



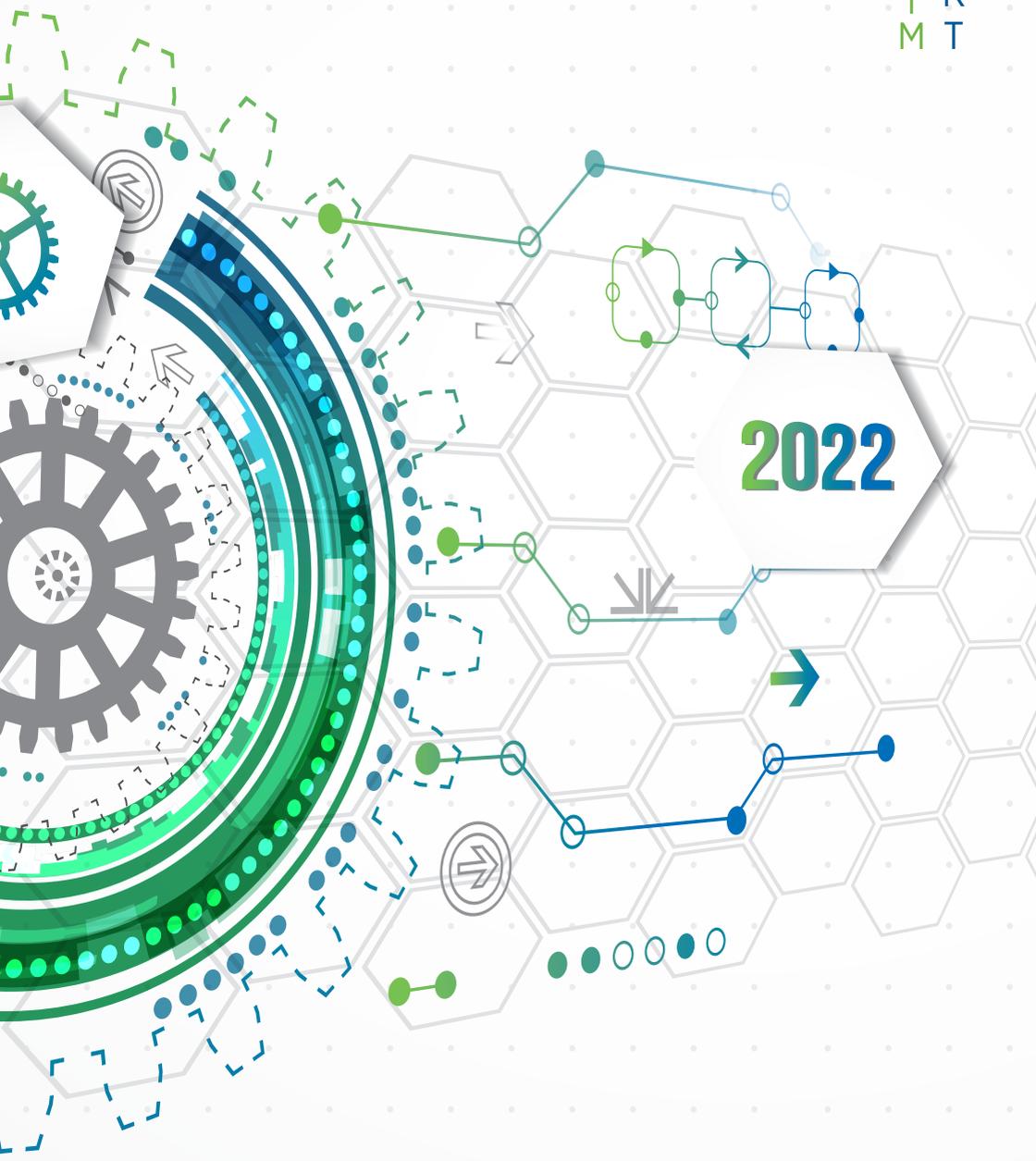
RENHENG Enterprise Holdings Limited

仁恒實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3628)

INTERIM
REPORT





HIGHLIGHTS

- Revenue for the six months ended 30 June 2022 was HK\$33,368,000, representing a decrease of 2.92 percentage points as compared with the corresponding period in 2021;
- Loss attributable to shareholders of the Company for the six months ended 30 June 2022 was HK\$2,029,000 as compared of the profit attributable to shareholders of the Company of HK\$1,680,000 for the six months ended 30 June 2021; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022.

The board (the "Board") of directors (the "Directors") of RENHENG Enterprise Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2022 together with the unaudited comparative figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	4	33,368	34,373
Cost of sales		(24,192)	(22,354)
Gross profit		9,176	12,019
Other income and gains	5	1,512	2,269
Selling and distribution costs		(3,814)	(3,615)
Administrative expenses		(7,099)	(8,594)
Research and development costs		(1,591)	(1,017)
(Loss) profit before taxation	6	(1,816)	1,062
Taxation	7	(213)	618
(Loss) profit for the period		(2,029)	1,680
Other comprehensive (expense) income for the period:			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of foreign operations		(4,892)	3,188
Total comprehensive (expense) income for the period		(6,921)	4,868
(Loss) earnings per share	8	HK cents	HK cents
– Basic		(0.25)	0.21

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		7,056	7,640
Investment properties		20,931	21,893
Right-of-use assets		2,373	2,680
		30,360	32,213
Current assets			
Inventories	10	86,563	76,282
Trade and other receivables	11	34,398	41,452
Restricted bank deposits	12	4,267	22,011
Bank balances and cash	12	76,600	96,040
		201,828	235,785
Current liabilities			
Trade and other payables	13	40,034	54,808
Lease liabilities		131	300
Contract liabilities		66,897	80,100
Tax payable		6,941	7,740
		114,003	142,948
Net current assets		87,825	92,837
Total assets less current liabilities		118,185	125,050
Non-current liability			
Deferred tax liabilities		1,908	1,852
		1,908	1,852
Net assets		116,277	123,198
Capital and reserves			
Share capital		2,010	2,010
Share premium		41,818	41,818
Reserves		85,135	90,027
Accumulated losses		(12,686)	(10,657)
Total equity		116,277	123,198

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (Note a)	Discretionary surplus reserve HK\$'000 (Note b)	Statutory surplus reserve HK\$'000 (Note b)	Capital reserve HK\$'000 (Note c)	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2021 (Audited)	2,010	41,818	49,091	3,338	24,797	999	2,775	5,444	(10,816)	119,456
Profit for the period	-	-	-	-	-	-	-	-	1,680	1,680
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	3,188	-	3,188
Total comprehensive income for the period	-	-	-	-	-	-	-	3,188	1,680	4,868
At 30 June 2021 (Unaudited)	2,010	41,818	49,091	3,338	24,797	999	2,775	8,632	(9,136)	124,324
At 1 January 2022 (Audited)	2,010	41,818	49,091	3,338	24,797	999	2,775	8,632	(9,136)	124,324
Loss for the year	-	-	-	-	-	-	-	-	(2,029)	(2,029)
Exchange difference arising on translation from functional currency to presentation currency	-	-	-	-	-	-	-	(4,892)	-	(4,892)
Total comprehensive expense for the period	-	-	-	-	-	-	-	(4,892)	(2,029)	(6,921)
At 30 June 2022	2,010	41,818	49,091	3,338	25,359	999	2,775	3,573	(12,686)	116,277



Notes:

- a. The merger reserve represents the aggregate amount of paid-in capital of Bao Ying Ren Heng Industrial Co. Limited 寶應仁恒實業有限公司 ("Baoying Renheng") and share capital of RENHENG Global Limited ("RENHENG Global"), subsidiaries of the Company, acquired pursuant to group reorganisation in prior years.
- 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 in prior years.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months
ended 30 June

2022
HK\$'000
(Unaudited)

2021
HK\$'000
(Unaudited)

Net cash used in operating activities	(34,618)	(25,495)
Investing activities		
Release of restricted bank deposits	21,174	10,516
Interest received	1,666	681
Placement of restricted bank deposits	(3,865)	(8,034)
Purchase of property, plant and equipment	(438)	(369)
Net cash from investing activities	18,537	2,794
Financing activities		
Repayment of lease liabilities	(125)	(202)
Net cash used in financing activities	(125)	(202)
Net decrease in cash and cash equivalents	(16,206)	(22,903)
Cash and cash equivalents at beginning of the period	96,040	97,418
Effect of foreign exchange rate change	(3,234)	2,406
Cash and cash equivalents at end of the period, represented by bank balances and cash	76,600	76,921



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares were 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 are principally engaged in the manufacture and sale of tobacco machinery products in the People’s Republic of China (the “PRC”). The address of the registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of the principal place of business of the Company is Room 3805, 38/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is different from the Company’s functional currency of Renminbi (“RMB”). The Directors of the Company adopted HK\$ as presentation currency as the Company’s shares are listed on the Stock Exchange and the management considers this presentation to be more useful for its current and potential investors.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2022 were unaudited but have been approved by the Board of Directors and the audit committee of the Company. The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values at the end of the reporting period.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied a number of amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Costs of Fulfilling a Contract
Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

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

For the six months ended 30 June 2022

	Construction contracts of casing and flavouring system HK\$'000 (Unaudited)	Sales of goods HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Type of products			
Construction works	32,788	–	32,788
Sales of goods			
– pneumatic feeding system	–	164	164
– others	–	416	416
	–	580	580
	32,788	580	33,368

For the six months ended 30 June 2021

	Construction contracts of casing and flavouring system HK\$'000 (Unaudited)	Sales of goods HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Type of products			
Construction works	22,133	–	22,133
Sales of goods			
– pneumatic feeding system	–	442	442
– pre-pressing packing machine	–	10,582	10,582
– others	–	1,216	1,216
	–	12,240	12,240
	22,133	12,240	34,373



The Group's operating activities are attributable to a single operating segment focusing on manufacture and sale of tobacco machinery products.

All of the Group's revenue are derived in PRC and majority of the Group's non-current assets are located in the PRC, which are determined by the location where the systems or products being installed or delivered. The revenue from construction contracts of casing and flavouring system and sales of goods are recognised at point in time.

No other discrete financial information, analysis of segment assets or segment liabilities is presented as they are not regularly provided to the chief executive officer of the Company, being the chief operating decision maker of the Company, for the purposes of resources allocation and assessment. Accordingly, no segment information, other than the Group's results and financial position as a whole, is presented.

(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 two 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, water treatment system 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.

5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Subsidy income (Note)	593	693
Rental income from investment properties	-	108
Bank interest income	94	681
Other income	687	1,482
Sales of scrap materials, parts and components, net gain	825	451
Exchange gain	-	336
Other gains	825	787
	1,512	2,269

Note: 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.

6. (LOSS) PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit before taxation has been arriving at after charging:		
Directors' emoluments	947	913
Other staff costs:		
Salaries, bonus and allowances	4,708	5,383
Retirement benefits scheme contributions	541	266
Total staff costs	6,196	6,562
Auditor's remuneration	544	525
Research and development cost recognised as an expense	1,591	1,017
Depreciation of property, plant and equipment	652	740
Depreciation of right-of-use assets	193	236

7. TAXATION

**For the six months
ended 30 June
2022**
HK\$'000
(Unaudited)

2021
HK\$'000
(Unaudited)

The charge (credit) comprises:

PRC Enterprise Income Tax ("EIT") – current period	355	(740)
Deferred taxation	(142)	122
	213	(618)

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2022 and 2021 as the Group has no assessable profit arisen in, or was derived from Hong Kong.

The provision for EIT is based on the estimated taxable income for PRC taxation purposes at 15% for the current period (six months ended 30 June 2021: 15%) pursuant to the Law of the PRC on Enterprise Income Tax and Implementation Legislation (the "EIT Law").

Under the EIT Law, a qualified High and New-Tech Enterprise ("HNTE") can enjoy a reduced tax rate at 15%. The PRC subsidiary of the Company had been recognised and approved as a HNTE during the period. The HNTE qualification is effective since 2020 and the PRC subsidiary needs to renew its status in 2022, and is therefore entitled to a reduced tax rate at 15% for the three years ended at 31 December 2022.

8. (LOSS) EARNINGS PER SHARE

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

**For the six months
ended 30 June
2022**
HK\$'000
(Unaudited)

2021
HK\$'000
(Unaudited)

(Loss) profit

(Loss) profit for the period attributable to owners of the Company for the purposes of basic (loss) earnings per share	(2,029)	1,680
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Number of shares

Number of ordinary shares for the purposes of calculating basic (loss) earnings per share	804,000,000	804,000,000
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No diluted (loss) earnings per share were presented for both periods as there were no potential ordinary shares in issue for both periods.

9. DIVIDEND

No dividend was paid or proposed for shareholders of the Company during the interim period. The Directors of the Company have determined that no dividend will be paid in respect of the interim period.

10. INVENTORIES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Raw materials	9,372	11,195
Work in progress	77,191	65,087
	86,563	76,282

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Trade receivables	14,411	15,654
Less: allowance for credit losses	(4,118)	(4,308)
	10,293	11,346
Retention money receivables	10,115	8,678
Less: allowance for credit losses	(655)	(686)
	9,460	7,992
Other receivables from third parties	4,437	5,034
Less: allowance for credit losses	(490)	(512)
	3,947	4,522
Prepayments and deposits	3,134	9,568
Value-added tax recoverable	6,570	6,996
Cash advance to staff	994	1,028
	34,398	41,452

The following is an aged analysis of trade receivables (net of allowance of credit losses) presented based on the invoice date at the end of the reporting period:

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
0–90 days	565	4,047
91–365 days	3,718	4,191
1–2 years	6,010	3,108
	10,293	11,346

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.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

12. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

As at 30 June 2022, the restricted bank deposits carry effect interest rate of 1.5% (31 December 2021: 2.85%) per annum, representing amounts with held 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 deposits rate. The effective interest rate of these deposits ranged from 0.001% to 3.5% (31 December 2021: 0.001% to 3.4%) per annum.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
Trade payables	27,088	23,236
Bills payables	2,851	20,529
	29,939	43,765
Accrued warranty provision	3,147	3,289
Accrued welfare expense	1,678	1,755
Other payables	4,890	5,566
Other tax payables	380	433
	40,034	54,808

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

	As at 30 June 2022 HK\$'000 (Unaudited)	As at 31 December 2021 HK\$'000 (Audited)
0–90 days	18,440	39,563
91–365 days	9,751	2,785
1–2 years	908	912
Over 2 years	840	505
	29,939	43,765

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



MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the manufacture, sale and provision of maintenance, overhaul and modification services in respect of tobacco machinery products in the PRC. We 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 and pre-pressing packing machine.

FINANCIAL REVIEW

In the first half of 2022, the coronavirus disease (the “COVID-19”) outbreak remains in existence, China has maintained its stable situation in general despite some volatilities in individual local areas, the overall economic situation in global might soon be teetering on the edge of a global recession due to COVID-19 and geopolitical significance, which would mainly cause the increments for the cost of goods and difficulties of purchasing the raw material. For the six months ended 30 June 2022, the Group recorded a loss for the six months ended 30 June 2022 of HK\$2,029,000 while it was a profit of HK\$1,680,000 for the six months ended 30 June 2021, the result was down by HK\$3,709,000.

The Group’s revenue for the six months ended 30 June 2022 amounted to HK\$33,368,000, it was down modestly by 2.92 percentage points compared to the six months ended 30 June 2021.

Construction of casing and flavouring systems are still the one of the core businesses of the Group. Revenue from the construction of casing and flavouring systems continued to outperform other type of products and goods and its share in total revenue has been scaled from 64.39 percentage points of the total revenue in prior period to 98.26 percentage points of the total revenue in the current period under review. Revenue from construction contracts of casing and flavouring systems continued to have outperformed other type of products and goods, of which it contributed HK\$32,788,000 of the total revenue for the six months ended 30 June 2022 (the six months ended 30 June 2021: HK\$22,133,000). The sales mix other than construction of casing and flavouring systems had a notifiable change during the period under review in comparison with prior period.

Sales of pneumatic feeding system was tumbled down by around 62.90 percentage points from HK\$442,000 for the six months ended 30 June 2021 to HK\$164,000 in the current interim period. There was no sales of pre-pressing packing machine for the six months ended 30 June 2022 and the sales amounted to HK\$10,582,000 for the six months ended 30 June 2021. The sales of other goods which mainly include water treatment system, retooling and repair system and other products had dropped from HK\$1,216,000 to HK\$416,000 for the current period in comparison with the prior period.

The Group is not subject to seasonality of operations and the revenue from construction works and sales of goods depend on the design and complexity of the products and demands from the customers. It is inevitable that our sales volume and sales mix are highly dependent on the business needs and budget of cigarette manufacturers and tobacco redrying factories.



Despite the revenue of the Group has dipped by 2.92 percentage points, the gross profit margin has been decreased by 7.47 percentage points from 34.97 percentage points for the six months ended 30 June 2021 to 27.50 percentage points for the current period under review. The decrease in gross profit margin was a combined result of lower gross profit margin for the construction of casing and flavouring systems in comparison with other products together with a lower gross profit margin, which was the changes of composition of the revenue, the construction of casing and flavouring systems contributed 98.26 percentage points of the total revenue due to the possible reason of the temporary shifting the needs of the customers in the market of special-purpose tobacco machinery products.

During the period ended 30 June 2022, other income and gains of HK\$1,512,000 had decreased by HK\$757,000 in the prior period.

The operating expenditure of the Group, comprising the selling and distribution costs and administrative expenses, amounted to HK\$3,814,000 and HK\$7,099,000, respectively for the six months ended 30 June 2022 (for the six months ended 30 June 2021: HK\$3,615,000 and HK\$8,594,000). There was a decrease in administrative expenses for the current period under review.

During the period ended 30 June 2022, Research and development costs ("R&D costs") had increased by HK\$574,000 in the prior period. The main reason for the increment of R&D costs is about to optimize the automation levels of the product "Construction contracts of casing and flavouring system" in order to maintain the technical level in the market, and it is mainly for the tests to the combination level of the parts of Rail Guided Vehicle.

Tax expense of HK\$213,000 was incurred for the six months ended 30 June 2022 (six months ended 30 June 2021: tax credit of HK\$618,000). During the current period, our PRC subsidiary enjoys a reduced tax rate at 15.00 percentage points due to the qualification of HNTE. The effective qualification periods of HNTE range between the year ended 2020 to 2022.

During the six months ended 30 June 2022, the functional currency of the Company and the subsidiaries and consolidated affiliated entities operating in China is RMB respectively. Exchange difference arising on translation of foreign operations amounted to a loss HK\$4,892,000 was resulted from the depreciation of RMB to Hong Kong dollars and led to a total comprehensive expense HK\$6,921,000 for the six months ended 30 June 2022, while it was a total comprehensive income of HK\$4,868,000 for the prior period. Our management considers that the business is not exposed to any significant foreign exchange risk as there are no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of our group entities. the Company did not hedge against any fluctuation in foreign currency during the six months ended 30 June 2022.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022.



CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group had a comparatively stable capital structure with net current assets of HK\$87,825,000 (31 December 2021: HK\$92,837,000). Bank balances and cash of the Group as at 30 June 2022 amounted to HK\$76,600,000 (31 December 2021: HK\$96,040,000), which were mainly denominated in Renminbi and Hong Kong Dollars. The Company had no other borrowings, mortgages or charges as at 30 June 2022 and 31 December 2021.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the six months ended 30 June 2022 by business segment is set out in note 3 to the condensed consolidated financial statements.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

During the period ended 30 June 2022, the Group's investing activities mainly include placement and withdrawal of short-term fixed deposits and purchase of property, plant and equipment.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal of subsidiaries for the six months ended 30 June 2022.

BUSINESS REVIEW AND PROSPECT

In the first half of 2022, the coronavirus disease (the "COVID-19") outbreak remains in existence, China has maintained its stable situation in general despite some volatilities in individual local areas, the overall economic situation in global might soon be teetering on the edge of a global recession due to COVID-19 and geopolitical significance, which would mainly cause the increments for the cost of goods and difficulties of purchasing the raw material. Nevertheless, the Group started to strengthen the efficiencies and effectiveness of the business operations and continued to optimize the sales and marketing strategy based on the individual needs of cigarette manufacturers and tobacco redrying factories, striving to enhance customers' consumption experience and maintaining the long-term and solid cooperative relationship with our customers.

Facing the uncertainties over the world, the Group retains a conservative capital structure to help insulate our business so as to maintain a constant focus on building a long-term sustainable business and quality control on the products against volatilities. We continue to increase the investment in research and development, along with developing our staffs with training, learning and development opportunities, as well as enhancing marketing efforts. Being a manufacturer on catalogued special-purpose tobacco machinery products solely from the PRC, we rely heavily on our suppliers to supply raw materials in exact accordance with the customers' needs. This is our mission to provide customers with stable and consistent services and products of quality yet we were also under difficult dilemma to maintain our gross profit margin given that the purchasing cost of the raw materials and manpower cost had been shown as an upward trend over the years. The company has tried very hard to maintain a fairly stable performance, however, the profit is record as a loss compared to the prior same period, we forecast that cost of sales will be our main hurdle on the performance in the coming years. As a result, the company will strive for strengthening the operation efficiency and effectiveness in the future.



During the current period, the Group was working on a few construction contracts of casing and flavouring systems which were substantially completed and pending for inspection yet revenue can only be recognised when the completion certificates are obtained. Going forward, the Group would enhance the planning of production scheduling, making smooth connection between supply and production, accelerating the speed of input and output, and making improvement of the efficiency of capital utilization.

Benefited from the long-term and solid cooperative relationship built with our suppliers, as well as the responsive adjustment made for the supply of raw materials in exact accordance with the customers' needs, the Group was able to provide customers with stable and consistent services and products of quality.

The opportunity is disguised as a challenge, the Group would take advantages of our unique branding in the field and our stable capital structure to optimize the markets and to fulfil the needs from the customers. Under the changing epidemic condition and the increasingly complex external environment, the group will keep up the new trend of the business and be customer-centred with enhanced efforts for business innovation, corporate resilience, operational quality in order to continue creating values for the shareholders.

PRE-IPO SHARE OPTION SCHEME

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

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

Up to 30 June 2022, no outstanding options were resulted.

SHARE OPTION SCHEME

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

Up to 30 June 2022, no options were granted to Directors, eligible employees and other outside third parties under the Share Option Scheme.



EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group has a total of 138 employees (31 December 2021: 140 employees). Total staff costs (including directors' emoluments) were HK\$6,196,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$6,562,000).

Remuneration in the form of salaries and bonus is determined by reference to our employees' respective experience, responsibilities, qualification and competence displayed and our operation results. Our employees also receive reimbursements for expenses which are necessarily and reasonably incurred for providing services to our Group or executing their functions in relation to our operations. Our Directors and employees may also receive options granted under the Share Option Scheme.

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

As at 30 June 2022, the interests of Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, were as follows:

Long positions

Ordinary shares of HK\$0.0025 each of the Company

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

Note: Open Venture Global Limited ("Open Venture") and LinkBest Capital Group Limited ("LinkBest"), which are both wholly owned by Ms. Liu Li, are interested in 240,000,000 shares and 360,000,000 shares of the Company, respectively.

Save as disclosed above, none of the Directors and the chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2022.



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

As at 30 June 2022, 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 (Note)	Beneficial owner	360,000,000	44.8%
Open Venture (Note)	Beneficial owner	240,000,000	29.9%

Note: LinkBest and Open Venture are wholly owned by Ms. Liu Li.

Saves as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2022.

COMPETING INTERESTS

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

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.



CORPORATE GOVERNANCE PRACTICES

Pursuant to the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules which sets out the principles of good corporate governance and the code provisions (the “Code Provisions”), the Company has applied all the Code Provisions as set out in the CG Code during the six months ended 30 June 2022, save and except the Code Provision A.2.1 of the CG Code as follows:

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

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. During the six months ended 30 June 2022, all the Directors have complied with the relevant requirements under the Model Code regarding their dealing in the securities of the Company.

CHANGE OF COMPANY SECRETARY AND AUTHORISED REPRESENTATIVE AND NON-COMPLIANCE WITH RULES 3.05 AND 3.28 OF THE LISTING RULES

Ms. Law Wai Ting (“Ms. Law”) has resigned as (i) the company secretary (the “Company Secretary”); (ii) an authorised representative (the “LR Authorised Representative”) under Rule 3.05 of the Listing Rules; and (iii) an authorised representative for the purpose of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”) of the Company with effect from 29 April 2022 due to her further personal career commitments.

Following the resignation of Ms. Law as the Company Secretary and LR Authorised Representative, the Company would (i) have no company secretary, which will constitute a non-compliance of Rule 3.28 of the Listing Rules; and (ii) have only one authorised representative, which will constitute a non-compliance of Rule 3.05 of the Listing Rules that requires an issuer to appoint two authorised representatives to act at all times as the company’s principal channel of channel of communication with the Stock Exchange.

With effect from 25 May 2022, Mr. Tsang Chi Hon (“Mr. Tsang”) has been appointed as (i) the Company Secretary; (ii) the LR Authorised Representative; and (iii) an authorised representative of the Company for the purpose of the Companies Ordinance.

Immediately following the appointment of Mr. Tsang as the Company Secretary and LR Authorised Representative, the Company complies with Rules 3.05 and 3.28 of the Listing Rules. For further details, please refer to the announcements of the Company dated 29 April and 25 May 2022.



CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND COMPOSITION OF BOARD COMMITTEES

With effect from 30 June 2022, (1) Mr. Wong Yiu Kit, Ernest has resigned as an independent non-executive Director, the chairman of Audit Committee, and a member of each of the Nomination Committee and the Remuneration committee of the Company; and (2) Dr. Lam Lee G. has been appointed as an independent non-executive Director, the chairman of the Audit Committee, and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Please refer to the announcement of the Company dated 30 June 2022 for further details.

AUDIT COMMITTEE

The audit committee comprising three independent non-executive Directors and is chaired by Dr. Lam, Lee G.. The rest of the members are Mr. Kong Hing Ki and Mr. Wu Wei. The interim results for the six months ended 30 June 2022 have been reviewed by the audit committee in accordance with the Listing Rules. The audit committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 25 August 2022

As at the date of this report, the executive Directors are Ms. Liu Li and Mr. Xu Jiagui and the independent non-executive Directors are Dr. Lam, Lee G., Mr. Kong Hing Ki and Mr. Wu Wei.