,000 for the year ended 31 December 2015, while it was tax credit amounting to approximately HK$179,000 due to less profit was resulted for the year ended 31 December 2016.

Loss attributable to shareholders of the Company for the year ended 31 December 2016 was approximately HK$12,987,000, while profit attributable to shareholders of the Company for the year ended 31 December 2015 was approximately HK$1,180,000.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil). Special dividend of HK$0.15 per ordinary share was paid during the year ended 31 December 2015.

BUSINESS REVIEW

The sale of catalogued special-purpose tobacco machinery products continued to contribute the majority of the revenue of the Group, amounting to approximately HK$36,200,000 or 90.3% of total revenue (2015: approximately HK$65,010,000 or 93.7% of total revenue). For the year ended 31 December 2016, the Group has completed projects in delivering casing and flavouring system to cigarette manufacturers located in Shanxi and Shandong Province and PF system to customers located in Gansu Province respectively. During the year, the Group has also completed project in PP system to tobacco redrying factory located in Chongqing.

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 2016, the expenditure incurred on research and development amounted to approximately HK$2,717,000 (2015: approximately HK$2,925,000).

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

BUSINESS OUTLOOK

According to the National Bureau of Statistics of China, the fixed asset investment in the tobacco products industry in urban areas grew at a compound annual growth rate of approximately 11.1% between 2009 and 2016 from RMB10.0 billion to RMB20.9 billion. Based on the current economic, political and social developments in the PRC, the Group estimates that the average replacement cycle of our tobacco machinery products will be lengthened and expects that year 2017 is still challenging.

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. As at 31 December 2016, bank balances and cash amounted to approximately HK$68,291,000 (2015: approximately HK$60,919,000) and the net current assets was approximately HK$78,278,000 (2015: approximately HK$95,978,000). As at 31 December 2016, the current ratio was approximately 3.0 (2015: approximately 3.6). The decrease was mainly due to less profit generated from our operation and less current assets such as trade receivables was resulted.

The Group did not have any borrowings, mortgages or charges as at 31 December 2016 (2015: nil).

CAPITAL EXPENDITURE

The Group purchased property, plant and equipment amounting to approximately HK$952,000 for the year ended 31 December 2016 (2015: approximately HK$831,000).

CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 31 December 2016 (2015: 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 2016 (2015: Nil).

PLEDGE OF ASSETS

As at 31 December 2016, restricted bank deposits of approximately HK$8,367,000 (2015: HK$1,894,000) were pledged to a bank to secure certain construction contracts.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had a total of 149 employees (2015: 159). Total staff costs (including directors' remuneration) were approximately HK$14,816,000 for the year ended 31 December 2016 as compared to approximately HK$15,112,000 for the year ended 31 December 2015.

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 2016 (2015: Nil).

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries for two years ended 31 December 2015 and 31 December 2016.

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 2016 is set out in note 7 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17 May to 19 May 2017, both days inclusive, during which period no transfer of the shares of the Company will be registered. In order to be eligible for the attendance of the forthcoming annual general meeting of the Company, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16 May 2017.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

RENHENG Enterprise Holdings Limited (the "Company") is a company incorporated in the Cayman Islands and domiciled in Hong Kong. Its registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and principal place of business in Hong Kong is at Room 3805, 38/F., Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries are set out in note 31 to the consolidated financial statements.

Segment information about the business of the Group for the year ended 31 December 2016 is set out in note 7 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 6 to 9 of this Annual Report. This discussion forms part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 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 ended 31 December 2016 be retained (2015: nil). During the year ended 31 December 2015, a special dividend of HK$0.15 per ordinary share was paid on 30 November 2015.

GROUP FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2016 is set out on page 80 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 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

The investment properties were revalued at 31 December 2016 and decrease in fair value amounting to approximately HK$116,000 was resulted.

Details of the movements during the year in the investment properties of the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital are set out in note 26 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 report and in note 33 to the consolidated financial statements respectively.

At the end of the reporting date, the Company's reserve available for distribution amounted to approximately HK$18,671,000 (2015: HK$22,855,000). 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 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.

BANK BORROWINGS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, sales to the Group's five largest customers in aggregate accounted for approximately 72.6% (2015: 75.0%) of the total sales and sales to the largest customer accounted for approximately 36.8% (2015: 51.5%) of total sales. Purchases from the Group's five largest suppliers in aggregate accounted for approximately 40.1% (2015: 34.8%) of the total purchases and purchases from the largest supplier accounted for approximately 11.6% (2015: 9.5%) 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' Report

DIRECTORS

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

Executive Directors:
Ms. Liu Li
Mr. Xu Jiagui

Independent Non-executive Directors
Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki
Mr. Wu Wei

In accordance with Article 16 of the Company's Articles of Association, Mr. Xu Jiagui and Mr. Wu Wei 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 5 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into service agreements with the Company for a period of three years 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 INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, 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$0.0025 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	Approximate percentage of the issued share capital of the Company*
Directors				
Mr. Wei Sheng Peng [(1)]	Interest of a controlled corporation and family interest	600,000,000	–	74.6%
Ms. Liu Li [(2)]	Interest of a controlled corporation and family interest	600,000,000	–	74.6%
Mr. Xu Jiagui	Personal interest	800,000	–	0.1%

Notes:

1. LinkBest Capital Group Limited ("LinkBest"), which is wholly owned by Mr. Wei Sheng Peng, is interested in 360,000,000 shares of the Company. Mr. Wei Sheng Peng is also the spouse of Ms. Liu Li, so he is deemed to be interested in 240,000,000 shares held by Open Venture Global Limited ("Open Venture"), being a corporation wholly owned by Ms. Liu Li.

   Mr. Wei Sheng Peng passed away in May 2016 and his heritage is still under process as at 31 December 2016 up to the date of this report.

2. Open Venture, which is wholly owned by Ms. Liu Li, is interested in 240,000,000 shares of the Company. Ms. Liu Li is also the spouse of Mr. Wei Sheng Peng, so she is deemed to be interested in 360,000,000 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 2016.

PRE-IPO SHARE OPTION SCHEME

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

Options to subscribe for an aggregate of 1,300,000 shares at an exercise price of HK$0.96 were granted to 10 participants including one executive Director, four members of the senior management of the Group and five employees of the Group, each at a consideration of HK$10.00 under the Pre-IPO Share Option Scheme on 20 October 2011. Up to 31 December 2016, no outstanding options were resulted.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group. Up to 31 December 2016, 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 26 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' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and The Stock Exchange, as follows:

Long positions

Ordinary shares of HK$0.0025 each of the Company

Name of shareholders	Capacity/Nature of Interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
LinkBest [1]	Beneficial owner	360,000,000	44.8%
Open Venture [2]	Beneficial owner	240,000,000	29.8%
Mr. Wei Sheng Peng [3]	Interest of a controlled corporation and family interest	600,000,000	74.6%
Ms. Liu Li [4]	Interest of a controlled corporation and family interest	600,000,000	74.6%

Notes:

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

   Mr. Wei Sheng Peng passed away in May 2016 and his heritage is still under process as at 31 December 2016 and up to the date of this report.

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 360,000,000 shares of the Company and as the spouse of Ms. Liu Li, he is deemed to be interested in 240,000,000 shares held by Open Venture, being a corporation wholly owned by Ms. Liu Li.

   Mr. Wei Sheng Peng passed away in May 2016 and his heritage is still under process as at 31 December 2016 and up to the date of this report.

4. Ms. Liu Li is the sole shareholder of Open Venture which is interested in 240,000,000 shares of the Company and as the spouse of Mr. Wei Sheng Peng, she is deemed to be interested in 360,000,000 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 2016.

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 27 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 2016, 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 17 to 22 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 2016 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 2016 and up to the date of approval of this report.

DONATIONS

Charitable donations made by the Group during the year amounted to nil (2015: nil).

AUDITOR

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

On behalf of the Board

Liu Li
Chairman & Chief Executive Officer

Hong Kong, 29 March 2017

CORPORATE GOVERNANCE REPORT

The Board considers that maintaining high standard of corporate governance and business ethics will serve the long 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 Code during the year ended 31 December 2016, save and except the Code Provisions A.2.1 of the CG Code.

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

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 2016.

BOARD OF DIRECTORS

Board composition

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

Executive Directors

Ms. Liu Li *(Chairman & Chief Executive Officer)*
Mr. Xu Jiagui

Independent non-executive Directors

Mr. Wong Yiu Kit, Ernest
Mr. Kong Hing Ki
Mr. Wu Wei

Biographical details of Directors are set out on pages 4 to 5 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.

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 2016 and up to the date of this annual report, there were six 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 of the Company.

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

Name of Directors/Meetings	General meeting	Board	Audit committee	Nomination committee	Remuneration committee
Executive Directors					
Mr. Wei Sheng Peng [(1)]	0/1	1/1	–	–	–
Ms. Liu Li	1/1	6/6	–	–	–
Mr. Xu Jiagui	0/1	6/6	–	–	–
Independent non-executive Directors					
Mr. Wong Yiu Kit, Ernest	1/1	6/6	5/5	2/2	2/2
Mr. Kong Hing Ki	1/1	6/6	5/5	2/2	2/2
Mr. Wu Wei	1/1	6/6	5/5	2/2	2/2

(1) The director passed away on 3 May 2016.

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.

The roles of chairman and chief executive officer of the Board was both performed by Mr. Wei Sheng Peng before his pass away in May 2016 and Ms. Liu Li afterwards.

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 Company's 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. Xu Jiagui and Mr. Wu Wei 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 2016, 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 [3]	2
Ms. Liu Li	2
Mr. Xu Jiagui	2
Independent non-executive Directors	
Mr. Wong Yiu Kit, Ernest	1 & 2
Mr. Kong Hing Ki	1 & 2
Mr. Wu Wei	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.
3. The director passed away on 3 May 2016.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Mr. Wong Yiu Kit, Ernest. The rest of members are Mr. Kong Hing Ki and Mr. Wu Wei. 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.

Up to the date of this annual report, the audit committee held five meetings to review the quarterly, interim and annual results during the year as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group.

Nomination committee

The nomination committee currently comprises three independent non-executive Directors and is chaired by Mr. Wu Wei. The rest of the members are Mr. Wong Yiu Kit, Ernest 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.

Up to the date of this annual report, the nomination committee held two meetings to perform the aforesaid functions.

Remuneration committee

The remuneration committee currently comprises three independent non-executive Directors and is chaired by Mr. Kong Hing Ki. The rest of the members are Mr. Wong Yiu Kit, Ernest and Mr. Wu Wei. 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.

Up to the date of this annual report, the remuneration committee held two meetings and has considered and reviewed the remuneration package of the Directors and senior management of the Group.

AUDITOR'S REMUNERATION

The remuneration of the audit service provided by the auditor of the Group to the Group for the year ended 31 December 2016 was mutually agreed in view of the scope of services, amounting to HK$750,000 (2015: HK$750,000).

Non-audit service regarding to the agreed-upon procedure on review of report of factual findings provided by the auditor of the Group was charged with fee amounting to HK$80,000 during the year ended 31 December 2015 (2016: nil).

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 2016, which give a true and fair view of the financial position of the Group on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective risk management and internal control system to safeguard the Group's assets against unauthorised use or disposition, and to protect the interest of shareholders of the Company. The Board has established effective risk management and internal control systems to provide reasonable but not absolute assurance against material misstatement or loss and to manage risks of failing to achieve business objectives. The Board shall be responsible for the risk management and internal control systems and shall review at least annually the effectiveness of such systems for that relevant financial year. Audit Committee assists the Board in monitoring the Group's all material controls, including financial, operational and compliance controls. During the year ended 31 December 2016, review of the effectiveness of the Group's risk management and internal control systems has been conducted and the result has been summarised and reported to the audit committee and the Board.

The Company identifies potential risks at all levels within the group companies. The Board of the Company then reviews the potential identified risks and evaluates the nature and impact of the potential identified risks. Afterward, the Board of the Company formulates the potential strategies addressing the potential identified risks. The Company also carried out annual internal control review to our business cycles, namely revenue, expenditure, human resources and payroll, inventory, fixed assets and treasury under a 3-years rotation plan. The Company also reviewed the financial organization structure, accounting policies and financial reporting process. The main feature of the risk management processes and internal control systems is to capture all material risks that the Company will face in our risk management and internal controls, operational and financial aspects and to resolve material internal control defects.

Regarding to the procedures and internal controls for the handling and dissemination of inside information, it is required to disclose inside information as soon as possible in accordance with the Securities and Futures Ordinance and the Listing Rules and ensure that appropriation of handling and dissemination of inside information.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 12 of the articles of association of the Company (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 "Requisitionists"). Such written requisition must specify the objects of the EGM and must be signed by the Requisitionists and deposited at the principal place of businss 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Guide") contained in Appendix 27 to the Listing Rules which set out the principles of environmental, social and governance matters.

The Board has the overall responsibility for the Company's Environmental, Social and Governance ("ESG") strategy and reporting. During the year ended 31 December 2016, the Board adopted Appendix 27 of the Listing Rules to disclose ESG information.

A. ENVIRONMENTAL

A1. Emissions – General Disclosure

(a) Policies: It is unavoidable for us to produce some industrial wastes during the operation. We make sure that the industrial wastes produced are properly handled and disposed of in compliance of relevant laws and regulations below.

(b) Compliance with relevant laws and regulations that have a significant impact on the Company: We comply with environmental protection measures in compliance with 中華人民共和國環境保護法 (the Environment Protection Law of PRC),中華人民共和國水污染防治法(the Water Pollution Prevention and Control Law of PRC) and other related laws and regulations.

A2. Use of Resources – General Disclosure

Policies: We consume different resources including but not limited to electricity, water and other raw materials, e.g. specialised metallic items and steel. We aim to make use of resources whilst maintaining our product quality.

A3. The Environment and Natural Resources – General Disclosure

Policies: The pollutants generated during our production process include waste water, exhausted gas and noise. We have installed the necessary environmental protection facilities to comply with the relevant environmental laws, rules and regulations in the PRC.

B. SOCIAL

B1. Employment and Labour Practices – General Disclosure

(a) Policies: We comply with all relevant laws and regulations in respect of employment and labour practices. These are employment and social security liabilities in compliance with 中華人民共和國勞動法 (the PRC Labour Law) and 中華人民共和國勞動合同法 (the PRC Labour Contract Law).

(b) Our compensation and dismissal, recruitment and promotion, working hours, rest periods are determined by reference to our employees' respective experience, responsibilities, qualifications and competence displayed and our operation results. We are equal opportunity and anti-discrimination employer by offering diversity in career.

B2. Health and Safety – General Disclosure

(a) Policies: We view health and working safety as first priority.

(b) We comply with PRC Production Safety Law by 國家安全生產監督管理總局 (the State Administration of Work Safety) who is in charge of the overall administration of production safety. We provide safe production conditions according to the law, and shall provide education and training on work safety to employees.

B3. Development and Training – General Disclosure

(a) Policies: We provide on-the-job trainings to our staff in order to enhance their work efficiency. These trainings include product design, technical training on domestic and foreign tobacco machinery production as well as work safety training.

B4. Labour Standards – General Disclosure

(a) Policies: We commit not to employ child labour and force labour in accordance with the relevant PRC Labour Law.

B5. Supply Chain Management – General Disclosure

(a) Policies: We procure based on the project implementation plan taking into account the raw materials, parts and components in stock. We enter into procurement arrangements with our suppliers to secure the necessary raw materials, parts and components required for individual projects after we have entered into sales contracts with our customers with the production schedule. We maintain a list of approved suppliers and procure raw materials, parts and components from such suppliers. In the selection of our approved suppliers, we take into account different factors, including but not limited to, the pricing and quality of the raw materials, parts and components, stability of supply and delivery, the credit period offered by the suppliers as well as their reputation. We generally review the list of approved suppliers on an annual basis.

B6. Product Responsibility – General Disclosure

(a) Policies: Our product quality management is in compliance with 中華人民共和國民法通則 (the General Principles of the Civil Laws of the PRC), 中華人民共和國產品質量法 (the Product Quality Law of the PRC), 中華人民共和國消費者權益保護法 (the Law of the PRC on the Protection of the Rights and Interests of Consumers), 煙草行業產品質量監督檢驗網管理辦法 (the Administrative Measures on Supervision and Inspection of Product Quality in Tobacco Industry) and other related laws and regulations.

B7. Anti-corruption – General Disclosure

(a) Policies: We believe that all of our staff (including management) are honest and obey the relevant laws and regulations in their jurisdiction. No other policy is derived regarding to anti-corruption.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF RENHENG ENTERPRISE HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

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 79, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants ("the Code") issued by HKICPA, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of Investment Properties	
We identified the valuation of investment properties as a key audit matter due to the management's judgements associated with determining the fair value. The investment properties of the Group represented a factory and land thereof located in the People's Republic of China (the "PRC") and carried at HK$17 million as at 31 December 2016, which represented approximately 11% of the Group's total assets. Change in fair value of investment properties of HK$116,000 was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended. All of the Group's investment properties are stated at fair value based on valuations performed by an independent qualified professional valuer not connected with the Group (the "Valuer"). Details of the valuation techniques and significant unobservable inputs used in the valuations are disclosed in Note 17 in the consolidated financial statements. The valuations of the investment properties are dependent on certain significant unobservable inputs which involve management's judgements, including "price per square metre".	Our procedures in relation to assessing the appropriateness of the valuation of the investment properties included: • Evaluating the Valuer's competence, capabilities and objectivity; • Obtaining an understanding from the management and the Valuer about the valuation technique and reasonableness of the significant unobservable input used in the valuation; • Assessing the integrity of information provided by the Valuer by comparing details of "price per square metre" to the respective comparable properties.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of Trade Receivables	
We identified the valuation of trade receivables as a key audit matter due to the age profile and judgement required in determining the impairment on doubtful trade receivables. As at 31 December 2016, the amount of the Group's trade receivables which are past due after provision for doubtful debts is approximately HK$9,455,000 as disclosed in note 19 to the consolidated financial statements. In determining the allowance for trade receivables, the management considers the aged analysis, historical collection trends, and the likelihood of collection from debtors after taking periodic follow-up actions, as stated in note 5 to the consolidated financial statements.	Our procedures in relation to the valuation of the trade receivables included: – Discussing with the management and understanding the management's basis of estimation of allowance for trade receivables; – Understanding the management process over the regular assessment of impairment on trade receivables; – Assessing the accuracy of the management's estimate of the likelihood of debts collection based on historic collection records; – Understanding and evaluating the management's process relating to the preparation of aged analysis of trade receivables; – Testing the accuracy of the aged analysis of trade receivables as at 31 December 2016, on a sample basis, to source documents; – Testing the collection of trade receivables subsequent to the year-end, on a sample basis, to source documents; and – Evaluating the reasonableness of provision for doubtful debts with reference to management's assessment of likelihood of collection from debtors, historic collection records, aged analysis and subsequent settlement.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 content of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Cheung Kwong Tat.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	7	**40,110**	69,383
Cost of sales		**(29,061)**	(35,488)
Gross profit		**11,049**	33,895
Other income and gains	8	**4,603**	7,205
Other losses	9	**(1,207)**	(6,869)
Selling and distribution costs		**(8,005)**	(10,705)
Administrative expenses		**(16,889)**	(15,641)
Research and development costs		**(2,717)**	(2,925)
(Loss) profit before taxation	10	**(13,166)**	4,960
Taxation	12	**179**	(3,780)
(Loss) profit for the year		**(12,987)**	1,180
Other comprehensive expense for the year:			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation		**(6,513)**	(6,999)
Total comprehensive expense for the year		**(19,500)**	(5,819)
(Loss) earnings per share	14		
– Basic		**(1.6) HK cents**	0.1 HK cents
– Diluted		**(1.6) HK cents**	0.1 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	15	**10,799**	12,271
Land use rights	16	**2,476**	2,686
Investment properties	17	**17,631**	18,735
		30,906	33,692
Current assets			
Inventories	18	**7,767**	16,130
Trade and other receivables	19	**30,261**	50,939
Land use rights	16	**68**	72
Amounts due from customers for contract work	20	**2,139**	903
Amounts due from related companies	21	**410**	2,379
Restricted bank deposits	22	**8,367**	1,894
Bank balances and cash	22	**68,291**	60,919
		117,303	133,236
Current liabilities			
Trade and other payables	23	**34,146**	31,251
Tax payable		**4,879**	6,007
		39,025	37,258
Net current assets		**78,278**	95,978
Total assets less current liabilities		**109,184**	129,670
Non-current liabilities			
Deferred tax liabilities	24	**78**	1,064
		109,106	128,606
Capital and reserves			
Share capital	25	**2,010**	2,010
Reserves		**107,096**	126,596
Total equity		**109,106**	128,606

The consolidated financial statements on pages 30 to 79 were approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

LIU LI
DIRECTOR

XU JIAGUI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	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$'000	Accumulated profits (losses) HK$'000	Total HK$'000
At 1 January 2015	2,000	52,940	49,091	3,338	19,842	999	2,775	571	14,519	107,990	254,065
Profit for the year	–	–	–	–	–	–	–	–	–	1,180	1,180
Exchange differences arising on translation	–	–	–	–	–	–	–	–	(6,999)	–	(6,999)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	(6,999)	1,180	(5,819)
Issue of shares upon exercise of share options	10	1,521	–	–	–	–	–	(571)	–	–	960
Transfer	–	–	–	–	1,213	–	–	–	–	(1,213)	–
Special dividend recognised as distribution (note 13 and note d)	–	(12,643)	–	–	–	–	–	–	–	(107,957)	(120,600)
At 31 December 2015	2,010	41,818	49,091	3,338	21,055	999	2,775	–	7,520	–	128,606
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,987)**	**(12,987)**
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,513)**	**–**	**(6,513)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,513)**	**(12,987)**	**(19,500)**
Transfer	**–**	**–**	**–**	**–**	**1,101**	**–**	**–**	**–**	**–**	**(1,101)**	**–**
At 31 December 2016	**2,010**	**41,818**	**49,091**	**3,338**	**22,156**	**999**	**2,775**	**–**	**1,007**	**(14,088)**	**109,106**

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.

(d) Pursuant to a special resolution passed in the special general meeting of the Company held on 15 October 2015, an amount of HK$12,643,000 special dividend has been paid from the share premium account of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Operating activities		
(Loss) profit before taxation	**(13,166)**	4,960
Adjustments for:		
Depreciation of property, plant and equipment	**1,798**	2,012
Loss on disposal and write-off of property, plant and equipment	**–**	54
Loss on fair value changes of investment properties	**114**	–
Release of land use rights	**70**	74
Allowance for doubtful debts	**527**	–
Write-off of amount due from related companies	**336**	–
Interest income	**(684)**	(1,932)
Operating cash flows before movements in working capital	**(11,005)**	5,168
Decrease (increase) in inventories	**7,714**	(788)
Decrease in trade and other receivables	**17,807**	27,642
(Increase) decrease in amounts due from customers for contract work	**(1,319)**	5,011
Decrease (increase) in amounts due from related companies	**1,557**	(1,394)
Increase (decrease) in trade and other payables	**4,614**	(11,709)
Decrease in amounts due to customers for contract work	**–**	(4,176)
Cash generated from operations	**19,368**	19,754
PRC enterprise income tax paid	**(1,609)**	(2,638)
Net cash from operating activities	**17,759**	17,116
Investing activities		
Release of restricted bank deposits	**1,615**	9,061
Interest received	**684**	1,932
Proceeds from disposal of property, plant and equipment	**–**	5
Addition in restricted bank deposits	**(8,367)**	(1,894)
Purchase of property, plant and equipment	**(952)**	(831)
Net cash (used in) from investing activities	**(7,020)**	8,273
Financing activities		
Issue of shares upon exercise of share options	**–**	960
Special dividend recognised as distribution	**–**	(120,600)
Net cash used in financing activities	**–**	(119,640)
Net increase (decrease) in cash and cash equivalents	**10,739**	(94,251)
Cash and cash equivalents at beginning of the year	**60,919**	158,337
Effect of foreign exchange rate changes	**(3,367)**	(3,167)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**68,291**	60,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

The Company was incorporated in the Cayman Islands on 2 February 2011 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") since 18 November 2011. On 25 November 2013, the listing of the shares of the Company has been transferred from the GEM to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company is jointly controlled by LinkBest Capital Group Limited and Open Venture Global Limited.

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. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the Hong Kong Companies Ordinance ("CO").

3. 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

The application of the above amendments to 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.

The Group has not early applied the following new and amendments to HKFRSs and Hong Kong Accounting Standards ("HKAS") that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and related Amendment[1]
HKFRS 16	Leases [2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKAS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]
Amendments to HKAS 7	Disclosure Initiative [4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses [4]
Amendments to HKFRS	Annual Improvements to HKFRS Standards 2014-2016 Cycle [5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

HKFRS 9 "Financial instruments" (continued)

Key requirements of HKFRS 9 are described below:

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial Instrument: Recognition and Measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

HKFRS 9 "Financial instruments" (continued)

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the management of the Group anticipates that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

HKFRS 15 "Revenue from contracts with customers"

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on preliminary analysis, the management of the Group anticipates that the adoption of HKFRS 15 in the future is unlikely to have significant impact on revenue recognition but will result in more disclosures.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

HKFRS 16 Leases (continued)

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16 lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

The management of the Group expects that the adoption of HKFRS 16 is unlikely to result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the financial statements in future as right-of-use assets and lease liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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 "Share-based payment", 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 "Inventories" or value in use in HKAS 36 "Impairment of assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

4. 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 the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

The Group's policy for recognition of revenue from construction contracts is described in the accounting policy for construction contracts below.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

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 the 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assetss (continued)

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.

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 when 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets (continued)

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. 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. Changes in the carrying amount of the allowance account are recognised in 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.

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 entities after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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.

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 of tangible assets

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets (continued)

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 immediately in profit or loss.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

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).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure (continued)

- 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.

5. 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 aged analysis and other observable data including historical collection trends, and the likelihood of collection from debtors after taking periodic follow-up actions. 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. The process of assessment involves material estimate made by the management. 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 expenses arising from allowance for doubtful debts in the period in which such estimate has been changed.

At 31 December 2016, the carrying amounts of trade and other receivables, net of allowance, is HK$28,541,000 (2015: HK$48,852,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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 2016, the carrying amounts due from (to) the customers for contract work are HK$2,139,000 and nil (2015: HK$903,000 and nil), 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 engaged a qualified external valuer to assist in determining 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 valuer 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 17.

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 2016, the carrying amounts of inventories is HK$7,767,000 (2015: HK$16,130,000).

6. 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 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.

7. REVENUE AND SEGMENT INFORMATION

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

	2016 **HK$'000**	2015 HK$'000
Sales of goods	**17,612**	17,003
Revenue from construction contracts of casing and flavouring system	**22,498**	52,380
	40,110	69,383

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 (loss)/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. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Entity-wide information

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

	2016 **HK$'000**	2015 HK$'000
Revenue from construction contracts of casing and flavouring system	**22,498**	52,380
Sales of		
– pneumatic feeding system	**13,570**	9,669
– pre-pressing packing machine	**132**	2,961
– other products	**3,910**	4,373
	40,110	69,383

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

	2016 **HK$'000**	2015 HK$'000
Customer A[1]	**14,762**	35,727
Customer B[2]	**5,148**	–
Customer C[3]	**4,248**	N/A*

1 Revenue from sales of all products.

2 Revenue from sales of all products. No revenue was recognized during the year ended 31 December 2015.

3 Revenue from sales of all products. The revenue contributed did not exceed 10% of the total sale of the Group during the year ended 31 December 2015.

All of the Group's revenue are derived in the PRC, which are determined by the location where the systems or products being installed or delivered. The Group's non-current assets comprise of HK$31,675,000 (2015: HK$33,692,000) which are located in the PRC (excluding Hong Kong).

8. OTHER INCOME AND GAINS

	2016 **HK$'000**	2015 HK$'000
Sales of materials, parts and components, net gain	**2,701**	4,092
Subsidy income (note)	**613**	475
Rental income	**401**	658
Interest income	**684**	1,932
Others	**204**	48
	4,603	7,205

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

9. OTHER LOSSES

	2016 HK$'000	2015 HK$'000
Loss on disposal and write-off of property, plant and equipment	–	(54)
Loss on fair value changes of investment properties	(116)	–
Allowance for doubtful debts	(541)	–
Write-off of amount due to related companies	(336)	–
Exchange loss, net	(214)	(6,815)
	(1,207)	(6,869)

10. (LOSS) PROFIT BEFORE TAXATION

	2016 HK$'000	2015 HK$'000
(Loss) profit before taxation has been arriving at after charging:		
Directors' emoluments (note 11)	1,628	1,602
Other staff costs:		
Salaries, bonus and allowances	12,086	12,430
Retirement benefits scheme contributions	1,102	1,080
Total staff costs	14,816	15,112
Auditor's remuneration	750	750
Construction contract costs recognised as an expense	18,479	27,003
Cost of inventories recognised as an expense	10,582	8,485
Depreciation of property, plant and equipment	1,798	2,012
Operating lease rentals in respect of office premise	264	264
Release of land use rights	70	74

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2016				
Executive directors:				
Mr. Wei Sheng Peng (note a)	**–**	**165**	**5**	**170**
Ms. Liu Li	**–**	**960**	**18**	**978**
Mr. Xu Jiagui	**–**	**120**	**–**	**120**
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	**120**	**–**	**–**	**120**
Mr. Kong Hing Ki	**120**	**–**	**–**	**120**
Mr. Wu Wei	**120**	**–**	**–**	**120**
	360	**1,245**	**23**	**1,628**
2015				
Executive directors:				
Mr. Wei Sheng Peng (note a)	–	525	16	541
Ms. Liu Li	–	399	13	412
Mr. Xu Jiagui	120	157	12	289
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	120	–	–	120
Mr. Kong Hing Ki	120	–	–	120
Mr. Wu Wei	120	–	–	120
	480	1,081	41	1,602

Notes:

(a) The director passed away on 3 May 2016.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

No performance related incentive payments were paid to the directors of the Company for both years.

Mr. Wei Seng Peng was the chief executive of the Company during the year ended 31 December 2015 and up to the date of his passing away. Ms Liu Li was appointed as the chief executive of the Company on 4 May 2016. Their emoluments disclosed above included those for services rendered by them as the chief executive.

The five highest paid individuals of the Group include three (2015: three) executive director, details of whose emoluments are set out above. The emoluments of the two (2015: two) highest paid employees of the Group are as follows:

	2016 **HK$'000**	2015 HK$'000
Employees		
– salaries and allowances	**785**	730
– performance related bonus (note)	**37**	25
– retirement benefits scheme contributions	**18**	30
	840	785

Note: The performance related bonus were determined with reference to the individual performance for both years.

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

	2016 **HK$'000**	2015 HK$'000
The charge (credit) comprises:		
Current tax		
PRC Enterprise Income Tax	**–**	2,843
PRC withholding tax	**388**	546
	388	3,389
Underprovision in prior year		
PRC Enterprise Income Tax	**389**	477
	777	3,866
Deferred taxation (Note 24)	**(956)**	(86)
	179	3,780

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 25% (2015: 15%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation (the "EIT Law").

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. Baoying Renheng had been recognised and approved as a HNTE since 2011 and renewed its status in 2013, and is therefore entitled to a reduced tax rate at 15% for the three years ended at 31 December 2015. Baoying Renheng did not renew its HNTE status in 2016 and is subject to the tax rate at 25% for the year.

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

12. TAXATION (CONTINUED)

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

	2016 **HK$'000**	2015 HK$'000
(Loss) profit before taxation	**(13,166)**	4,960
Tax at the applicable tax rate of 25% (2015: 15%)	**(3,292)**	744
Tax effect of expenses not deductible for tax purposes	**1,799**	2,403
Tax effect of income not taxable for tax purposes	**(49)**	(88)
Effect of change in tax rate	**339**	–
Effect of different tax rates of subsidiaries in other jurisdictions	**532**	(163)
PRC withholding tax on undistributed profit of PRC subsidiary	**103**	407
Underprovision in prior year	**389**	477
Tax (credit) charge for the year	**179**	3,780

13. DIVIDENDS

	2016 **HK$'000**	2015 HK$'000
Dividends recognised as distribution during the year:		
Special dividend of HK$0.15 per ordinary share	**–**	120,600

14. (LOSS) EARNINGS PER SHARE

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

	2016	2015
	HK$'000	HK$'000
(Loss) Earnings		
(Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(12,987)**	1,180
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss) earnings per share	**804,000,000**	804,000,000

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

15. 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 2015	17,410	816	469	2,360	7,759	28,814
Currency realignment	(1,020)	(50)	(28)	(127)	(474)	(1,699)
Additions	–	91	–	–	740	831
Disposals and write-off	–	–	–	(378)	(100)	(478)
At 31 December 2015	16,390	857	441	1,855	7,925	27,468
Currency realignment	(867)	(46)	(22)	(98)	(443)	(1,476)
Additions	–	41	–	–	911	952
At 31 December 2016	**15,523**	**852**	**419**	**1,757**	**8,393**	**26,944**
DEPRECIATION						
At 1 January 2015	7,553	579	293	1,285	4,790	14,500
Currency realignment	(467)	(38)	(20)	(72)	(299)	(896)
Provided for the year	800	174	88	244	706	2,012
Eliminated on disposals and write-off	–	–	–	(341)	(78)	(419)
At 31 December 2015	7,886	715	361	1,116	5,119	15,197
Currency realignment	(437)	(39)	(19)	(64)	(291)	(850)
Provided for the year	755	57	13	162	811	1,798
At 31 December 2016	**8,204**	**733**	**355**	**1,214**	**5,639**	**16,145**
CARRYING VALUES						
At 31 December 2016	**7,319**	**119**	**64**	**543**	**2,754**	**10,799**
At 31 December 2015	8,504	142	80	739	2,806	12,271

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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.

16. LAND USE RIGHTS

	2016 **HK$'000**	2015 HK$'000
Carrying amount		
At beginning of the year	**2,758**	3,005
Currency realignment	**(144)**	(173)
Charge to profit or loss during the year	**(70)**	(74)
At end of the year	**2,544**	2,758
Non-current asset	**2,476**	2,686
Current asset	**68**	72
	2,544	2,758

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

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2015	19,901
Currency realignment	(1,166)
At 31 December 2015	18,735
Currency realignment	(988)
Decrease in fair value recognised in profit or loss	116
At 31 December 2016	**17,631**

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 by reference to a 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.

The fair value of the Group's investment properties situated in the PRC at 31 December 2016 and 31 December 2015 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.

17. INVESTMENT PROPERTIES (CONTINUED)

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 2016					
Commercial properties HK$17,744,000 (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 judgments.	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$1,235/ square metre.	The higher the price per square metre, the higher the fair value.	If the price per square metre underlying the valuation model is 5% higher/lower, while all other variables were held constant, the carrying amount of the properties would increase by approximately HK$ 881,555 and decrease by approximately HK$ 881,555 respectively.
At 31 December 2015					
Commercial properties HK$18,735,000 (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 judgments.	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$1,312/ square metre.	The higher the price per square metre, the higher the fair value.	If the price per square metre underlying 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$937,000 and decrease by approximately HK$937,000 respectively.

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

18. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**6,052**	10,319
Work in progress	**1,715**	5,811
	7,767	16,130

19. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade and bills receivables	**20,422**	30,455
Less: Allowance for doubtful debts	**(2,639)**	(2,287)
	17,783	28,168
Retention money receivables	**8,635**	15,367
Prepayments and deposits	**1,087**	2,087
Sundry receivables	**3,294**	5,828
Less: Allowance for doubtful debts	**(538)**	(511)
	12,478	22,771
	30,261	50,939

The Group normally allows a credit period of three months to its trade customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits. Retention money receivables refer to the sum retained by customers after the delivery and completion of the contracts (including construction contracts of casing and flavouring system, and sales of pneumatic feeding system and other products) but before the expiry of the warranty period given by the Group, which in general, a period of 12 months. Included in retention money receivables with carrying amount of HK$550,000 (2015: HK$6,817,000) 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.

19. 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.

	2016 **HK$'000**	2015 HK$'000
0-90 days	**8,328**	17,465
91-365 days	**1,966**	3,946
1-2 years	**4,372**	1,837
Over 2 years	**3,117**	4,920
	17,783	28,168

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.

	2016 **HK$'000**	2015 HK$'000
91-365 days	**1,966**	3,946
1-2 years	**4,372**	1,837
Over 2 years	**3,117**	4,920
	9,455	10,703

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:

	2016 **HK$'000**	2015 HK$'000
At beginning of the year	**2,798**	2,973
Currency realignment	**(148)**	(175)
Provided during the year	**527**	–
At end of the year	**3,177**	2,798

The allowance for doubtful debts represented individually impaired trade and other receivables assessed by the management that the relevant receivables are not expected to be recoverable. The judgement made by the management in assessing the collectability of the trade and other receivables are disclosed in Note 4. The Group does not hold any collateral over these balances.

20. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2016 HK$'000	2015 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**2,139**	903
Less: Progress billings	**–**	–
	2,139	903
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**2,139**	903
Amounts due to customers for contract work	**–**	–
	2,139	903

Retentions by the customers for contract works, included in note 19, amounted to HK$4,291,000 (2015: HK$14,302,000), and advances received from customers for contract work, included in note 23, amounted to HK$15,921,000 (2015: HK$1,022,000).

21. AMOUNTS DUE FROM RELATED COMPANIES

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

Name of related company	2016 HK$'000	2015 HK$'000	Maximum amount outstanding during the year 2016 HK$'000	Maximum amount outstanding during the year 2015 HK$'000
Yangzhou Jinchuang Curtain Wall Engineering Company Limited (揚州金窗幕牆工程有限公司)	**410**	902	**410**	902
Yangzhou Longtai Electric Company Limited (揚州龍泰電器有限公司)	**–**	1,477	**–**	1,477
	410	2,379		

Note: These companies are controlled by the controlling shareholders of the Company. The amounts are allowed for a credit period of three months, unsecured and interest-free.

21. 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.

	2016 **HK$'000**	2015 HK$'000
0-90 days	**205**	217
Over 90 days	**205**	1,338
	410	1,555

The following is an aged analysis of trade balances with related companies for rental services 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:

	2016 **HK$'000**	2015 HK$'000
Over 90 days	**205**	1,338

22. 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 2.10% (2015: 0.001% to 3.25%) per annum.

As at 31 December 2016, the restricted bank deposits represented deposits of HK$8,367,000 (2015: HK$1,894,000) with effective interest rate of 1.52% (2015: 3.25%) per annum reserved in a bank, for settlement of bills payables and construction contracts.

23. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**6,915**	16,674
Bills payables	**4,243**	1,776
	11,158	18,450
Advances from customers	**17,529**	6,185
Accrued welfare expense	**1,622**	1,713
Valued added tax payable	**1,115**	2,111
Other payables	**2,600**	2,570
Other tax payables	**122**	222
	34,146	31,251

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

	2016 HK$'000	2015 HK$'000
0-90 days	**8,961**	16,795
91-365 days	**1,625**	832
1-2 years	**202**	125
Over 2 years	**370**	698
	11,158	18,450

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

24. 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$'000	Withholding tax on undistributed profit HK$'000	Tax loss HK$'000	Total HK$'000
At 1 January 2015	446	498	(1,578)	(585)	–	(1,219)
Currency realignment	(26)	(29)	95	29	–	69
Credit (charge) to profit or loss for the year	34	–	(87)	(407)	–	(460)
Reallocated to current tax	–	–	–	546	–	546
At 31 December 2015	454	469	(1,570)	(417)	–	(1,064)
Currency realignment	(35)	(35)	113	15	(28)	30
Credit (charge) to profit or loss for the year	69	70	(16)	(233)	1,017	907
Reallocated to current tax	–	–	–	388	–	388
Effect of change in tax rate	326	305	(1,100)	130	–	(339)
At 31 December 2016	**814**	**809**	**(2,573)**	**(117)**	**989**	**(78)**

The tax losses amounting to HK$3,324,000 will be expired in 2021.

25. 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 2015	**1,000,000,000**	**10,000**
Subdivision of each of the existing issued and unissued ordinary shares of HK$0.01 each in the share capital into four subdivided shares of HK$0.0025 each	**3,000,000,000**	**–**
Ordinary shares of HK$0.0025 each at 31 December 2015 and 31 December 2016	**4,000,000,000**	**10,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2015	**200,000,000**	**2,000**
Issue of shares upon exercise of share options	**1,000,000**	**10**
Subdivision of each of the existing issued and unissued ordinary shares of HK$0.01 each in the share capital into four subdivided shares of HK$0.0025 each	**603,000,000**	**–**
Ordinary shares of HK$0.0025 each at 31 December 2015 and 31 December 2016	**804,000,000**	**2,010**

26. 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.

26. SHARE OPTION SCHEMES (CONTINUED)

(a) Share option scheme (continued)

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.

26. 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 year:

Date of grant	Exercisable period	Exercise price HK$	Outstanding as at 1.1.2015	Exercised during the year	Outstanding as at 31.12.2015, 1.1.2016 and 31.12.2016
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	800,000	(800,000)	–
Former director:					
20.10.2011	1.1.2013 to 19.10.2021	0.96	–	–	–
Exercisable at the end of the year			1,000,000	(1,000,000)	–

27. 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:

	2016 HK$'000	2015 HK$'000
Within one year	–	264

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:

	2016 HK$'000	2015 HK$'000
Within one year	–	433

The investment properties have no committed tenants at the end of the year (2015: one year).

28. 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$1,500 for each employee with effect from 1 June 2014 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.

29. 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 which are controlled by the directors and controlling shareholders of the Company.

Nature of transactions

	2016 HK$'000	2015 HK$'000
Rental income	410	658
Purchases of goods	802	–

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.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)*	106,942	114,044
Financial liabilities		
Amortised cost**	13,880	21,242

* Prepayment is excluded

** Advance from customers, accrued welfare expenses and valued added tax payable are excluded

(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 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.

30. 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:

	2016	2015
	HK$'000	HK$'000
Hong Kong dollars	**5,522**	3,799
United States dollars	**101**	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 an increase/decrease in (loss)/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**	
	2016	2015	**2015**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
(Loss) profit for the year	**(207)**	(161)	**(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 22 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.

30 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 good credit standing.

The Group has concentration of credit risk as 44% (2015: 65%) 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 HK$'000	Less than 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amounts HK$'000
2016				
Trade and other payables	**4,677**	**9,083**	**13,760**	**13,760**
Amount due to a director	**120**	**–**	**120**	**120**
	4,797	9,083	13,880	13,880
2015				
Trade and other payables	3,223	18,019	21,242	21,242

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

31. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/registered capital		Attributable equity interest of the Group		Principal activities
		2016	2015	**2016**	2015	
RENHENG Global	British Virgin Islands	**US$50,000**	US$50,000	**100%**	100%	Investment holding
RENHENG Tech Limited	Hong Kong	**HK$1**	HK$1	**100%**	100%	Investment holding
Baoying Renheng (wholly foreign-owned enterprise)	PRC	**RMB73,857,143**	RMB73,857,143	**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.

32. FINANCIAL INFORMATION OF THE COMPANY

Statement of financial position of the Company is set out below:

	2016	2015
	HK$'000	HK$'000
Non-current asset		
Investment in a subsidiary	**378**	378
Current assets		
Other receivables	**36**	182
Amount due from a subsidiary (note)	**21,355**	22,123
Bank balances and cash	**398**	3,548
	21,789	25,853
Current liabilities		
Other payables	**988**	988
Amount due to a director	**120**	–
	(1,108)	988
Net current assets	**20,681**	24,865
Net assets	**21,059**	25,243
Capital and reserves		
Share capital	**2,010**	2,010
Reserves	**19,049**	23,233
Total equity	**21,059**	25,243

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

32. 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 2015	2,000	52,940	378	571	(20,762)	35,127
Profit and total comprehensive income for the year	–	–	–	–	109,756	109,756
Issue of shares upon exercise of share options	10	1,521	–	(571)	–	960
Special dividend recognised on distribution	–	(12,643)	–	–	(107,957)	(120,600)
At 31 December 2015	2,010	41,818	378	–	(18,963)	25,243
Loss and total comprehensive expenses for the year	–	–	–	–	(4,184)	(4,184)
At 31 December 2016	**2,010**	**41,818**	**378**	**–**	**(23,147)**	**21,059**

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$18,671,000 (2015: HK$22,855,000).

(b) Other reserve represented the share capital 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				
	2012	2013	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	145,461	133,872	97,473	69,383	**40,110**
(Loss) profit before taxation	37,079	34,750	22,351	4,960	**(13,166)**
Taxation	(7,393)	(6,819)	(11,743)	(3,780)	**179**
(Loss) profit for the year	29,686	27,931	10,608	1,180	**(12,987)**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
(Loss)/earnings per share					
–Basic	3.7	3.5	1.3	0.1	**(1.6)**
–Diluted	3.7	3.5	1.3	0.1	**(1.6)**

	As at 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	274,386	301,541	310,594	166,928	**148,209**
Total liabilities	(64,167)	(55,672)	(56,529)	(38,322)	**(39,103)**
Net assets	210,219	245,869	254,065	128,606	**109,106**

Note:

1. Earnings per share information for all periods presented has been computed in accordance with the provisions of HKAS 33. (Loss)/earnings per share for the year ended 31 December 2012, 2013 and 2014 have been adjusted for the share split made during the year ended 31 December 2015.