Mengke Holdings Limited
盟 科 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1629)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

- Revenue for the six months ended 30 June 2017 decreased by approximately 23.7% or RMB30.0 million to approximately RMB96.3 million.

- Gross profit for the six months ended 30 June 2017 decreased by approximately 46.0% or RMB13.8 million to approximately RMB16.2 million.

- Profit attributable to equity holders of the Company for the six months ended 30 June 2017 decreased by approximately 10.1% or approximately RMB0.15 million to approximately RMB1.4 million.

- Basic earnings per share of the Company for the six months ended 30 June 2017 was approximately RMB0.27 cents (six months ended 30 June 2016: RMB0.41 cents)

- The board of directors of the Company resolved not to pay an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

Results

The board (the "Board") of directors (the "Directors") of Mengke Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results (the "Interim Results") of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2017 together with the comparative results for the six months ended 30 June 2016 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**96,305**	126,289
Costs of sales	*5*	**(80,096)**	(96,268)
Gross profit		**16,209**	30,021
Other income and other losses — net	*4*	**3,290**	432
Distribution expenses	*5*	**(6,998)**	(6,539)
Administrative expenses	*5*	**(10,292)**	(19,991)
Operating profit		**2,209**	3,923
Finance income		**298**	352
Finance expenses		**(588)**	(613)
Finance expenses — net		**(290)**	(261)
Profit before income tax		**1,919**	3,662
Income tax expense	*6*	**(552)**	(2,142)
Profit for the period		**1,367**	1,520
Other comprehensive income		**–**	–
Total comprehensive income for the period		**1,367**	1,520
Attributable to:			
Equity holders of the Company		**1,367**	1,520
Earnings per share (expressed in RMB per share)			
— Basic and diluted	*7*	**0.27 cents**	0.41 cents

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
ASSETS			
Non-current assets			
Prepaid operating lease		**12,274**	12,441
Property, plant and equipment		**35,238**	37,117
Intangible assets		**112**	128
Prepayments	*9*	**2,567**	–
Deferred income tax assets		**908**	1,424
		51,099	51,110
Current assets			
Inventories		**51,802**	49,317
Trade and other receivables and prepayments	*9*	**124,140**	173,717
Notes receivables	*9*	**3,200**	1,000
Loans to a Director	*10*	**1,519**	–
Restricted cash		**27,303**	48,123
Cash and cash equivalents		**16,581**	23,833
		224,545	295,990
Total assets		**275,644**	347,100
Equities and liabilities			
Equity			
Share capital		**4,459**	4,459
Other reserves		**101,142**	100,892
Retained earnings		**7,466**	6,099
Total equity		**113,067**	111,450
Liabilities			
Non-current liabilities			
Deferred government grants		**1,333**	1,382
Current liabilities			
Borrowings		**22,000**	20,000
Trade and other payables	*11*	**84,378**	120,713
Notes payables	*11*	**54,607**	88,123
Amounts due to a related party		**–**	4,905
Current income tax liabilities		**259**	527
		161,244	234,268
Total liabilities		**162,577**	235,650
Total equity and liabilities		**275,644**	347,100

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 (as revised) 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 (the "BVI") and controlled by Mr. Zhang Weixiang ("Mr. Zhang").

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

This interim condensed consolidated financial information of the Group for the six months ended 30 June 2017 ("Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the audit committee of the Company.

(b) Basis of preparation

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Interim Financial Information should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016 as described therein, except for the estimation of income tax using the tax rate that would be applicable to the expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

3 REVENUE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of cigarette packaging products:		
— transfer metallised paper	**91,203**	107,872
— laminated metallised paper	**5,102**	14,521
	96,305	122,393
Processing service income	**–**	3,896
	96,305	126,289

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A:	**29,874**	29,379
Customer B:	**38,213**	33,103
Customer C:	**11,707**	Not applicable*
Customer D:	**Not applicable***	35,006

*Note**:* The revenue from the particular customers for the particular periods is less than 10% of the Group's revenue for the particular periods.

Segment information

Management has determined the operating segment 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 sale of packaging paper 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 is derived from the PRC.

As at 30 June 2017, majority of the non-current assets were located in the PRC (as at 31 December 2016: same).

4 OTHER INCOME AND OTHER LOSSES — NET

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income:		
Sales of raw materials and waste materials	**–**	277
Subsidy income	**3,082**	114
Rental income	**467**	467
	3,549	858
Other expenses:		
Costs of raw materials and waste materials sold	**–**	(237)
Cost of rental	**(189)**	(189)
	(189)	(426)
Other losses:		
Exchange losses	**(70)**	–
Other income and other losses — net	**3,290**	432

5 EXPENSES BY NATURE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Raw materials and consumables used	**79,787**	77,713
Changes in inventories of finished goods and work in progress	**(3,929)**	15,164
Professional fees in respect of listing	**–**	10,630
Staff costs (including directors' emoluments)	**7,365**	6,910
Transportation expenses	**6,236**	4,276
Utilities	**1,605**	1,808
Depreciation	**1,746**	1,680
Entertainment expenses	**1,767**	1,381
Other taxes and surcharges	**364**	795
Amortisation of prepaid operating lease	**111**	111
Impairment provision for trade and other receivables	**1**	–
Other expenses	**2,333**	2,330
Total cost of sales, distribution expenses and administrative expenses	**97,386**	122,798

6 INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly, is exempted from the 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 BVI income tax.

No provision for Hong Kong profit tax was provided as the Group did not have assessable profit in Hong Kong for the six months ended 30 June 2017 (six months ended 30 June 2016: nil). 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 the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the six months ended 30 June 2017 (six months ended 30 June 2016: 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 six months ended 2017 (six months ended 30 June 2016: 25%).

The Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") in 2016, 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 six months ended 30 June 2017 (six months ended 30 June 2016: 15%).

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax:		
— PRC corporate income tax	**36**	2,518
Deferred income tax:		
— PRC corporate income tax	**516**	(376)
	552	2,142

7 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. In determining the weighted average number of ordinary shares in issue, the 100 shares issued during the Reorganisation (as defined and described in the section headed "History, Development and Reorganisation" of the prospectus of the Company dated 15 November 2016 (the "Prospectus")) and the Capitalisation Issue (as defined and referred to in the section headed "Statutory and General Information — A. 6. Written resolutions of all Shareholders passed on 3 November 2016" in Appendix V to the Prospectus) of 374,999,900 shares were deemed to have been in issue since 1 January 2016.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	**1,367**	1,520
Weighted average number of shares in issue (thousands shares)	**500,000**	375,000
Basic earnings per share (expressed in RMB per share)	**0.27 cents**	0.41 cents

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the six months ended 30 June 2017 (six months ended 30 June 2016: same).

8 DIVIDENDS

The Board resolved not to pay any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables *(Note (a))*	**120,884**	170,567
Less: provision for impairment of trade receivables	**(1)**	–
Trade receivables — net	**120,883**	170,567
Deductible value-added-tax ("VAT") (*Note (b)*)	**1,408**	2,429
Others	**4,416**	721
	126,707	173,717
Less: non-current portion of prepayments	**(2,567)**	–
Current portion of trade and other receivables and prepayments	**124,140**	173,717
Notes receivables (*Note (c)*)	**3,200**	1,000

Notes:

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

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
30 days or less	**66,660**	121,300
31 days to 60 days	**33,135**	27,830
61 days to 90 days	**6,864**	19,576
91 days to 120 days	**8,700**	491
121days to 180 days	**1,234**	882
Over 180 days	**4,291**	488
	120,884	170,567

(b) This represents the unutilised input VAT that is deductible from future output VAT.

(c) Notes receivables of the Group as at 30 June 2017 mainly represent bank acceptance notes issued by banks with maturity period of 180 days (as at 31 December 2016: same). As at 30 June 2017, trade receivables with carrying amount of RMB19,318,000 (as at 31 December 2016: RMB29,420,000) and notes receivables of RMB2,000,000 (as at 31 December 2016: nil) were pledged as collaterals for the borrowings of the Group.

(d) The carrying amounts of trade and other receivables and notes receivables are all denominated in RMB.

10 LOANS TO A DIRECTOR

During the six months ended 30 June 2017, the Group has provided loans amounted to an aggregate of HK$1,750,000 (equivalent to approximately RMB1,519,000) to a Director with annual interest rate of 5.0%, which are unsecured and will be matured in September 2017.

11 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Trade payables *(Note (a))*	**81,961**	110,040
Accrual for staff costs and allowances	**899**	2,287
Accrual for listing expenses	**–**	3,316
Payables for acquisition of property, plant and equipment	**72**	639
Other tax payables	**426**	495
Other payables	**1,020**	3,936
	84,378	120,713
Notes payables — bank acceptance notes (*Note (b)*)	**54,607**	88,123

Notes:

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

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
30 days or less	**58,139**	79,358
31 to 60 days	**–**	18,047
61 to 90 days	**8,562**	7,264
91 to 180 days	**9,190**	3,102
Over 180 days	**6,070**	2,269
	81,961	110,040

(b) As at 30 June 2017, the ageing of all notes payables were within 6 months. The notes payables were secured by prepaid operating lease, property, plant and equipment and restricted cash of the Group as at 30 June 2017 (as at 31 December 2016: same).

(c) The fair value of trade and other payables and notes payables approximate their carrying amounts as at 30 June 2017 due to their short-term maturities (as at 31 December 2016: same).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the manufacturing and sale of cigarette packing 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.

Business Review

Sales and Marketing

Our sales decreased considerably in the period under review, primarily owing to the lower demand for our products from one of the Group's main customers and the decrease in unit price of both transfer metallised paper and laminated metallised paper.

Faced with the effects brought to cigarette sales market in the PRC by the sluggish economy, the Group has continued to strengthen the relationship with its existing customers. As at the end of the reporting period, the Group hired a total of 13 sales representatives to formulate marketing strategies, devise marketing plan, manage sales business, organise cargo transportation and develop customer service model, in order to boost our sales.

We place very strong emphasis on customer satisfaction as our marketing team provide full services from product development, order protection and market maintenance, to after-sales and technical services. Our sales representatives pay monthly visits to customers for in-depth communication and marketing trend proficiency, as well as organise half-yearly customer satisfaction survey to better understand customers' needs and to collect feedback.

Production Capacity

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

The below table sets forth the production capacity and utilisation rates of the production base in Yichang for the six months ended 30 June 2017 and a comparison with the corresponding period in 2016.

	Six months ended 30 June	
	2017	2016
Production capacity (meters) ('000)	**110,338**	97,637
Actual production volume (meters) ('000)	**45,660**	56,458
Utilisation rate	**41.4%**	57.8%

The Group has employed part of the net proceeds raised from the Listing to upgrade current production facilities and expand capacity. Details on the use of net proceeds from the Listing will be laid out below under the section headed "Use of Net Proceeds from the Listing". With the anticipated turnover growth in the second half of 2017 due to the conventional peak seasons in cigarette packaging industry, the production capacity and utilisation rate are expected to rise.

Quality Control

During the period under review, the Company has successfully obtained the certification and passed the third party audit of environmental and occupational health safety management system in accordance with ISO4001:2015 and GB/T28001-2011.

Financial Review

Revenue

For the six months ended 30 June 2017, the revenue was approximately RMB96.3 million, representing a decrease of approximately 23.7% as compared with the same period in 2016.

The following table sets forth the breakdown of the Group's revenue for the six months ended 30 June 2017:

	For the six months ended 30 June		
	2017	2016	Change%
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Cigarette packaging product — transfer metallised paper	**91,203**	107,872	(15.5%)
Cigarette packaging product — laminated metallised paper	**5,102**	14,521	(64.9%)
Processing service	**–**	3,896	(100%)

For the six months ended 30 June 2017, revenue from cigarette packaging products decreased by approximately 21.3% as compared with the same period in 2016 to approximately RMB96.3 million. The decrease in revenue was primarily due to the lower demand for our products from one of the Group's main customers and the decrease in unit price of both transfer metallised paper and laminated metallised papers. The Group also did not generate any revenue from processing service for the six months ended 30 June 2017.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased from approximately RMB30.0 million for the six months ended 30 June 2016 to approximately RMB16.2 million for the six months ended 30 June 2017. The decrease in gross profit was attributable to the decreased production volume and reduced selling price of several products. For the six months ended 30 June 2017, the Group's gross profit margin decreased from approximately 23.8% for the six months ended 30 June 2016 to approximately 16.8% for the six months ended 30 June 2017.

Other Income and Other Losses — Net

For the six months ended 30 June 2017, the Group's other income consisted of rental income and subsidy income. Other expenses and other losses included cost of rental and exchange losses. The net of other income and other losses increased from approximately RMB432,000 for the six months ended 30 June 2016 to approximately RMB3.3 million for the six months ended 30 June 2017, mainly due to the receiving of government grants of approximately RMB3.1 million.

Distribution Expenses

For the six months ended 30 June 2017, distribution expenses mainly consisted of costs of (i) transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) other expenses. The Group's distribution expenses slightly increased by approximately 7.0% from approximately RMB6.5 million for the six months ended 30 June 2016 to approximately RMB7.0 million for the six months ended 30 June 2017. The increase in distribution expenses of the Group was mainly due to the increase in transportation expenses as a result of the use of imported raw papers.

Administrative Expenses

For the six months ended 30 June 2017, administrative expenses mainly consisted of (i) staff costs; (ii) research and development expenses; (iii) depreciation and amortisation; (iv) entertainment expenses; (v) other taxes and surcharges; and (vi) other expenses. Administrative expenses decreased from approximately RMB20.0 million for the six months ended 30 June 2016 to approximately RMB10.3 million for the six months ended 30 June 2017. The decrease in administrative expenses of the Group was mainly due to the absence of one-off listing expenses for the period under review (six months ended 30 June 2016: approximately RMB10.6 million).

Finance Expenses — Net

For the six months ended 30 June 2017, net finance expenses represented the net amount of finance income and finance expenses. The net finance expenses increased by approximately 11.1% from approximately RMB261,000 for the six months ended 30 June 2016 to approximately RMB290,000 for six months ended 30 June 2017.

Income Tax Expense

The Group's income tax expense decreased by approximately 74.2% from approximately RMB2.1 million for the six months ended 30 June 2016 to approximately RMB552,000 for the six months ended 30 June 2017. The decrease was mainly due to the decrease in profit before tax for the six months ended 30 June 2017.

Profit Attributable to Equity Holders of the Company

For the six months ended 30 June 2017, the Group's profit attributable to equity holders of the Company was approximately RMB1.4 million (six months ended 30 June 2016: approximately RMB1.5 million), representing a decrease of approximately 10.1%. If the one-off listing expenses of approximately RMB10.6 million charged to the profit or loss statement for the six months ended 30 June 2016 (six months ended 30 June 2017: nil) was excluded, then the profit attributable to equity holders of the Company for the six months ended 30 June 2017 would be approximately 88.7% lower than that for the six months ended 30 June 2016. The decrease in profit attributable to equity holders of the Company for the period under review is primarily due to the lower demand for our products from one of the Group's main customers and the decrease in unit price of both transfer metallised paper and laminated metallised paper.

Liquidity and Financial Resources

Net Current Assets

The Group recorded net current assets of approximately RMB63.3 million as at 30 June 2017, while the net current assets as at 31 December 2016 was approximately RMB61.7 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 30 June 2017 were RMB22 million (as at 31 December 2016: RMB20 million). The Group's gearing ratio decreased from approximately 22.3% as at 31 December 2016 to approximately 19.5% as at 30 June 2017. The decrease of gearing ratio was mainly due to an increase in total equity and the absence of amounts due to a related party as at 30 June 2017. Gearing ratio was calculated by dividing total debt (which consisted of borrowings and amounts due to related parties) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the six months ended 30 June 2017, the Group's total capital expenditure amounted to approximately RMB3.1 million (six months ended 30 June 2016: approximately RMB1.6 million), which was mainly used in the plant electricity distribution work and purchase of production equipment.

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 issued share capital and reserves.

Charge on Assets

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

	As at 30 June 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Notes receivables	**2,000**	–
Prepaid operating lease	**12,274**	12,441
Property, plant and equipment	**24,177**	25,325
Trade receivables	**19,318**	29,420
Restricted cash	**27,303**	48,123
Total	**85,072**	115,309

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

There were no significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

Contingent Liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities (as at 31 December 2016: nil).

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, loans to a Director and other payables maintained in Hong Kong dollars ("HK$"). 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 six months ended 30 June 2017 (six months ended 30 June 2016: same).

Human Resources and Remuneration

As at 30 June 2017, the Group employed 154 employees (as at 30 June 2016: 176) with total staff costs of approximately RMB7.4 million incurred for the six months ended 30 June 2017 (as compared with approximately RMB6.9 million for the same period of 2016). The increase of staff costs of the Group was mainly due to the payment of Directors' fees for the six months ended 30 June 2017. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Interim Dividend

The Board resolved not to pay any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

Use of Net Proceeds from the Listing

The shares of the Company were listed on the Main board of the Stock Exchange on 25 November 2016 with actual net proceeds from the Listing of approximately HK$42.2 million (equivalent to approximately RMB37.6 million) (after deducting underwriting commissions and related expenses). Part of the 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. Actual amount of the net proceeds utilised up to 30 June 2017 amounted to approximately RMB12.1 million. As of the date of this announcement, unutilised net proceeds amounted to approximately HK$29.3 million (equivalent to approximately RMB25.5 million), which is intended to be invested primarily in production plant, equipment upgrade and technique development.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or in this announcement, there is no other plan for material investments or capital assets as at 30 June 2017.

Capital Commitments

As at 30 June 2017, the Group had capital commitments for acquisition of property, plant and equipment amounting to approximately RMB1.4 million (as at 31 December 2016: nil).

Future Outlook

Looking forward, since the economy in the PRC is growing steadily and several international financial institutions have expressed their confidence on PRC's economic growth, the Group is optimistic towards the future development of PRC's economy. As tobacco industry is closely related to the macro economy, the development of cigarette packaging paper industry in the PRC is expected to be positive.

The Group will further strengthen its market position in current markets and step up its efforts in exploring new markets in Hubei Province, Sichuan Province, Guangdong Province and other regions. In order to enhance marketing effectiveness, the Group will adopt spatial integrated marketing strategy throughout the production and sales process. A "1+3" work group will be established with the vice-president of our production department taking the lead and acting as the person-in-charge of marketing centre, production technology department and quality control department, and all of these departments will work together. Besides, value-added services will be provided with tracking services and extension services.

The Group plans to invest approximately RMB10 million in research and development projects for the year 2017. During the period under review, the Group applied the production technology of true seamless laser paper to improve product quality so that the Group's competitiveness could be enhanced. 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 for strategic cooperation with provincial-level research centres and tertiary institutions to collaborate on product research and development projects.

The results of various tendering submitted in the first half of 2017 will gradually be released in the second half of 2017. Moreover, as the second half of the year is conventionally the peak season of the tobacco industry, we expect the market demand will be stimulated. We will continue to enhance our own competitive advantages in order to maximise value for our 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") for the six months ended 30 June 2017.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its 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 for the six months ended 30 June 2017.

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 throughout the six months ended to 30 June 2017.

Important Events after the Reporting Period

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

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 Interim Results for the six months ended 30 June 2017 and is of the view that the preparation of the Interim Results complied with applicable accounting standards and requirements. It has also discussed the internal control and financial reporting process with the management of the Group.

Publication of Interim Results and Interim Report

This interim results announcement is published on the Company's website at www.mengkeholdings.com and the Stock Exchange's website at www.hkexnews.hk. The 2017 Interim Report is expected to be despatched to the shareholders of the Company on or before Tuesday, 26 September 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 reporting period.

By order of the Board
Mengke Holdings Limited
Zhang Weixiang
Chairman

Hong Kong, 30 August 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.