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)

2018 ANNUAL REPORT

CONTENTS

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

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

COMPANY SECRETARY

Ms. Law Wai Ting

AUTHORISED REPRESENTATIVES

Ms. Liu Li
Ms. Law Wai Ting

REGISTERED OFFICE

P.O. 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 (Hong Kong) LLP

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners Company (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
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

CORPORATE WEBSITE

www.renhengenterprise.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

It's my honour to report to you the results of RENHENG Enterprise Holdings Limited (the "Company") together with its subsidiaries (collectively the "Group") for the year ended 31 December 2018. I wish to express sincere appreciation on behalf of the Board of Directors (the "Board") to all shareholders and friends from all sectors of the society who concern for the development of the Group.

2018 was a productive year for the Group. Our revenue grew 131.4% from year ended 31 December 2017 to HK$101 million and broke new revenue records for the past five years. Such strong results reflected the success of the Group's new strategy, implemented since 2017, of focusing our products' quality control and technology innovation. As part of the efforts to strengthen our business, the Group proactively explore new opportunities with the cigarette manufacturers and tobacco redrying factories as well as promoting our new products including water treatment systems to various customers.

As we look to 2019, many are saying that it would be a challenging year, the macro issues as well as slower growth of the People's Republic of China's GDP and Renminbi depreciation led to backdrop of economic. We will continue to strive to maintain and reinforce our competing power, so as to achieve high-quality, sustainable and healthy development.

On behalf of the Board, I would like to express heartfelt gratitude once again to all shareholders, directors, colleagues and business partners for their continuous support in the past year.

Liu Li
Chairman & Chief Executive Officer
21 March 2019

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Liu Li

Ms. Liu, aged 48, 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 Limited ("Yanlord Industry Investment") and has been responsible for overseeing the operation of Bao Ying Ren Heng Industrial Co., Ltd ("Baoying Renheng") thereafter since the completion of the transfer of equity interest in Baoying Renheng from Yanlord (Holdings) Industrial Limited 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 52, 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 16 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 51, 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 26 years of experience in venture capital, corporate finance, business development, financial and general management. Mr. Wong is the chief financial officer and company secretary of KVB Kunlun Financial Group Limited ("KVB") (stock code: 6877) and has been appointed as the executive director of KVB on 21 May 2018. In addition, he is the president and group chief financial officer of KVB Kunlun Holdings Limited, a substantial shareholder of KVB since November 2011. 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), Progressive Path Group Holdings Limited (stock code: 1581), China Regenerative Medicine International Limited companies (stock code: 8158), Common Splendor International Health Industry Limited (stock code: 286) and Legend Strategy International Holdings Group Company Limited (stock code: 1355) (resigned on 6 September 2018), whose shares are listed on the Stock Exchange of Hong Kong Limited (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, the Association of Chartered Certified Accountants, and 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. He was appointed as an independent nonexecutive director with effect from 20 October 2011.

Mr. Kong Hing Ki

Mr. Kong, aged 48, 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 21 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. 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 45, 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 20 years experience in enterprise investment and investment banking. He is a senior partner of Maison Capital Co. Ltd., a private equity fund manager. Mr. Wu previously served as managing 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.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Liu Yang

Mr. Liu 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 22 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 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 17 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.

Ms. Law Wai Ting

Ms. Law is the company secretary and financial controller of our Company. She joined our Group in September 2017 and is primary responsible for overall financial management and corporate governance of our Group. Ms. Law has over 12 years of experience in accounting and auditing profession. Prior to joining our Group, Ms. Law served in an international accounting firm. She is a member of the Hong Kong Institute of Certified Public Accountants.

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 People's Republic of China (the "PRC"). We have obtained the Tobacco Monopoly Production Enterprise Licence (煙草專賣生產企業許可證) issued by the State Tobacco Monopoly Administration of the PRC (中國國家煙草專賣局), under which we are permitted to manufacture, sell and provide maintenance, overhaul as well as modification services in respect of the aforesaid machinery products, and we are one of the thirty-five licenced manufacturers in the PRC. We generate our turnover primarily from projects related to three types of catalogued special-purpose tobacco machinery products, namely the casing and flavouring system, pneumatic feeding system ("PF system") and pre-pressing packing machine.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group recorded a profit for the year of HK$9,223,000, representing a drastic improvement by HK$12,453,000, or 385.5% in comparison to HK$3,230,000 loss for the year ended 31 December 2017. However, upset by the depreciation of Renminbi ("RMB") to Hong Kong dollars ("HK$") in 2018, an exchange loss of HK$6,393,000 is arose on translation of foreign operations and a total comprehensive income of HK$2,830,000 is resulted for the year ended 31 December 2018 while it was an exchange gain on translation of foreign operations of HK$6,581,000 and led to a total comprehensive income of HK$3,351,000 in prior year.

The revenue of the Group has increased by HK$57,372,000 or 131.4% from HK$43,671,000 for the year ended 31 December 2017 to HK$101,043,000 for the year ended 31 December 2018 which is mainly attributable to the completion of constructions of several large scale casing and flavouring systems during the year. Consistent with prior year, revenue from construction contracts of casing and flavouring systems contribute the substantial share on the total revenue by 87.9% (2017: 67.6%) and revenue of HK$88,815,000 (2017: HK$29,536,000) was recognised. The more denominated sales contributed by the construction contracts of casing and flavouring systems also led to an overall lower gross profit margin of the Group from 42.0% in prior year to 36.9% in current year. The gross profit margin from the construction contracts of casing and flavouring systems are traditionally in lower gross profit in comparison to the sales of PF system and pre-pressing packing machines as these constructions are larger in scale with longer construction durations and required more manpower to complete.

Despite the number of construction contracts on casing and flavouring systems completed during the year was less than prior year, the average contract sum has been increased from HK$1,641,000 to HK$6,344,000. The design and complexity of the products varies by customers and therefore there is a wide range of contract prices.

The Group has applied HKFRS15 *Revenue from Contracts with Customers* for the first time in the current year. If HKFRS 15 had not been applied, the revenue and profit for the year would have been increased by HK$22,239,000 and HK$6,581,000, respectively. The effects of the application of HKFRS 15 are set out in Note 2.1 to the consolidated financial statements.

Other income and gains have decreased by HK$663,000 or 9.8% and it was mainly due to HK$708,000 was recognised as income for advance payment from a customer following its deregistration during the year ended 31 December 2017 while no such income was recognised for current year.

No impairment loss on trade receivables and other losses have been recognised during the year ended 31 December 2018 (2017: HK$482,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounting to HK$27,020,000 (2017:HK$25,530,000), representing an increase of HK$1,490,000 or 5.8%. The increment was mainly resulted from an increase in research and development cost by HK$1,489,000 in current year as our strategy is to focus on the quality of the products and innovation to introduce new products' features.

For the year ended 31 December 2018, tax expense of HK$7,104,000 was recorded and it was HK$2,287,000 for the prior year. The significant increase in tax expense was resulted from increase in profit generation and provision of PRC withholding tax on undistributed profit from the PRC subsidiary.

The directors do not recommend the payment of dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW AND PROSPECT

The sale of catalogued special-purpose tobacco machinery products continued to contribute the majority of the revenue of the Group, amounting to HK$99,249,000 or 98.2% of total revenue (2017: HK$42,062,000 or 96.3% of total revenue). During the year ended 31 December 2018, the Group has concluded few large construction contracts of casing and flavouring systems with each contract summing over HK$20 million (net of tax) and delivered the machinery products to cigarette manufacturers. These customers are cigarette manufacturers in Zunyi and Tongren in Guizhou province and Liuzhou in Guangxi province of the PRC. Other customers of the Group are clustered in different provinces of the PRC.

As at year end of 2018, the Group was working on two construction contracts of casing and flavouring systems with total contract sum of HK$24 million (net of tax). These systems are expected to deliver to the customers during the first quarter in 2019. The duration to complete the manufacturing and installation of the systems and machineries vary by the design and complexity of the products, as well as the supporting facilities owned by the cigarette manufacturers and tobacco redrying factories.

In 2018, the tobacco industry has implemented strategy on focusing quality control and cost effective measure. The tobacco industry has shifted its product mix to more expensive and high-end quality rather than just share the industry by its vast sales volume. This strategy has been further reinforced during the 2019 National Tobacco Work Conference (2019年全國煙草工作會議) and the cigarette manufacturers and tobacco redrying factories would constantly improve the level of scientific research and technology innovation. We, as a catalogued special-purpose tobacco machinery manufacturer, would cooperate with the cigarette manufacturers and tobacco redrying factories to provide custom-built machines and modification services to achieve this strategy.

Heat-not-burn tobacco products, which use the system where tobacco leaves are not being burnt but instead tobacco constituents are heated and aerosolized, are gaining popularity among smokers in recent years. This heat-not-burn tobacco product industry is still at a very early stage in the PRC. Management of the Company expect that when additional effort and resources are devoted to this new market, the resources to spend on traditional tobacco may be reduced in the long run.

The Group will continue to strive to maintain and reinforce our competing power by promoting high-quality machinery and fortifying the long-standing relationship with customers.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, there was no change in the capital structure of the Group, bank balances and cash of the Group as at 31 December 2018 amounted to HK$61,104,000 (2017: HK$16,836,000), which were mainly denominated in RMB and HK$.

As at 31 December 2018, other than an advance of HK$4,200,000 from a director of the Company who is also the ultimate controlling shareholder of the company, the Group had no bank borrowings, mortgages or charges (2017: Nil) and its gearing ratio was nil (2017: Nil).

As at 31 December 2018, the Group's net current assets was HK$86,266,000 (2017: HK$80,577,000). Current ratio and quick ratio of the Group were 2.2 (2017: 2.5) and 1.6 (2017: 2.1), respectively.

CAPITAL EXPENDITURE

The Group purchased property, plant and equipment amounted to HK$686,000 for the year ended 31 December 2018 (2017: HK$746,000).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have any material capital commitments.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in RMB and HK$. During the year, the Group did not have any material foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

The Group did not have any pledge of assets as at 31 December 2018. Restricted bank deposits of HK$9,265,000 (2017: HK$12,234,000) were reserved in a bank for settlement of bills payable and to secure certain construction contracts.

SIGNIFICANT INVESTMENTS HELD

The Group's investing activities mainly include the payment for acquisition and release of financial assets at fair value through profit or loss, placement and withdrawal of short term fixed deposits and purchase of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of 129 employees (2017: 121). Total staff costs (including directors' emoluments) were HK$15,283,000 for the year ended 31 December 2018 (2017: HK$12,233,000).

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May to 20 May 2019, 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 pm on 15 May 2019.

REPORT OF DIRECTORS

The board (the "Board") of the directors ("Directors") of RENHENG Enterprise Holdings Limited (the "Company") present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and domiciled in Hong Kong. Its registered office is at P.O. 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

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 2018 is set out in Note 5 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the Group's business, a discussion and analysis of the Group's performance during the year and discussion of the principal risks and uncertainties the Group facing and an indication of likely future developments in the Group's business are set out in the Management Discussion and Analysis set out on pages 7 to 10 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 40 of this annual report.

The Board did not recommend the payment of dividend for the year ended 31 December 2018 (2017: Nil).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for each of the five years ended 31 December 2018 is set out on page 104 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in Note 13 to the consolidated financial statements.

REPORT OF DIRECTORS

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in Note 15 to the consolidated financial statements. The fair value of the investment properties as at 31 December 2018 was HK$19,811,000 and unrealised gain on fair value change of investment properties of HK$1,186,000 was resulted.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in Note 24 to the consolidated financial statements.

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 43 of this report and in Note 32 to the consolidated financial statements respectively.

At the end of the reporting date, the Company's reserve available for distribution amounted to HK$11,056,000 (2017: HK$12,929,000). 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, 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 ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, sales to the Group's five largest customers in aggregate accounted for approximately 94.8% (2017: 84.6%) of the total sales and sales to the largest customer accounted for approximately 82.3% (2017: 44.1%) of total sales. Purchases from the Group's five largest suppliers in aggregate accounted for approximately 52.6% (2017: 38.4%) of the total purchases and purchases from the largest supplier accounted for approximately 12.4% (2017: 12.1%) of total purchases.

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

DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of this report were as follows:

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. Wong Yiu Kit, Ernest will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' SERVICE CONTRACTS

All executive Directors have entered into service agreements with the Company for a period of three years 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.

Save as aforesaid, 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).

PERMITTED INDEMNITY PROVISION

During the year and up to the date of this report, pursuant to the Company's Articles of Association there was in force the permitted indemnity provisions which provided for in the Directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against them.

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

As at 31 December 2018, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long positions

Ordinary shares of HK$0.0025 each of the Company

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

Note:

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

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

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2018.

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 2018, no outstanding options were resulted.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution passed by the shareholders on 20 October 2011 for the primary purpose of providing the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group. Up to 31 December 2018, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

CONTRACTS OF SIGNIFICANCE

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the 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 2018, according to the register of interests required to be kept by the Company under Section 336 of the SFO other than the interests disclosed above in respect of Directors and chief executive of the Company, the following parties had interests in shares of the Company, as notified to the Company and the Stock Exchange, as follows:

Long positions

Ordinary shares of HK$0.0025 each of the Company

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

Notes:

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

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2018.

EMOLUMENT POLICY

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

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

Details of Directors' emoluments are set out in Note 9 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 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 19 to 26 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Detail information regarding the environmental, social and governance practices adopted by the Company is set out in the Environmental, Social and Governance Report on pages 27 to 33 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules during the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant events that have taken place subsequent to 31 December 2018 and up to the date of approval of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the annual general meeting to re-appoint Deloitte as auditor of the Company.

On behalf of the Board

Liu Li
Chairman & Chief Executive Officer

Hong Kong, 21 March 2019

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 CG Code during the year ended 31 December 2018, save and except the Code Provision A.2.1 regarding segregation of roles of chairman and chief executive officer as explained below.

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 (the "Model Code") 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 the required standards set out in the Model Code 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 2018.

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

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

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

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 2018 and up to the date of this annual report, there were five 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					
Ms. Liu Li	1/1	5/5	–	–	–
Mr. Xu Jiagui	1/1	5/5	–	–	–
Independent non-executive Directors					
Mr. Wong Yiu Kit, Ernest	1/1	5/5	5/5	2/2	2/2
Mr. Kong Hing Ki	1/1	5/5	5/5	2/2	2/2
Mr. Wu Wei	1/1	5/5	5/5	2/2	2/2

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 and 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 Provision 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 Ms. Liu Li. Ms. Liu Li will ensure that all the Board members keep abreast of the conduct, business activities and development of the Group and adequate, complete and reliable information is provided to Directors on issues to be considered by the Board.

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.

CORPORATE GOVERNANCE REPORT

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, Mr. Wong Yiu Kit, Ernest and Mr. Kong Hing Ki 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 2018, 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 (Note)
Executive Directors	
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.

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 to the Group for the year ended 31 December 2018 was mutually agreed in view of the scope of services, amounting to HK$820,000 (2017: HK$750,000).

No non-audit service has been provided by the auditor for the years ended 31 December 2017 and 2018.

CORPORATE GOVERNANCE REPORT

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities to prepare the consolidated financial statements of the Group for the year ended 31 December 2018, which give a true and fair view and in compliance with relevant laws and disclosure provisions of the Listing Rules. In preparing the consolidated financial statements for the year ended 31 December 2018, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the consolidated financial statements on a going concern basis. The auditor of the Company had made a statement about their reporting responsibilities in the independent Auditor's Report.

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 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 2018, 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 organisation structure, accounting policies and financial reporting process. The main feature of the risk management processes and internal control systems to capture material risks that the Company will face in our risk management and internal controls, operational and financial aspects 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.

COMPANY SECRETARY

The Company Secretary is a full-time employee of the Company, has an understanding of the Company's day-to-day affairs, and shall be responsible to the Board. All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. The Company Secretary assists the Chairman to prepare agendas and Board papers for meetings and disseminates such documents to the Directors and board committees in a timely manner. The Company Secretary maintains formal minutes of the Board meetings and other Board committee meetings.

During the year ended 31 December 2018, the Company Secretary of the Company had confirmed that she had taken no less than 15 hours of relevant professional training.

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 business of the Company in Hong Kong or, in the event the Company ceases to have such principal office, the registered office of the Company. Shareholders should follow the requirements and procedures as set out in such article for convening an EGM.

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

Enquiries put to the Board

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

Procedures for putting forward proposals at shareholders' meetings

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

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

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

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of 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

The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as the general public. The Group cares about the impact of its daily operation on environment and society and strives to set a good example for the public. We make effort to meet the interests of all stakeholders, economy, environment, society and corporate governance and does our best to achieve a fine balance.

SCOPE

This environmental, social and governance report ("ESG Report") has been prepared in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 People's Republic of China (the "PRC") through its wholly owned subsidiary – Bao Ying Ren Heng Industrial Co. Limited ("Baoying Renheng"). This ESG Report covers environmental, social and governance matters of Baoying Renheng during the reporting period from 1 January 2018 to 31 December 2018 ("FY 2018").

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects for the Group to report on for this ESG Report, key stakeholders have been involved in engagement sessions to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us at info@renhengenterprise.com such that we can keep stepping up our environmental, social and governance undertakings.

A. ENVIRONMENT

Owing to the industry nature, it is unavoidable for Baoying Renheng to produce industrial wastes during the operation. The Group is committed to protect the environment and maintain the sustainability in long-term. We have established procedures to ensure our operation and business are in compliance with the applicable safety and environmental regulations.

A1. Emissions

The Group is aware that there is greenhouse gas emission, wastewater discharge and solid waste generated from the operation of Baoying Renheng. We have tried our best to enhance the efficiency of the usage of energy, water and materials in order to reduce the green house gas emission and unfavourable impact of wastewater discharge. We had installed exhaust gas fans and filtering tanks in the production plant to eliminate the effect from hazardous gas emission and unfavourable element in the wastewater collected by the domestic sewage.

Annual review on wastewater discharged by the production plant is also performed by the environmental authority in the PRC. Meanwhile, we noted that there was limited solid waste generated from the operation during the reporting period.

Scope of Greenhouse Gas Emission	Emission Sources	FY 2018 Emission (In tonnes of CO2e)	FY 2018 Total Emission	FY 2017* Emission (In tonnes of CO2e)	FY 2017* Total Emission
Scope 1					
Direct emission	Mobile combustion sources	**262.0**	**54.1%**	177.0	53.7%
Scope 2					
Indirect emission	Purchased electricity	**132.3**	**27.3%**	131.3	39.8%
Scope 3					
Other indirect emission	Raw materials for packaging of products	**85.7**	**18.6%**	17.7	6.5%
	Water	**4.0**		3.9	
Total		**484.0**	**100%**	329.9	100%

* *FY 2017 represented the reporting period from 1 January 2017 to 31 December 2017.*

There were 484.0 and 329.9 tonnes of carbon dioxide equivalent (CO2e) greenhouse gases emitted from the operation of Baoying Renheng in FY 2018 and FY 2017, respectively, which mainly resulted from the transportation of tobacco machinery products to different provinces in the PRC and the electricity supply for production. The increase in emission of CO2e is directly related to the increase in sales during the year by 131.4%. More products are shipped to the customers' factories by trucks and packaging materials were used during the shipping. The annual emission intensity was 0.021 tonnes (FY 2017: 0.014 tonnes) of CO2e per square metre, with our production plant of a total floor area coverage of 23,223 square metres.

No hazardous waste was generated in the production. During the reporting period, only limited non-hazardous waste was generated and a total amount of RMB10,000 was paid for the solid waste treatment during the year ended 31 December 2018 (FY 2017: RMB10,000). The non-hazardous waste is discharged to a site designated by the municipal government agency.

A2. Use of Resources

Baoying Renheng consumed 222,237 kWh (FY 2017: 220,663 kWh) of electricity during the reporting period, contributed to an emission of 132.9 tonnes (FY 2017: 132.3 tonnes) of CO2e. We required our employees to switch off office electronic facilities such as lighting, manufacturing and computer equipment during unattended hours in relevant office or working area and encouraged to have double-sided printing. We will consider purchase of energy saving office appliances, when applicable, in the future.

During the reporting period, Baoying Renheng consumed approximately 20,451 tonnes of water which approximate the same volume of water consumption as prior year. Water saving practice is encouraged at the office. At the same time, the Group strives to minimise the impact to the environment, if any, and save material costs by continuously reviewing the design for product packaging, with the aim of reducing packaging size. Despite this, as the Group's products are mainly machinery products which are fragile, they must be protected by wooden box during the transportation. We have consumed approximately 50,128 kg wooden board for product packaging during the reporting period with a drastic increase of usage in compare to FY 2017 by 39,780 tonnes. In view of the significant increase in sales and larger scale of tobacco machineries were shipped, the increase in packaging materials are unavoidable.

A3. The Environment and Natural Resources

The manufacturing facilities in Baoying Renheng are required to undergo stringent environment audit and continuous monitoring. During the reporting period, we have not been subjected to any claims in the form of any compensation or penalty levied for environmental disruption by the Group for business. In the future, the Group will spend more effort to allocate more resources to promote a wide range of environmental protection action plans.

B. SOCIAL

B1. Employment and Labour Practices

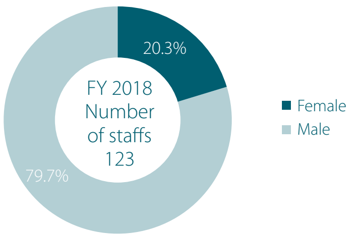
The Group believes that our business success relies on our experience talents employed. We promote equal opportunities to all our employees and are committed to fostering an equal employment environment for employees where treating employees differently on the ground of gender, ethnicity, age, marital status, family status, and religious beliefs among other factors is prohibited. In FY 2018, all of Baoying Renheng's employees were full time employees working in the PRC. We do strictly comply with all relevant laws and regulations in respect of employment and labour practices including the 中華人民共和國勞動法 (the PRC Labour Law) and the 中華人民共和國勞動合同法 (the PRC Labour Contract Law).

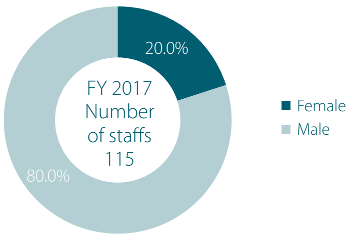
Our compensation and dismissal, recruitment and promotion, working hours and rest periods are determined by reference to our employees' respective experiences, responsibilities, qualifications, competence displayed and our operation results.

Based on our corporate responsibility, the Group do not allow any violations against employment regulations. During the reporting period, the Group did not discover any relevant cases.

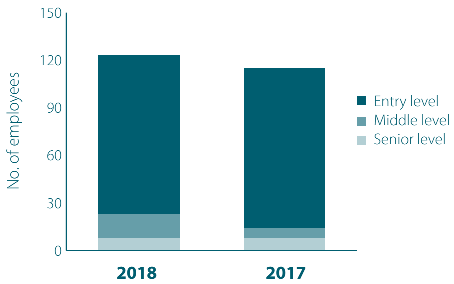
In FY 2018 and FY 2017, the total workforce by gender, employment category and age group are as shown.

Average number of employees (By Gender)

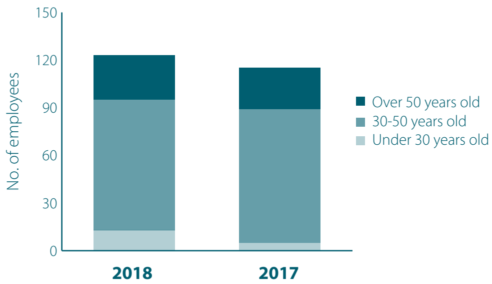




Average number of employees (By Employment Category)

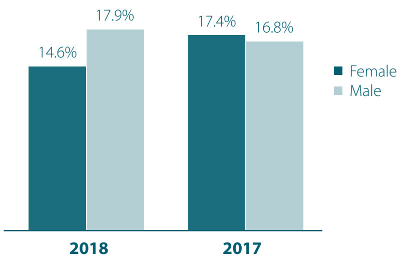


Average number of employees (By Age Group)

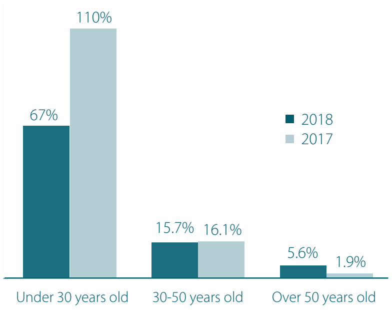


In FY 2018 and FY 2017, the employee turnover rate is 17.2% and 16.8%, respectively. The employee turnover rate by gender and age group are as shown.

Overall employee turnover rate (By Gender)



Overall employee turnover rate (By Age Group)



B2. Health and Safety

Considering our employees as valuable assets for contributing to the Group's success and sustainability, their health and safety is the major concern the Group attends to. We did strictly comply with the PRC Production Safety Law by 國家安全生產監督管理總局 (the State Administration of Work Safety) which is in charge of the overall administration of production safety. We provide safe production conditions according to the law and provide education and training on occupational safety and health knowledge to our employees.

Number and Rate of Work-related Fatalities	FY 2018	FY 2017	Unit
Number of work-related fatalities	–	–	People
Fatality rate per 1,000 employees	–	–	–

Lost Days Due to Work Injury	2018	2017	Unit
Number of lost days	–	15	Days
Number of reported accidents (sick leave > 3 days)	–	1	Accident
Injury rate per 1,000 employees	–	9	–

B3. Development and Training

We strongly believe that nurturing and retaining talent is conductive to developing a more cohesive corporate culture, building a better corporate image, and generating more rewarding economic benefits. In addition to training on occupational safety and health knowledge, we provide on-the-job trainings which include product design, technical training on domestic and foreign tobacco machinery production as well as subsidise in attending external training sessions.

	Average training hours/person		Percentage of employees trained	
Employee Training	**FY 2018**	FY 2017	**FY 2018**	FY 2017
By Gender				
Female	**4.4**	16.8	**20.0%**	91.3%
Male	**13.3**	14.0	**22.4%**	64.1%
By Employment Category				
Senior level	**3.0**	12.0	**37.5%**	25.0%
Middle level	**5.4**	24.0	**60.0%**	70.0%
Entry level	**17.1**	14.4	**15.0%**	74.3%

B4. Labour Standards

Our Group fully recognises that child labour and forced labour violate fundamental human rights and international labour conventions and pose a threat to sustainable social and economic development. Therefore, the Group strictly abides by the PRC Labour Law. The Group prohibits child labour and carries out examination of applicants' actual age during the recruitment process, includes the checking and making records of the identity documents. The Group implements the requirements of standard labour contract and will not unfairly limit the employment relationship between employees and the Group in any way, such as detaining a deposit or proof of identity. Employees have the right to terminate labour contract as long as it is in compliance with laws and regulations. During the reporting period, the Group did not find case of child labour nor forced labour.

B5. Supply Chain Management

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 project after we have entered into sales contracts with our customers with the production schedules. 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. For FY 2018, the Group's five largest suppliers in aggregate accounted for approximately 52.6% (FY 2017: 38.4%) of the total purchases and all the suppliers of the Group are situated in the PRC.

B6. Product Responsibility

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. During the reporting period, none of the sold or shipped products was subjected to recalls for safety and health reasons and no complaint on products has been received. We keep close communication with the customers and provide to them high quality products that are tailored to their needs.

We recognises that customers' privacy is an important issue and are dedicated to respecting the customers' privacy safeguarding by keeping the sensitive data separately which is only assessable by authorised personnel.

B7. Anti-corruption

The Group attaches great importance to corporate governance and anti-corruption. We require our employees to strictly follow the standards of business ethics and refuse to accept bribery. We believe that all of our staffs (including management) are honest and obeying the relevant laws and regulations in the jurisdiction. The staffs are encouraged to report to the senior management for any suspected or known fraud and during the reporting period, there is no corruption litigation case involving the Group and the employees.

B8. Community Investment

We treasure the importance of support from the social community on its business and its social responsibilities towards the community.

Looking forward, we will continue to undertake corporate social responsibility, so as to give back and contribute to society.

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 40 to 103, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("CO").

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 HKICPA's Code of Ethics for Professional Accountants ("the Code"), 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 building and land thereof located in the People's Republic of China (the "PRC") and carried at Hong Kong dollar ("HK$") 19,811,000 as at 31 December 2018, which represented approximately 10.5% of the Group's total assets. During the current year HK$1,186,000 gain in fair value change of investment properties was recognised in the consolidated statement of profit or loss and other comprehensive income. All of the Group's investment properties are stated at fair value determined by the management of the Company based on a valuation performed by an independent qualified professional valuer which is not connected with the Group (the "Valuer"). Details of the valuation technique and significant unobservable inputs used in the valuation are disclosed in Note 15 to the consolidated financial statements. The valuation of the investment properties are dependent on certain unobservable inputs, which involves the management's judgements, including a significant input of "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 inputs 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; and • Conducting independent comparison to comparable market transactions in respect of "price per square metre".

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on Trade Receivables	
We identified impairment assessment on trade receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of trade receivables at the end of the reporting period. At 31 December 2018, the carrying amounts of trade receivables are HK$24,114,000, which represented approximately 12.8% of total assets of the Group. As explained in Note 2 to the consolidated financial statements, in the current year, the Group adopts HKFRS 9 Financial Instruments ("HKFRS 9") and no additional impairment was recognised for trade receivables as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9. As disclosed in Note 4 to the consolidated financial statements, the Group estimates the amount of lifetime ECL of trade receivables based on assessment through considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. The assessment of ECL involves a high degree of uncertainties. As disclosed in Note 17 to the consolidated financial statements, the Group no additional impairment was recognised for trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to HK$3,523,000.	Our procedures in relation to impairment assessment on trade receivables included: • Understanding of key controls of the Group over the estimation of ECL of trade debtors; • Testing the integrity of information used by management to develop the assessment, including trade receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales orders, sales invoices and other supporting document; • Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS9; • Assessing the accuracy of the management's basis and judgement in determining the ECL based on historical credit loss records and with reference to other factors that have been taken into consideration by the management; • Assessing the reasonableness of the basis of estimated loss rate applied with reference to historical default rates and forward-looking information; and • Evaluating the disclosures regarding the impairment assessment of trade receivables in Note 17 to the consolidated financial statements.

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 issued by the HKICPA and the disclosure requirements of the CO, 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 contents 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Zhu Chen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018**	2017
		HK$'000	*HK$'000*
Revenue	*5*	**101,043**	43,671
Cost of sales		**(63,774)**	(25,343)
Gross profit		**37,269**	18,328
Other income and gains	*6*	**6,078**	6,741
Other losses	*7*	**–**	(482)
Selling and distribution costs		**(9,623)**	(9,853)
Administrative expenses		**(17,397)**	(15,677)
Profit (loss) before taxation	*8*	**16,327**	(943)
Taxation	*10*	**(7,104)**	(2,287)
Profit (loss) for the year		**9,223**	(3,230)
Other comprehensive (expense) income for the year:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		**(6,393)**	6,581
Total comprehensive income for the year		**2,830**	3,351
		HK cents	*HK cents*
Earnings (loss) per share	*12*		
– Basic		**1.1**	(0.4)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018**	2017
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	*13*	**9,215**	10,679
Prepaid lease payment	*14*	**2,357**	2,558
Investment properties	*15*	**19,811**	19,693
Other receivables	*17*	**–**	299
		31,383	33,229
Current assets			
Inventories	*16*	**42,727**	18,171
Prepaid lease payment	*14*	**68**	72
Trade and other receivables	*17*	**43,752**	46,221
Amounts due from customers for contract works	*18*	**–**	8,671
Financial assets at fair value through profit or loss	*19*	**–**	33,622
Restricted bank deposits	*20*	**9,265**	12,234
Bank balances and cash	*20*	**61,104**	16,836
		156,916	135,827
Current liabilities			
Trade and other payables	*21*	**39,768**	50,199
Contract liabilities	*22*	**25,599**	–
Tax payable		**5,283**	5,051
		70,650	55,250
Net current assets		**86,266**	80,577
Total assets less current liabilities		**117,649**	113,806
Non-current liabilities			
Deferred tax liabilities	*23*	**2,362**	1,349
		115,287	112,457

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	24	**2,010**	2,010
Share premium		**41,818**	41,818
Reserves		**81,109**	86,084
Accumulated losses		**(9,650)**	(17,455)
Total equity		**115,287**	112,457

The consolidated financial statements on pages 40 to 103 were approved and authorised for issue by the Board of Directors on 21 March 2019 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 2018

	Share capital	Share premium	Merger reserve	Discretionary surplus reserve	Statutory surplus reserve	Capital reserve	Property revaluation reserve	Translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note a)	*(Note b)*	*(Note b)*	*(Note c)*				
At 1 January 2017	2,010	41,818	49,091	3,338	22,156	999	2,775	1,007	(14,088)	109,106
Loss for the year	–	–	–	–	–	–	–	–	(3,230)	(3,230)
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	6,581	–	6,581
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	6,581	(3,230)	3,351
Transfer	–	–	–	–	137	–	–	–	(137)	–
At 31 December 2017	2,010	41,818	49,091	3,338	22,293	999	2,775	7,588	(17,455)	112,457
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,223**	**9,223**
Exchange difference arising on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,393)**	**-**	**(6,393)**
Total comprehensive (expense) income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,393)**	**9,223**	**2,830**
Transfer	**-**	**-**	**-**	**-**	**1,418**	**-**	**-**	**-**	**(1,418)**	**-**
At 31 December 2018	**2,010**	**41,818**	**49,091**	**3,338**	**23,711**	**999**	**2,775**	**1,195**	**(9,650)**	**115,287**

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 the PRC enterprises while the amount and allocation basis are decided by its board of directors annually. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve and the discretionary surplus reserve can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit (loss) before taxation	**16,327**	(943)
Adjustments for:		
Depreciation of property, plant and equipment	**1,635**	1,499
Gain on disposal of property, plant and equipment, net	**–**	(4)
Gain on fair value change of investment properties, unrealised	**(1,186)**	(923)
Release of prepaid lease payment	**72**	70
Impairment loss recognised on trade receivables	**–**	340
Forfeiture on receipt in advance	**–**	(708)
Interest income	**(1,578)**	(1,164)
Operating cash flows before movements in working capital	**15,270**	(1,833)
Increase in inventories	**(26,559)**	(9,530)
Decrease (increase) in trade and other receivables	**373**	(14,146)
Decrease (increase) in amounts due from customers for contract works	**8,671**	(6,148)
Decrease in amount due from a related company	**–**	410
(Decrease) increase in trade and other payables	**(12,531)**	14,083
Increase in contract liabilities	**25,599**	–
Cash generated from (used in) operations	**10,823**	(17,164)
PRC Enterprise Income Tax ("EIT") paid	**(5,461)**	(1,198)
Net cash from (used in) operating activities	**5,362**	(18,362)
Investing activities		
Release of restricted bank deposits	**11,697**	9,021
Release of financial assets at fair value through profit or loss ("FVTPL")	**33,622**	–
Interest received	**1,578**	1,164
Placement of restricted bank deposits	**(9,265)**	(12,234)
Proceeds on disposal of property, plant and equipment	**–**	14
Payment for acquisition of financial assets at FVTPL	**–**	(33,622)
Purchase of property, plant and equipment	**(686)**	(746)
Net cash generated from (used in) investing activities	**36,946**	(36,403)
Financing activity		
Advance from a director	**4,200**	–
Net cash from financing activity	**4,200**	–
Net increase (decrease) in cash and cash equivalents	**46,508**	(54,765)
Cash and cash equivalents at beginning of the year	**16,836**	68,291
Effect of foreign exchange rate changes	**(2,240)**	3,310
Cash and cash equivalents at end of the year, represented by bank balances and cash	**61,104**	16,836

1. GENERAL

RENHENG Enterprise Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on 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 ultimate controlling shareholder is Ms. Liu Li, who is also the chairman and chief executive officer of the Company.

The Company acts as an investment holding company while its subsidiaries (collectively referred to as "Group") are principally engaged in the manufacture and sale of tobacco machinery products. The address of the registered office and the address of the principal place of business of the Company is disclosed in corporate information section of the annual report.

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

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

New, Amendments to HKFRSs and new interpretation that mandatorily effective for the current year

The Group has applied the following new, amendments to HKFRSs and new interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

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

Except as described below, the application of the new, amendments to HKFRSs and new interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 15 *Revenue from Contracts with Customers*

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

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

The Group recognises revenue from the following major sources which arise from contracts with customers:

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

Information about the accounting policies and the Group's performance obligations resulting from application of HKFRS 15 are disclosed in Notes 3 and 5 respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 15 *Revenue from Contracts with Customers* (Continued)

Summary of effects arising from initial application of HKFRS 15

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

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

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

Notes:

a. The Group's contracts with customers for construction of casing and flavouring system are tailor-made based on customers' specification with no alternative use to the Group. Taking into account the contract terms, the legal and regulatory environment in the PRC, the Group does not has an enforceable right to payment for performance completed at any point of time and should be recognised at point in time upon application of HKFRS 15. HK$2,639,000 work in progress which was recognised as revenue during the year ended 31 December 2017 have been adjusted to inventories with corresponding adjustment of HK$2,639,000 derecognised from trade receivables.

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 15 *Revenue from Contracts with Customers* (Continued)

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

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impacts on the consolidated statement of financial position

	As reported	Impacts of adopting HKFRS 15	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Inventories	42,727	(13,464)	29,263
Trade and other receivables	43,752	6,575	50,327
Current liabilities			
Trade and other payables	39,768	9,935	49,703
Contract liabilities	25,599	(25,599)	–
Tax payable	5,283	2,194	7,477
Capital and reserves			
Accumulated losses	9,650	(6,581)	3,069

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 15 *Revenue from Contracts with Customers* (Continued)

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

Impacts on the consolidated statement of profit or loss and other comprehensive income

	As reported	Impacts of adopting HKFRS 15	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Revenue	101,043	22,239	123,282
Cost of sales	(63,774)	(13,464)	(77,238)
Profit before taxation	16,327	8,775	25,102
Taxation	(7,104)	(2,194)	(9,298)
Profit for the year	9,223	6,581	15,804
Total comprehensive income for the year	2,830	6,581	9,411

Impacts on the consolidated statement of cash flows

	As reported	Impacts of adopting HKFRS 15	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit before taxation	16,327	8,775	25,102
Operating cash flows before movements in working capital	15,270	8,775	24,045
(Increase) decrease in inventories	(26,559)	13,464	(13,095)
Decrease (increase) in trade and other receivables	373	(6,575)	(6,202)
(Decrease) increase in trade and other payables	(12,531)	9,935	(2,596)
Increase (decrease) in contract liabilities	25,599	(25,599)	–
Cash generated from operations	**10,823**	**–**	**10,823**
Net cash from operating activities	**5,362**	**–**	**5,362**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 9 *Financial Instruments and the related amendments*

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

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

The Group always recognises lifetime ECL for trade receivables. For all other instruments, the Group measures the loss allowance equal to 12-month ECL ("12m ECL"), unless where there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL.

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

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

New, Amendments to HKFRSs and new interpretation in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New, Amendments to HKFRSs and new interpretation in issue but not yet effective (Continued)

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new amendments to HKFRSs and new interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

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.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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 loss, 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. Upon application of 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 by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payment for leasehold land where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 *Leases* (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$43,000 as disclosed in Note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$44,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Based on the initial assessment, the management of the Group expects that the adoption of HKFRS 16 is unlikely to result in significant impact on the Group's net results nor net financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Historical cost is generally based on the fair value of the consideration 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 *Leases*, 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.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a 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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

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

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

Under HKFRS 15, the Group 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

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

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

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

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

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

Where a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties), which is consistent with its previous treatment.

Revenue recognition (prior to 1 January 2018)

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 is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

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; and
- the amount of revenue can be measured reliably.

Revenue from construction contracts for casing and flavouring system is recognised by reference to the stage of completion of the contract 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 works. 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 works. 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.

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 leases below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term. 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.

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 loss, if any.

Depreciation is recognised so as to write off the cost 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 losses.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 properties 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 property (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 property is derecognised.

Prepaid lease payment

Prepaid lease payment represents payments for obtaining land use right and is amortised to profit or loss on a straight line basis over the lease terms as stated in the relevant land use right certificate granted for usage by the Group in the PRC. Prepaid lease payment which is to be amortised to profit or loss in the next twelve months is classified as current assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor in contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and gains" or "other losses" line items.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, restricted bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables.

For all other financial assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (Continued)

(i) Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade related receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

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

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

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets comprise loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(i) 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, restricted bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Financial assets at FVTPL

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss on the financial assets is included in the "other income and gains" or "other losses" line items. Fair value is determined in the manner described in Note 30.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

Objective evidence of impairment could include:

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

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 of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised where there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade related receivables, where the carrying amount is reduced through the use of an allowance account. When a trade related 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.

For financial assets carried at amortised cost, 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.

Derecognition of financial assets

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Derecognition of financial assets (Continued)

On derecognition of a financial asset, 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.

Classification of financial liabilities or equity instruments

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

Equity instruments

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

Financial liabilities

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. 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 management of 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, 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 value less costs of disposal 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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 (loss) before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or 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 for all deducible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

For the purposes of measuring deferred tax 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, unless the presumption is rebutted.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are 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 recognised 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 that are measured in terms of historical cost in a foreign currency are not re-translated.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

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.

Research and development expenditure

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements include the revenue recognition from construction contracts of casing and flavouring system at a point in time.

Under HKFRS 15, control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators such as the payment schedule indicates the Group will have unconditional right to payment only at an agreed-upon milestone and the Group would not have an enforceable right to demand payment for performance completed to date if the contract were to be terminated before completion for reasons other than the Group's failure to perform as promised. Accordingly, the sales of products with no alternative use are considered to be performance obligation satisfied at a point in time.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Fair value measurement and valuation of investment properties

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 measurement.

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 measurement. The Group will first consider and adopt Level 2 inputs where inputs can be derived from 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 15.

At 31 December 2018, the carrying amount of investment properties is HK$19,811,000 (2017: HK$19,693,000).

Allowance for trade receivables

Prior to 1 January 2018, the management assesses at the end of reporting period whether there is any objective evidence that trade receivables impaired. If there is objective evidence that an impairment loss on trade receivables has been incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows.

Where the actual future cash flows are less than expected, an impairment loss may arise.

Starting from 1 January 2018, the Group recognises lifetime ECL for trade receivables based on assessment through considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. The estimation on lifetime ECL is required in assessing probability-weighted estimate of the credit loss which is based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

At 31 December 2018, the carrying amounts of trade and bills receivables, net of allowance, is HK$24,114,000 (2017: HK$32,690,000). During the year ended 31 December 2018, no impairment loss on trade and bills receivables are recognised (2017: HK$340,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Allowance for inventories

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

At 31 December 2018, the carrying amounts of inventories is HK$42,727,000 (2017: HK$18,171,000), after netting of allowance of HK$3,262,000 (2017: HK$3,440,000). During the year ended 31 December 2018, no allowance for inventories is recognised (2017: Nil).

5. REVENUE AND SEGMENT INFORMATION

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers and segment information

	2018		
	Construction contracts of casing and flavouring system	**Sales of goods**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Type of products			
Construction works	**88,815**	**–**	**88,815**
	88,815	**–**	**88,815**
Sales of goods			
– pneumatic feeding system	**–**	**10,125**	**10,125**
– pre-pressing packing machine	**–**	**309**	**309**
– others	**–**	**1,794**	**1,794**
	–	**12,228**	**12,228**
	88,815	**12,228**	**101,043**

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. Under the HKFRS 15, the revenue from construction contracts of casing and flavouring system and sales of goods are recognised at point in time.

5. REVENUE AND SEGMENT INFORMATION (Continued)

A. For the year ended 31 December 2018 (Continued)

(ii) Performance obligations for contracts with customers

Construction contracts of casing and flavouring system

The Group provides construction services of casing and flavouring system to its customers which are cigarette manufacturers in the PRC. For the contracts entered into with customers, the contract prices are fixed and the relevant casing and flavouring system specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms, the legal environment and relevant legal precedent, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant casing and flavouring system to customers. Revenue from construction contracts of casing and flavouring system is therefore recognised at a point in time when the completed casing and flavouring system is transferred to customers, being at the point that the customer obtains the control of the completed casing and flavouring system and the Group has unconditional right to payment and collection of the consideration is probable.

The Group receives 10% to 30% of the contract value as deposits from customers when they sign the construction agreement. Such advance payment schemes result in contract liabilities being recognised throughout the construction period for the full amount of the contract price.

The defect liability period, ranging from one to three years from the date of the practical completion of the construction, serves as an assurance that the construction services performed comply with agreed upon specifications and such assurance cannot be purchased separately.

Sales of goods

The Group sells pneumatic feeding system, pre-pressing packing machine and other products directly to the customers which are cigarette manufacturers and tobacco redrying factories in the PRC. For the sales of goods to the customers, revenue is recognised when control of the goods has transferred, being the point the goods has delivered to the customers. The normal credit term is 90 days upon delivery.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers that remain outstanding as at 31 December 2018:

	HK$'000
Construction contracts of casing and flavouring system	
– Within one year	**35,798**
– More than one year but not more than two years	**21,321**
	57,119

For sales of goods, the performance obligation are expected to fullfil in one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (Continued)

B. For the year ended 31 December 2017

	2017 HK$'000
Sales of goods	14,135
Revenue from construction contracts of casing and flavouring system	29,536
	43,671

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, being the chief operating decision maker ("CODM") of the Company. The CODM 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 CODM reviews the revenue and the loss 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 CODM. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Entity-wide information

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

	2018 ***HK$'000***	2017 *HK$'000*
Revenue from construction contracts of casing and flavouring system	**88,815**	29,536
Sales of		
– pneumatic feeding system	**10,125**	11,752
– pre-pressing packing machine	**309**	774
– other products	**1,794**	1,609
	101,043	43,671

5. REVENUE AND SEGMENT INFORMATION (Continued)

Entity-wide information (Continued)

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

	2018	2017
	HK$'000	*HK$'000*
Customer A[1]	**83,192**	9,609
Customer B[1]	**N/A***	4,586
Customer C[2]	**N/A***	19,262

1 Revenue from sales of products and construction contracts of casing and flavouring system.

2 Revenue from construction contracts of casing and flavouring system.

* The revenue contributed did not exceed 10% of the total sales of the Group during the year.

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 are all located in the PRC (excluding Hong Kong).

6. OTHER INCOME AND GAINS

	2018 HK$'000	2017 HK$'000
Subsidy income (note a)	–	438
Rental income from investment properties (note b)	176	48
Bank interest income	1,578	1,164
Other income	1,754	1,650
Sales of scrap materials, parts and components, net gain	3,138	3,456
Gain on disposal of property, plant and equipment, net	–	4
Gain on fair value change of investment properties, unrealised	1,186	923
Forfeiture on receipt in advance (note c)	–	708
Other gains	4,324	5,091
	6,078	6,741

Notes:

a. These government grants were for immediate and unconditional financial support with no future related costs nor related to any assets, therefore, the Group recognised the income upon receipts.

b. During the year ended 31 December 2018, there is no (2017: Nil) direct operating expenses incurred for the investment properties that generated rental income.

c. During the year ended 31 December 2017, the Group recognised the income for advance payment from a customer following its deregistration.

7. OTHER LOSSES

	2018 HK$'000	2017 HK$'000
Impairment loss recognised on trade receivables	–	340
Others	–	142
	–	482

8. PROFIT (LOSS) BEFORE TAXATION

	2018 HK$'000	2017 HK$'000
Profit (loss) before taxation has been arriving at after charging:		
Directors' emoluments (Note 9)	**1,878**	1,869
Other staff costs:		
Salaries, bonuses and allowances	**12,008**	9,288
Retirement benefits scheme contributions	**1,397**	1,076
Total staff costs	**15,283**	12,233
Auditor's remuneration	**820**	750
Research and development cost recognised as an expense (included in administrative expenses)	**3,341**	1,852
Depreciation of property, plant and equipment	**1,635**	1,499
Operating lease rentals in respect of office premise	**327**	264
Release of prepaid lease payment	**72**	70

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2018				
Executive directors:				
Ms. Liu Li (Chief Executive)	**–**	**1,215**	**18**	**1,233**
Mr. Xu Jiagui	**–**	**271**	**14**	**285**
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	**120**	**–**	**–**	**120**
Mr. Kong Hing Ki	**120**	**–**	**–**	**120**
Mr. Wu Wei	**120**	**–**	**–**	**120**
	360	**1,486**	**32**	**1,878**
2017				
Executive directors:				
Ms. Liu Li	–	1,216	18	1,234
Mr. Xu Jiagui	–	261	14	275
Independent non-executive directors:				
Mr. Wong Yiu Kit, Ernest	120	–	–	120
Mr. Kong Hing Ki	120	–	–	120
Mr. Wu Wei	120	–	–	120
	360	1,477	32	1,869

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

The emoluments of executive directors shown above were paid for their services in connection with the management of the affairs of the Company and the Group and for serving as directors of the Company or its subsidiaries and those paid to independent non-executive directors were for serving as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals of the Group included two (2017: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2017: three) highest paid employees of the Group are as follows:

	2018	2017
	HK$'000	*HK$'000*
Employees		
– salaries and allowances	**1,495**	1,135
– retirement benefits scheme contributions	**32**	18
	1,527	1,153

The emoluments of each of the five highest paid individuals who are not directors of the Company during both years are below HK$1,000,000.

During the years, no remuneration was 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.

10. TAXATION

	2018	2017
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
PRC EIT	**5,977**	572
Under-provision in prior year		
PRC EIT	**–**	498
	5,977	1,070
Deferred taxation (Note 23)	**1,127**	1,217
	7,104	2,287

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.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Baoying Renheng, a PRC subsidiary is 25% for both years.

10. TAXATION (Continued)

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

	2018 HK$'000	2017 HK$'000
Profit (loss) before taxation	**16,327**	(943)
Tax at the applicable tax rate of 25% (2017: 25%)	**4,082**	(236)
Tax effect of expenses not deductible for tax purposes	**1,909**	1,677
Effect of different tax rates of a subsidiary in other jurisdiction	**421**	391
PRC withholding tax (reclassify of PRC withholding tax) on undistributed profit of a PRC subsidiary	**692**	(43)
Under-provision in prior year	**–**	498
Tax charge for the year	**7,104**	2,287

11. DIVIDENDS

No dividend was paid or proposed for shareholders of the Company during the year ended 31 December 2018 (2017: Nil), nor was any dividend been proposed by the Company since the end of the reporting period.

12. EARNINGS (LOSS) PER SHARE

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

	2018 HK$'000	2017 HK$'000
Profit (loss)		
Profit (loss) for the year attributable to owners of the Company for the purposes of basic earnings (loss) per share	**9,223**	(3,230)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings (loss) per share	**804,000,000**	804,000,000

No diluted earnings and loss per share is presented for the years ended 31 December 2018 and 2017 as there was no potential ordinary share in issue for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and office equipment	Computer equipment	Motor vehicles	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2017	15,523	852	419	1,757	8,393	26,944
Currency realignment	969	55	25	110	549	1,708
Additions	–	90	–	–	656	746
Disposals	–	(54)	–	–	(48)	(102)
At 31 December 2017	16,492	943	444	1,867	9,550	29,296
Currency realignment	**(854)**	**(56)**	**(22)**	**(98)**	**(513)**	**(1,543)**
Additions	**–**	**157**	**–**	**–**	**529**	**686**
At 31 December 2018	**15,638**	**1,044**	**422**	**1,769**	**9,566**	**28,439**
DEPRECIATION						
At 1 January 2017	8,204	733	355	1,214	5,639	16,145
Currency realignment	543	48	22	81	371	1,065
Provided for the year	750	57	7	80	605	1,499
Eliminated on disposals	–	(48)	–	–	(44)	(92)
At 31 December 2017	9,497	790	384	1,375	6,571	18,617
Currency realignment	**(522)**	**(44)**	**(21)**	**(77)**	**(364)**	**(1,028)**
Provided for the year	**771**	**67**	**7**	**82**	**708**	**1,635**
At 31 December 2018	**9,746**	**813**	**370**	**1,380**	**6,915**	**19,224**
CARRYING VALUES						
At 31 December 2018	**5,892**	**231**	**52**	**389**	**2,651**	**9,215**
At 31 December 2017	6,995	153	60	492	2,979	10,679

13. 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%

14. PREPAID LEASE PAYMENT

	2018	2017
	HK$'000	*HK$'000*
CARRYING AMOUNT		
At beginning of the year	**2,630**	2,544
Currency realignment	**(133)**	156
Charge to profit or loss during the year	**(72)**	(70)
At end of the year	**2,425**	2,630
Analysed for reporting purpose as:		
Non-current asset	**2,357**	2,558
Current asset	**68**	72
	2,425	2,630

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	17,631
Currency realignment	1,139
Increase in fair value recognised in profit or loss (Note 6)	923
At 31 December 2017	19,693
Currency realignment	**(1,068)**
Increase in fair value recognised in profit or loss (Note 6)	**1,186**
At 31 December 2018	**19,811**

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 2018 and 31 December 2017 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 similar locations and conditions as available in the relevant market.

15. 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 2018					
Commercial properties HK$19,811,000 (a factory building and land thereof located at No. 18 North Suzhong Road, Baoying County, Yongzhou, Jiangsu Province, the PRC)	**Level 3**	**Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject properties.** **The key input is "price per square metre" with professional judgements.**	**Price per square metre of comparable properties taking into account of time, location and other individual factors such as road frontage, size of properties and facilities, of HK$1,387/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$991,000 and decrease by approximately HK$991,000 respectively.**
At 31 December 2017					
Commercial properties HK$19,693,000 (a factory building and land thereof located at No. 18 North Suzhong Road, Baoying County, Yongzhou, Jiangsu Province, the PRC)	Level 3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject properties. The key input is "price per square metre" with professional judgements.	Price per square metre of comparable properties taking into account of time, location and other individual factors such as road frontage, size of properties and facilities, of HK$1,379/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$985,000 and decrease by approximately HK$985,000 respectively.

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

16. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**10,094**	13,946
Work in progress	**32,633**	4,225
	42,727	18,171

17. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade and bills receivables	**27,160**	35,902
Less: impairment allowance	**(3,046)**	(3,212)
	24,114	32,690
Retention money receivables	**15,737**	6,445
Prepayments and deposits	**788**	4,362
Other receivables	**3,590**	3,526
Less: impairment allowance	**(477)**	(503)
	43,752	46,520
Analysed for reporting purpose as:		
Current assets	**43,752**	46,221
Non-current assets	**–**	299
	43,752	46,520

The Group normally allows a credit period of three months to its trade customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

17. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade and bills receivables (net of impairment allowance) presented based on the invoice date at the end of the reporting periods:

	2018 **HK$'000**	2017 HK$'000
0–90 days	**10,029**	23,238
91–365 days	**11,472**	8,192
1–2 years	**2,613**	60
Over 2 years	**–**	1,200
	24,114	32,690

As at 31 December 2018 and 1 January 2018, all of the trade and bills receivables are from contracts with customers.

Starting from 1 January 2018, the Group applied simplified approach to provide the ECL prescribed by HKFRS 9. The impairment methodology is set out in Note 2.

The exposure to credit risk and ECL for trade and other receivables are assessed by the management of the Group. The movement in the allowance for expected loss is as follow:

	2018 **HK$'000**
At beginning of year*	**3,715**
Currency realignment	**(192)**
At end of year	**3,523**

* The Group has initial applied HKFRS 9 at 1 January 2018, the application of HKFRS 9 has had no material impact on measurement of allowance for expected loss on the carrying amounts as at 1 January 2018 and therefore comparative information is not restated.

As at 31 December 2018, included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of HK$14,085,000 which are past due as at the reporting date. The past due balances are not considered as in default as the Group considered such balances could be recovered based on historical experience. Moreover, the management of the Group did not aware of any significant change in credit quality of the trade and bills receivables and the expected credit losses are insignificant. The Group does not hold any collateral over these balances.

17. TRADE AND OTHER RECEIVABLES (Continued)

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 30 (b).

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 one to three years and presented as current assets as the receivables are within the normal operating cycle. Included in retention money receivables with carrying amount of HK$388,000 (2017: HK$101,000) which is past due but not credit impaired and the management of the Group considers that there has not been a significant change in credit quality so the expected loss on the retention money receivables outstanding is insignificant (2017: the Group's management considered those receivables that were neither past due nor impaired to be of a good credit quality). The Group has not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade and bills receivables balance were debtors with aggregate carrying amount of HK$9,452,000 which were past due as at the reporting date for which the Group had not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade and bills receivables which are past due but not impaired:

	2017 *HK$'000*
91–365 days	8,192
1–2 years	60
Over 2 years	1,200
	9,452

Movement in the impairment allowance:

	2017 *HK$'000*
1 January	3,177
Currency realignment	198
Impairment loss recognised	340
31 December	3,715

As at 31 December 2017, the impairment allowance represented individually impaired trade and other receivables assessed by the management that the relevant receivables were not expected to be recoverable.

18. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

	2017
	HK$'000
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits less recognised losses	8,671
Less: progress billings	–
	8,671
Analysed for reporting purposes as:	
Amounts due from customers for contract works	8,671
Amounts due to customers for contract works	–
	8,671

At 31 December 2017, retentions held by customers for contract works amounted to HK$3,232,000, and advances received from customers for contract works amounted to HK$11,120,000.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended 31 December 2017, the Group entered into a contract of structured deposit with a bank in the PRC. The structured deposit contained embedded derivatives which were not closely related to the host contract. The entire combined contract was accounted for measured at FVTPL on initial recognition. The principal of HK$33,622,000 was not guaranteed by the relevant bank in which the return of the structured deposit was determined by reference to the performance of the underlying debt instruments and trust funds and the expected return rate stated in the contract range from 2.40% to 3.55% per annum.

In the opinion of the directors of the Company, the fair value of the structured deposit at 31 December 2017 approximated their principal amounts, and the fair value of the embedded derivatives was insignificant. The structured deposit got matured on 5 January 2018 with a gain recognised.

20. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

As at 31 December 2018, the restricted bank deposits carry effective interest rate of 2.85% (2017: 1.45%) per annum, representing amounts withheld in a bank for settlement of bills payables and to secure certain construction contracts.

Bank balances comprising cash and short-term deposits with an original maturity of three months or less carried at prevailing market deposit rate. The effective interest rate of these deposits ranged from 0.001% to 3.45% (2017: 0.001% to 3.50%) per annum.

Details of impairment assessment of restricted bank deposits and bank balances for the year ended 31 December 2018 are set out in Note 30 (b).

21. TRADE AND OTHER PAYABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade payables	**17,984**	17,783
Bills payables	**9,005**	8,661
	26,989	26,444
Advances from customers	**–**	13,931
Amount due to a director *(note)*	**4,200**	–
Accrued welfare expenses	**1,634**	1,723
Valued added tax payable	**894**	3,971
Other payables	**5,871**	4,101
Other tax payables	**180**	29
	39,768	50,199

Note: As at 31 December 2018, the amount due to a director represents advance from a director of the Company who is also the ultimate controlling shareholder of the Company. The amount is non-trade in nature, unsecured, non-interest bearing and repayable in one year term.

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

	2018 *HK$'000*	2017 *HK$'000*
0–90 days	**20,098**	21,573
91–365 days	**6,367**	4,415
1–2 years	**128**	49
Over 2 years	**396**	407
	26,989	26,444

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

22. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018* HK$'000
Construction contracts of casing and flavouring system	**22,026**	11,231
Sales of goods	**3,573**	2,700
	25,599	13,931

* The amounts in this column are after the adjustments from the application of HKFRS 15.

For the revenue recognised during the year ended 31 December 2018, HK$2,496,000 and HK$2,225,000 were included in the contract liability balance at the beginning of the year for the construction contracts of casing and flavouring system and sales of goods, respectively. There is no revenue recognised during the year which related to performance obligation that has satisfied in prior periods.

The Group receives 10% to 30% of the contract value as deposits from customers when they sign the sale and purchase agreement, this will give rise to contract liabilities at the start of a contract. The deposits result in contract liabilities being recognised throughout the construction period until the performance obligation has been satisfied.

23. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Provision for trade and other receivables	Provision for inventories	Revaluation of investment properties	Withholding tax on undistributed profit	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	814	809	(2,573)	(117)	989	(78)
Currency realignment	56	51	(176)	(5)	20	(54)
Credit (charge) to profit or loss for the year	116	–	(367)	43	(1,009)	(1,217)
At 31 December 2017	986	860	(3,116)	(79)	–	(1,349)
Currency realignment	**(51)**	**(44)**	**178**	**31**	**–**	**114**
Charge to profit or loss for the year	**–**	**–**	**(435)**	**(692)**	**–**	**(1,127)**
At 31 December 2018	**935**	**816**	**(3,373)**	**(740)**	**–**	**(2,362)**

At 31 December 2018 and 2017, the Group has no other material unrecognised deductible temporary differences.

24. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.0025 each at 1 January 2017, 31 December 2017 and 31 December 2018	4,000,000,000	10,000
Issued and fully paid:		
Ordinary shares of HK$0.0025 each at 1 January 2017, 31 December 2017 and 31 December 2018	804,000,000	2,010

25. SHARE OPTION SCHEMES

(a) Share option scheme

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

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

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

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

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

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

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

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

25. SHARE OPTION SCHEMES (Continued)

(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.

During the years ended 31 December 2018 and 2017, no share options has been granted nor exercised and there is no outstanding share options of the Company as at 31 December 2018 and 2017.

26. LEASE COMMITMENTS

The Group as lessee

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

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**43**	264

Leases are negotiated for terms of 1 to 2 years with fixed rental provision included in the contracts.

The Group as lessor

At the end of the reporting period, the Group had contracted with a tenant for the investment properties for the following future minimum lease payments:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**228**	42

There is no contingent rent entered by the Group as lessee nor as lessor.

27. RETIREMENT BENEFITS SCHEME

The Group participates in the MPF Scheme registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Schemes 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 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 benefits scheme contributions are disclosed in Notes 8 and 9. According to the respective schemes, those contributions are not refundable nor forfeitable.

28. RELATED PARTY TRANSACTIONS

Apart from the balance and advance from a director at 31 December 2018 and during the year ended 31 December 2018 as disclosed in Note 21, the Group has not entered into other transactions with related companies which are controlled by the directors and controlling shareholders of the Company. There was no related party balance and transaction at 31 December 2017 and during the year ended 31 December 2017.

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 9.

29. 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 shareholders through the optimisation of the debt and equity balance. The Group's 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 directors of the Company 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.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 **HK$'000**	2017 *HK$'000*
Financial assets		
At amortised cost*	**111,457**	–
Loans and receivables (including cash and cash equivalents)*	**–**	71,228
Financial assets at FVTPL	**–**	33,622
Financial liabilities		
Amortised cost**	**37,060**	30,545

* Prepayments and loan to staffs are excluded

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

(b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, financial assets at FVTPL, restricted bank deposits, bank balances and cash and trade and other payables.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

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:

	2018 **HK$'000**	2017 *HK$'000*
HK$	**151**	911
United States dollars ("US$")	**101**	101

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.

30. FINANCIAL INSTRUMENTS (Continued)

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

Currency risk *(Continued)*

The management considers the Group's exposure for the foreign exchange risk is not significant and no sensitivity analysis is presented.

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 20 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 and no sensitivity analysis is presented.

Other price risk

The Group was exposed to other price risk through its investment in structured deposit classified as financial assets at FVTPL. As the structured deposit had short maturity therefore no sensitivity analysis on such risk has been prepared.

Credit risk and impairment assessment

Under HKAS 39 and HKFRS 9

The Group's credit risk is primarily attributable to trade and other receivables, restricted bank deposits and bank balances.

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.

At 31 December 2018, the Group has concentration of credit risk as 33% and 64% (2017: 63% and 64%) of the aggregated amount of trade receivables was due from the Group's largest customer and five largest customers respectively, 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. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group had concentration of credit risk by geographical location as trade receivables comprise various debtors which are all located in the PRC during the years ended 31 December 2018 and 2017.

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment *(Continued)*

Under HKAS 39

In order to minimise the credit risk on other receivables, management makes periodic individual assessment under incurred loss model on the recoverability of these debts based on historical settlement records and past experiences. The management of the Group considers that there is no material credit risk inherent in the Group's outstanding balances of other receivables. Other than concentration of credit risk on structured deposit measured at FVTPL, restricted bank deposits and bank balances, the Group has no other significant concentration on recognised financial assets with exposure spread over a number of counterparties.

As at 31 December 2017, the Group has concentration of credit risk on its structured deposit measured at FVTPL. The credit risk on structured deposit measured at FVTPL is limited by the underlying assets invested by the structured deposit and the counterparties who issued this structured deposit are banks with good reputations.

Under HKFRS 9

Starting from 1 January 2018, the Group reassess the lifetime ECL for trade receivables at the end of each reporting period to ensure that adequate impairment loss are made for significant increases in the likelihood or risk of a default occurring since initial recognition. In this regard, management of the Group considers that the Group's credit risk is significantly reduced.

From 1 January 2018, the Group applied ECL model upon adoption of HKFRS 9. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis.

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, it considers available reasonable the supportive forwarding looking information, including the below indicators:

– internal credit rating based on historical information;

– actual or expected significant changes in the operating results of the debtors;

– significant changes in the expected performance and behaviour of the debtors, including changes in the debtors' ability to meet its debt obligation.

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment *(Continued)*

Under HKFRS 9 (Continued)

The Group conducted assessment to measure the ECL prescribed by HKFRS 9. The expected credit loss rates applied in the assessment are derived according to internal credit rating, by reference to the Group's historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty controlled by a large state-owned enterprise with good credit standing and has a low risk of default.	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor is cigarette manufacturers and tobacco redrying factories, and without historical default experience.	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	Debtor is cigarette manufacturers and tobacco redrying factories, and with historical default experience.	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired and the Group has no realistic prospect of recovery.	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired

The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed as at 31 December 2018:

	Average loss rate	Gross carrying amount HK$'000	Impaired loss allowance HK$'000
Internal credit rating			
Low risk	0.06%	23,104	14
Watch list	13.12%	1,166	153
Doubtful	98.29%	644	633
Loss	100.00%	2,246	2,246
		27,160	3,046

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment *(Continued)*

Under HKFRS 9 (Continued)

For other receivables, management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables bases on historical settlement records, past experiences, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

The management believes the credit risk on restricted bank deposits and bank balances are limited because the counterparties are banks with good credit standing. There has been no history of default in relation to these banks and thus the risk of default is regard as low. No loss allowance provision for restricted bank deposits and bank balances was recognised upon application of HKFRS 9.

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.

	Repayable on demand or less than 3 months	**3 months to 1 year**	**Undiscounted cash flows**	**Carrying amounts**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2018				
Trade and other payables	**32,860**	**4,200**	**37,060**	**37,060**
2017				
Trade and other payables	30,545	–	30,545	30,545

30. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis

The fair values of financial assets other than financial assets at FVTPL 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 other than financial assets at FVTPL and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Fair value of the Group's financial assets at FVTPL

	Fair value as at 31 December		Fair value	
Financial assets	2018	2017	**hierarchy**	**Valuation technique and key inputs**
Financial assets at FVTPL	N/A	Structured deposit in the PRC with non-closely related embedded derivatives: HK$33,622,000	Level 3	Discounted cash flows key unobservable inputs: (1) expected yields of debt instruments invested by bank (2) a discount rate that reflects the credit risk of the bank (Note)

There were no transfers between the different levels of the fair value hierarchy for the year.

Note: The directors of the Company consider that the impact of the fluctuation in expected yields of the underlying instruments to the fair value of the structured deposit was insignificant as the deposits have short maturity, and therefore no sensitivity analysis is presented.

No gains or losses are recognised in profit or loss relating to the change in fair value of structured deposit classified as Level 3 in the current year as the amount involved is insignificant, and therefore no reconciliation of Level 3 fair value measurements is presented.

31. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 and 2017 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
		2018	2017	**2018**	2017	
Directly owned subsidiary:						
RENHENG Global	British Virgin Islands	**US$50,000**	US$50,000	**100%**	100%	Investment holding
Indirectly owned subsidiaries:						
RENHENG Tech Limited	Hong Kong	**HK$1**	HK$1	**100%**	100%	Investment holding
Baoying Renheng*	PRC	**RMB73,857,143**	RMB73,857,143	**100%**	100%	Manufacture and sale of tobacco machinery products

* The subsidiary is wholly foreign-owned enterprise.

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

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 ***HK$'000***	2017 *HK$'000*
Non-current assets		
Investment in a subsidiary	**378**	378
Amount due from a subsidiary (note)	**16,223**	12,924
	16,601	13,302
Current assets		
Other receivables	**–**	3
Prepayments and deposits	**94**	60
Amount due from a subsidiary (note)	**1,500**	2,500
Bank balances and cash	**619**	590
	2,213	3,153
Current liabilities		
Amount due to a subsidiary	**364**	–
Other payables	**5,006**	1,138
	5,370	1,138
Net current (liabilities) assets	**(3,157)**	2,015
Net assets	**13,444**	15,317
Capital and reserves		
Share capital	**2,010**	2,010
Reserves	**11,434**	13,307
Total equity	**13,444**	15,317

Note: The amounts are unsecured, interest-free and repayable on demand. The advance which are not expected to be settled within one year from the end of the year is classified under non-current assets.

32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in Company's reserves is set out below:

	Share premium	Other reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note a)	(note b)		
At 1 January 2017	41,818	378	(23,147)	19,049
Loss and total comprehensive expense for the year	–	–	(5,742)	(5,742)
At 31 December 2017	41,818	378	(28,889)	13,307
Loss and total comprehensive expense for the year	**–**	**–**	**(1,873)**	**(1,873)**
At 31 December 2018	**41,818**	**378**	**(30,762)**	**11,434**

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$11,056,000 (2017: HK$12,929,000).

(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				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue	97,473	69,383	40,110	43,671	**101,043**
Profit (loss) before taxation	22,351	4,960	(13,166)	(943)	**16,327**
Taxation	(11,743)	(3,780)	179	(2,287)	**(7,104)**
Profit (loss) for the year	10,608	1,180	(12,987)	(3,230)	**9,223**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings (loss) per share (note)					
– Basic	1.3	0.1	(1.6)	(0.4)	**1.1**
– Diluted	1.3	N/A	N/A	N/A	**N/A**

	As at 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	310,594	166,928	148,209	169,056	**188,299**
Total liabilities	(56,529)	(38,322)	(39,103)	(56,599)	**(73,012)**
Net assets	254,065	128,606	109,106	112,457	**115,287**

Note: Earnings (loss) per share information for all periods presented has been computed in accordance with the provisions of HKAS 33 Earnings Per Share. Earnings per share for the year ended 31 December 2014 have been adjusted for the share split made during the year ended 31 December 2015.