Mengke Holdings Limited
盟科控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1629)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- The shares of Mengke Holdings Limited (the "Company") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 25 November 2016 by way of placing and public offer. The Company issued 125 million shares and raised total net proceeds of approximately HK$42.2 million (equivalent to approximately RMB37.6 million) (after deducting underwriting commissions and other related expenses).

- Revenue for the year ended 31 December 2016 decreased by approximately 2.7% or RMB8.6 million to approximately RMB310.7 million.

- Gross profit for the year ended 31 December 2016 decreased by approximately 2.7% or RMB1.8 million to approximately RMB64.6 million.

- Loss attributable to equity holders of the Company for the year ended 31 December 2016 was approximately RMB9.4 million as compared to the profit attributable to equity holders of the Company of approximately RMB21.9 million for the year ended 31 December 2015.

- Basic losses per share of the Company for the year ended 31 December 2016 was approximately RMB2.43 cents as compared to basic earnings per share of the Company of approximately RMB5.84 cents for the year ended 31 December 2015.

- The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2016.

Results

The board (the "Board") of directors (the "Directors") of Mengke Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 together with the comparative results for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**310,708**	319,273
Costs of sales	*4*	**(246,114)**	(252,900)
Gross profit		**64,594**	66,373
Other income and other losses — net		**33**	1,481
Distribution expenses	*4*	**(17,947)**	(17,225)
Administrative expenses	*4*	**(52,217)**	(24,201)
Operating (loss)/profit		**(5,537)**	26,428
Finance income		**522**	718
Finance expenses		**(1,593)**	(1,629)
Finance expenses — net	*5*	**(1,071)**	(911)
(Loss)/profit before income tax		**(6,608)**	25,517
Income tax expense	*6*	**(2,827)**	(3,625)
(Loss)/profit for the year		**(9,435)**	21,892
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(9,435)**	21,892
Attributable to:			
Equity holders of the Company		**(9,435)**	21,892
(Losses)/earnings per share (expressed in RMB per share)			
— Basic and diluted	*7*	**(2.43) cents**	5.84 cents

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Prepaid operating lease		**12,441**	12,778
Property, plant and equipment		**37,117**	38,698
Intangible assets		**128**	135
Deferred income tax assets		**1,424**	867
		51,110	52,478
Current assets			
Inventories		**49,317**	48,566
Trade and other receivables and prepayments	*9*	**173,717**	146,693
Notes receivables	*9*	**1,000**	1,200
Restricted cash		**48,123**	37,565
Cash and cash equivalents		**23,833**	7,754
		295,990	241,778
Total assets		**347,100**	294,256
Equities and liabilities			
Equity			
Share capital		**4,459**	—
Other reserves		**100,892**	35,929
Retained earnings		**6,099**	17,129
Total equity		**111,450**	53,058
Liabilities			
Non-current liabilities			
Deferred government grants		**1,382**	1,502
Current liabilities			
Borrowings		**20,000**	15,000
Trade and other payables	*10*	**120,713**	142,639
Notes payables	*10*	**88,123**	65,130
Amounts due to related parties		**4,905**	15,223
Current income tax liabilities		**527**	1,704
		234,268	239,696
Total liabilities		**235,650**	241,198
Total equity and liabilities		**347,100**	294,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

(a) General information

The Company was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company and the Group is principally engaged in the manufacturing and sale of cigarette packing materials in the People's Republic of China (the "PRC"). The ultimate parent company of the Company is Happily Soar Limited, a company incorporated in British Virgin Islands ("BVI") and controlled by Mr. Zhang Weixiang ("Mr. Zhang").

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2016 (the "Listing").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

(b) Basis of preparation

Upon the completion of a group reorganisation (the "Reorganisation") in the preparation of the offering and listing of the shares of the Company on the Main Board of the Stock Exchange, which was completed on 8 March 2016, the Company became the holding company of the subsidiaries now comprising the Group.

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards have been effective for the financial year beginning on 1 January 2016 and adopted by the Group:

- HKFRS 14 "Regulatory deferral accounts"
- Amendment to HKFRS 11 "Accounting for acquisitions of interests in joint operations"
- Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation"
- Amendments to HKAS 16 and HKAS 41 "Agriculture: bearer plants"
- Amendment to HKAS 27 "Equity method in separate financial statements"

- Annual improvements to HKFRSs 2012–2014 cycle
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment entities: applying the consolidation exception"
- Amendments to HKAS 1 "Disclosure initiative"

The adoption of these new standards and amendments to standards did not have material impact on the results and financial position of the Group.

(b) New standards and amendments to standards that have been issued but not yet effective

The following new standards and amendments to standards are effective for accounting periods beginning after 1 January 2016 and have not been early adopted:

		Effective for financial year beginning on or after
HKAS 12 (Amendment)	Income taxes: recognition of deferred tax assets for unrealised losses	1 January 2017
HKAS 7 (Amendment)	Statement of cash flows: additional disclosure to evaluate changes in liabilities arising from financing activities	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28(Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined

The Group is in the process of assessing the impact of the above new standards and amendments to standards.

3 REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of cigarette packaging products:		
— transfer metallised paper	**276,976**	267,769
— laminated metallised paper	**29,823**	47,269
	306,799	315,038
Processing service income	**3,909**	4,235
	310,708	319,273

Revenues from transactions with external customers amounting to 10% or more of the Group's revenues are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Customer A:	**101,447**	98,921
Customer B:	**106,173**	105,316
Customer C:	**57,643**	32,111

Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive director of the Company.

The Group is principally engaged in the manufacture and sales of packaging materials for cigarette in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one operating segment which is used to make strategic decisions.

The major operating entity of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue are derived in the PRC.

As at 31 December 2016, all of the non-current assets were located in the PRC (31 December 2015: same).

4 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials and consumables used	**234,087**	230,933
Changes in inventories of finished goods and work in progress	**5,440**	14,818
Professional fees in respect of listing	**26,076**	3,863
Staff costs (including directors' emoluments)	**16,955**	13,409
Transportation expenses	**13,145**	12,790
Utilities	**4,104**	4,064
Depreciation	**3,468**	3,281
Entertainment expenses	**3,339**	3,037
Other taxes and surcharges	**2,267**	2,725
Auditors' remuneration	**1,225**	50
Maintenance expenses	**589**	1,724
Travelling expenses	**877**	720
Amortisation of prepaid operating lease	**225**	301
Impairment provision for trade and other receivables	**—**	25
Other expenses	**4,481**	2,586
Total cost of sales, distribution expenses and administrative expenses	**316,278**	294,326

5 FINANCE EXPENSES — NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
— interest income	**515**	718
— exchange gains	**7**	—
	522	718
Finance expenses		
— interest expenses	**(1,308)**	(1,225)
— discount charges on bank acceptance notes	**(285)**	(404)
	(1,593)	(1,629)
Finance expenses — net	**(1,071)**	(911)

6 INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from British Virgin Islands income tax.

No provision for Hong Kong profit tax was provided as the Group did not have assessable profit in Hong Kong for the year ended 31 December 2016 (2015: same). The profit of the group entity in Hong Kong is mainly derived from dividend income from its subsidiary, which is not subject to Hong Kong profits tax.

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year ended 31 December 2016 (2015: same).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "CIT Law"), which is effective from 1 January 2008. Under the CIT Law and the Implementation Rules of the CIT Law, the standard tax rate of the PRC entities was 25% during the year ended 2016 (2015: 25%).

The Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") in 2013 which was valid for three years ended 31 December 2015. In 2016, the subsidiary renewed the HNTE designation, which is valid for three years commencing on 1 January 2016. Consequently, the subsidiary is entitled to preferential income tax rate of 15% for the year ended 31 December 2016 (2015: 15%).

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax:		
— PRC corporate income tax	**3,292**	4,068
— Under-provision of PRC corporate income tax in prior year	**92**	—
Deferred income tax:		
— PRC corporate income tax	**(557)**	(443)
	2,827	3,625

7 (LOSSES)/EARNINGS PER SHARE

(a) Basic

The basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, the 100 shares issued during the Reorganisation and the capitalisation issue of 374,999,900 shares were deemed to have been in issue since 1 January 2015.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit attributable to owners of the Company (RMB'000)	**(9,435)**	21,892
Weighted average number of shares in issue (thousands shares)	**387,671**	375,000
Basic (losses)/earnings per share (expressed in RMB per share)	**(2.43) cents**	5.84 cents

(b) Diluted

Diluted (losses)/earnings per share presented is the same as the basic (losses)/earnings per share as there were no potentially dilutive ordinary shares issued during the year ended 31 December 2016 (2015: same).

8 DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2016.

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

	31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*	**170,567**	143,693
Less: provision for impairment of trade receivables	**—**	(28)
Trade receivables — net	**170,567**	143,665
Deductible value-added-tax ("VAT")	**2,429**	—
Prepaid listing expenses	**—**	1,257
Others	**721**	1,771
	173,717	146,693

	31 December	
	2016	2015
	RMB'000	*RMB'000*
Notes receivables	**1,000**	1,200

(a) The ageing analysis of trade receivables based on invoice date at respective balance sheet dates is as follows:

	31 December 2016 RMB'000	2015 RMB'000
Less than 30 days	**121,300**	66,115
31 days to 60 days	**27,830**	34,538
61 days to 90 days	**19,576**	20,901
91 days to 120 days	**491**	18,019
121days to 180 days	**882**	4,100
Over 180 days	**488**	20
	170,567	143,693

The Group's sales are usually made on credit terms of 30 to 120 days. As at 31 December 2016, trade receivables of RMB152,965,000 (31 December 2015: RMB112,213,000) were fully performing.

As at 31 December 2016, trade receivables of RMB17,602,000 (31 December 2015: RMB31,452,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December 2016 RMB'000	2015 RMB'000
61 days to 90 days	**15,741**	15,191
91 days to 120 days	**491**	12,169
121 days to 180 days	**882**	4,092
Over 180 days	**488**	—
	17,602	31,452

10 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	31 December 2016 RMB'000	2015 RMB'000
Trade payables *(Note (a))*	**110,040**	136,591
Accrual for staff costs and allowances	**2,287**	1,154
Accrual for listing expenses	**3,316**	659
Payables for acquisition of property, plant and equipment	**639**	325
Other tax payables	**495**	2,690
Other payables	**3,936**	1,220
	120,713	142,639

	31 December 2016 RMB'000	2015 RMB'000
Notes payables — bank acceptance notes	**88,123**	65,130

(a) The ageing analysis of trade payables based on invoice date is as follows:

	31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 30 days	**79,358**	87,727
31 to 60 days	**18,047**	21,484
61 to 90 days	**7,264**	13,647
91 to 180 days	**3,102**	9,381
Over 180 days	**2,269**	4,352
	110,040	136,591

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the production of metallised packaging paper for cigarette package manufacturers, having an operating history of more than 10 years, with two main lines of products, being transfer metallised paper and laminated metallised paper.

Market Review

Dragged by the sluggish global economy, economic growth of the PRC decelerated with a GDP growth rate of 6.7% in 2016. With the stringent implementation of tobacco control and anti-corruption policies by the PRC government, the cigarette sales volume of the Group was also affected in 2016, with a slight drop of 5.6% to 47.0 million (2015: 49.8 million) cases of cigarettes compared to the corresponding period in 2015.

There were increasingly strict amendments to the PRC laws on advertisements for the tobacco products. However the advertising effect is relatively limited since the tobacco products are targeting on a specific consumer group. The tobacco market is currently developing with emphasis on the brand reputation, taste, quality and packaging, therefore the tobacco manufacturers have a growing demand of high quality standards in cigarette packaging. With the high technique in product development and precise quality control measures that the Group possesses, this industry trend will bring more business opportunities to the Group in the long run.

Business Review

In 2015, the Group had the largest market share of 16.0% in Hubei Province, China in terms of sales of cigarette packaging paper. Our customers include some of the "Top 100 Enterprises" in the printing industry awarded by the 2016 China Printing Manager Annual Conference, such as Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) ("Hubei Golden"), and other leading cigarette package manufacturers in China, such as Beijing Leigh-mardon Pacific Packaging Co., Ltd., Wuhan Hongzhicai Packaging Company Limited and Wuhan Hongjinlong Printing Company Limited.

Sales and Marketing

Faced with the effects brought to cigarette sales market in China by the sluggish economy, the Group continued to strengthen the relationships with its existing customers. We hire a total of 13 sales representatives to formulate marketing strategies, organise marketing plan, manage sales business, manage cargo transportation and develop customer service spatial marketing model. Sales remained steady in the period under review, owing to the Group's successful marketing strategies, sound reputation and leading position in the industry. Although the overall number of orders decreased, total sales value remained relatively stable within expectation.

In addition, the Group intends to further expand into new markets in China such as Yunnan Province, Zhejiang Province and Hunan Province, in order to widen customer base and income sources. Given such business strategy, the Group plans to employ more sales and marketing representatives to bolster the team. We place very strong emphasis on customer satisfaction and our marketing team provided full services from product development, order protection, market maintenance, to after-sales and technical services. Our sales representatives paid monthly visits to customers for in-depth communication and marketing trend proficiency; whilst half-yearly customer satisfaction survey will be organised to understand customers' needs and provide feedback.

Products Development and Design

During the period under review, the Group invested RMB10.3 million in research and development projects. In 2016, the Group completed a research and development project in respect of the production technology on imitated structural colour laser papers. The Science and Technology Bureau of Yichang City, China recognised it as a leading technology with environmental and cost efficiency. Currently, we have 13 registered patents, consisting of seven utility patents and six invention patents, and three pending invention patent registrations. The Group will continue to increase its capital input in research and development so as to improve our quality control system.

Investment will continue to be placed on machinery and equipment in order to improve operational efficiency, product quality, as well as technique and knowledge in environmental protection standards. We also seek to allocate more resources to strategic cooperation with provincial-level research centres and tertiary institutions to jointly undertake product research and development projects.

Production Capacity

The Group operates and owns one production facility located in Yichang, Hubei Province in China with an aggregate gross floor area of approximately 10,800 sq.m.

The below table sets forth the production efficiency and utilisation rates of the production base for the year ended 31 December 2016 and their comparison with the corresponding period in 2015. A decrease in utilisation rate was due to the addition of a laminating machine in 2016 and capacity release of the new laminating machine added in 2015, whilst the actual production volume in 2016 slightly reduced by 4.8% as compared with 2015, thereby further lowering the utilisation rate.

	Year ended 31 December	
	2016	2015
Production capacity (m.) ('000)	**222,264**	191,646
Actual production volume (m.) ('000)	**145,433**	152,840
Utilisation rate	**65.4%**	79.8%

The Group employed part of the net proceeds from the Listing to upgrade current production facilities and expand capacity. As of 31 December 2016, the plant electricity distribution work was completed and 2 pieces of equipment, PLC control multi-function machines, were acquired. We intend to build a new production facility and add two production lines in the future to cope with the increasing demand in metallised packaging paper manufacturing industry in China. Details on the use of net proceeds from the Listing will be laid out below under the section headed "Use of Proceeds from the Public Offer and Placing".

Quality Control

As of 31 December 2016, the Group had a total of 12 quality control staff and purchased specialty equipment imported from various countries to advance the quality control procedures of the Group.

During the period under review, the Company obtained certifications in ISO14000 Environment Management System and OHSAS18000 Occupational Health and Safety Assurance System. It has also passed the certification review of ISO9000 Quality Management System.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the revenue was approximately RMB310.7 million (2015: RMB319.3 million), representing a decrease of approximately 2.7% as compared with the same period in 2015.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2016:

	For the year ended 31 December		
	2016	2015	Change
	RMB'000	*RMB'000*	*%*
Cigarette packaging product — transfer metallised paper	**276,976**	267,769	+3.4%
Cigarette packaging product — laminated metallised paper	**29,823**	47,269	-36.9%
Processing service income	**3,909**	4,235	-7.7%
Total	**310,708**	319,273	-2.7%

For the year ended 31 December 2016, revenue from cigarette packaging product amounted to RMB306.8 million, representing a decrease of approximately 2.6% as compared with the same period in 2015 of approximately RMB315.0 million. The decrease in revenue was the result of lower market demand on laminated metallised paper as recent PRC government regulations have discouraged the use of laminated metallised paper because it incorporates a plastic layer, making it less environmental-friendly. With successful tender bids in 3 projects in 2016 and customer orders on the rise, it is expected that the Group's performance will improve in 2017.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately 2.7% from approximately RMB66.4 million for the year ended 31 December 2015 to approximately RMB64.6 million for the year ended 31 December 2016. The decrease in gross profit was due to the decrease in revenue. For the year ended 31 December 2016, the Group's gross profit margin remained flat at approximately 20.8% as compared with the corresponding period of 2015.

Other Income and Other Losses — Net

For the year ended 31 December 2016, other income consisted of (i) rental income, (ii) subsidy income, and (iii) sales of raw material and waste material. Other expenses and other losses included (i) cost of rental, (ii) cost of raw material and waste material sold, and (iii) exchange loss. For the year ended 31 December 2016, the net of other income and other losses decreased to RMB33,000 (2015: RMB1.5 million) mainly due to the increase of exchange losses of RMB0.9 million for the year ended 31 December 2016.

Distribution Expenses

For the year ended 31 December 2016, distribution expenses consist of costs of (i) transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) others. The Group's distribution expenses slightly increased by 4.2% from approximately RMB17.2 million for the year ended 31 December 2015 to approximately RMB17.9 million for the year ended 31 December 2016. The increase of distribution expenses of the Group was mainly due to the increase in entertainment expenses from approximately RMB1.8 million for the year ended 31 December 2015 to approximately RMB2.4 million for the year ended 31 December 2016.

Administrative Expenses

For the year ended 31 December 2016, administrative expenses consist of (i) listing expenses; (ii) staff costs; (iii) research and development expenses; (iv) depreciation and amortisation; (v) entertainment expenses; (vi) other taxes and surcharges; and (vii) others. Administrative expenses increased from approximately RMB24.2 million for the year ended 31 December 2015 to approximately RMB52.2 million for the year ended 31 December 2016. The increase of administrative expenses of the Group was mainly due to the expenses incurred for the Listing of approximately RMB26.1 million for the year ended 31 December 2016 as compared with such expenses of approximately RMB3.9 million recognised for the year ended 31 December 2015.

Finance Expenses-Net

For the year ended 31 December 2016, net finance expenses represented the net amount of our finance income and finance expenses. Finance income primarily consisted of interest income from bank deposits and exchange gains. Finance expenses consisted of interest expenses from bank borrowings and discount charges on bank acceptance notes. The net finance expenses increased by approximately RMB0.2 million or 17.6% from RMB0.9 million for the year ended 31 December 2015 to approximately RMB1.1 million for year ended 31 December 2016. The rise of net finance expenses was mainly due to an increase in overall loan amount in 2016.

Income Tax Expense

The Group's income tax expense decreased by approximately 22.0% from RMB3.6 million for the year ended 31 December 2015 to approximately RMB2.8 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in profit before tax in 2016.

(Loss)/Profit Attributable to Equity Holders of the Company

For the year ended 31 December 2016, the Group's loss attributable to equity holders of the Company was approximately RMB9.4 million (profit attributable to equity holders of the Company for the year ended 31 December 2015: approximately RMB21.9 million). The loss recorded in year 2016 was mainly attributable to the recognition of the one-off listing expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Group recorded net current assets of approximately RMB61.7 million as at 31 December 2016, while the net current assets as at 31 December 2015 was approximately RMB2.1 million.

Borrowings and Gearing Ratio

The total interest-bearing borrowings of the Group as at 31 December 2016 were RMB20 million (31 December 2016: RMB15 million). The Group's gearing ratio decreased from approximately 57.0% as at 31 December 2015 to approximately 22.3% as at 31 December 2016. The decrease of gearing ratio was mainly due to an increase in total equity as a result of the Listing.

Capital Expenditure

During the year ended 31 December 2016, the Group's total capital expenditure amounted to approximately RMB2.2 million, which was mainly used in the plant electricity distribution work and purchase of machinery.

Treasury Policies

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

Capital Structure

The capital structure of the Group consists of equity attributable to owners of the company which comprises of issued share capital and reserves.

Charge on Assets

Our borrowings and notes payables were secured by our prepaid operating lease, property, plant and equipment, trade receivables and restricted cash. The following table sets forth the carrying amounts of assets pledged to secure our borrowings:

	As at 31 December 2016	**As at 31 December 2015**
	RMB'000	*RMB'000*
Prepaid operating lease	**12,441**	12,778
Property, plant and equipment	**25,325**	19,693
Trade receivables	**29,420**	18,763
Restricted cash	**48,123**	37,565
Total	**115,309**	88,799

Significant Investments, Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

The Company underwent reorganisation in the preparation for the Listing. Details are set out under the section of "History, Development and Reorganisation" in the prospectus of the Company dated 15 November 2016 (the "**Prospectus**").

Save as disclosed in the Prospectus or elsewhere in this announcement, there were no significant investments, material acquisition and disposal of subsidiaries, associates or joint venture by the Group for the year ended 31 December 2016.

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities (31 December 2015: same).

Foreign Exchange Risk

The Group's transactions were mainly conducted in RMB, the functional currency of the Group, and the major receivables and payables are denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash and other payables maintained in Hong Kong Dollars. The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2016 (2015: same).

Human Resources and Remuneration

As at 31 December 2016, the Group employed 176 employees (31 December 2015:171) with total staff cost of approximately RMB17.0 million incurred for the year ended 31 December 2016 (as compared with approximately RMB13.4 million for the same period of 2015). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2016.

Use of Net Proceeds from the Listing

The shares of the Company (the "**Shares**") were successfully listed on the Main Board of the Stock Exchange on 25 November 2016 by way of placing and public offer of a total of 125,000,000 Shares at the offer price of HK$0.7 per Share. The actual net proceeds received by the Company from the placing and public offer (after deducting underwriting commissions and related expenses) was approximately HK$42.2 million (equivalent to approximately

RMB37.6 million) which was higher than the estimated net proceeds of HK$36.8 million (equivalent to approximately RMB31.6 million) as stipulated under the Prospectus. In the light of the difference between the actual and estimated amount of net proceeds, the Group has adjusted the use of net proceeds in the same proportion as disclosed in the Prospectus.

Part of the net proceeds has been used in plant electricity distribution work, purchase of production equipment, improvement work of air-conditioning system and investment in operation, market expansion and technical development as contemplated under the Prospectus. As of the date of this announcement, unutilised proceeds amounted to approximately HK$33.1 million (equivalent to approximately RMB29.5 million), which will be invested in production plant, equipment upgrade and technique development.

The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this announcement, the Directors do not anticipate any change to the plan as to use of proceeds.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or elsewhere in this announcement, there is no other plan for material investments or capital assets as at 31 December 2016.

Capital Commitments

As at 31 December 2016, the Group did not have any capital commitments.

Future Outlook

Looking forward, since the economy in China is growing steadily and demand for cigarette products continues to march towards mid to high-end standard, the Group is confident in the continuous development of the tobacco industry.

The Group will further strengthen and promote the current customer relationships and market position, formulate proactive marketing strategies and reinforce its professional team. Stepping up efforts in exploring new markets can reduce the reliance on certain customers and generate more stable income sources. In order to increase capacity and improve production efficiency, the Group intends to expand production base and purchase two new production lines; whilst more resources will be placed in research and development, with a view to enhancing product quality and competitiveness.

The Group could make use of a widened financing platform upon its successful Listing, which provide favourable conditions for future business development. We will make full use of the net proceeds from the Listing to invest in various aspects such as operation, marketing and technical development, continue to enhance our own competitive advantages and thus maximising value for shareholders.

Corporate Governance

As a publicly listed company, the Directors recognize the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance shareholders' value. The Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") from the Listing Date up to 31 December 2016.

Dealings in Securities

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") on terms no less exacting than those set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, each of them confirmed that he has complied in full with the Model Code from the Listing Date up to 31 December 2016.

Purchase, sale or redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company since the Listing Date to 31 December 2016.

Important Event after the Reporting Period

There was no material subsequent event during the period from 1 January 2017 to the date of this announcement.

Annual General Meeting and Closure of Register of Members

The annual general meeting of the Company is scheduled to be held on Thursday, 25 May 2017.

For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Monday, 22 May 2017 to Thursday, 25 May 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 19 May 2017.

Audit Committee

The audit committee of the Board (the "Audit Committee") consists of three independent non-executive Directors, namely Mr. Tan Yik Chung Wilson (as chairman). Mr. Cheng Tai Kwan Sunny and Mr. Yick Ting Fai Jeffrey. The Audit Committee has reviewed the Company's consolidated financial statements for the year ended 31 December 2016 and is of the view that the preparation of such consolidated financial statements complied with applicable accounting standards and requirements and has discussed the internal control and financial reporting process with the senior management of the Group and external auditor.

Publication of Annual Results and Annual Report

This annual consolidated results announcement is published on the Company's website at www.mengkeholdings.com and the Stock Exchange's website at www.hkexnews.hk. The 2016 Annual Report is expected to be despatched to the shareholders of the Company on or before Friday, 21 April 2017 and will be available on the above websites.

Appreciation

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as the shareholders of the Company, business associates and other professional parties for their continuous support to the Group throughout the year.

By order of the Board
Mengke Holdings Limited
Zhang Weixiang
Chairman

Hong Kong, 27 March 2017

As at the date of this announcement, the Board comprises Mr. Fu Mingping as executive Director, Mr. Zhang Weixiang as non-executive Director and Mr. Cheng Tai Kwan Sunny, Mr. Tan Yik Chung Wilson and Mr. Yick Ting Fai Jeffrey as independent non-executive Directors.

* *For identification purpose only*