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 2017

HIGHLIGHTS

- Revenue for the year ended 31 December 2017 decreased by approximately 23.3% or RMB72.4 million to approximately RMB238.3 million.

- Gross profit for the year ended 31 December 2017 decreased by approximately 30.4% or RMB19.6 million to approximately RMB44.9 million.

- Profit attributable to equity holders of the Company for the year ended 31 December 2017 was approximately RMB4.7 million as compared to the loss attributable to equity holders of the Company of approximately RMB9.4 million for the year ended 31 December 2016.

- Basic earnings per share of the Company for the year ended 31 December 2017 was approximately RMB0.94 cents as compared to basic losses per share of the Company of approximately RMB2.43 cents for the year ended 31 December 2016.

- The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2017.

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 2017 together with the comparative results for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**238,310**	310,708
Costs of sales	*5*	**(193,363)**	(246,114)
Gross profit		**44,947**	64,594
Other income and other gains — net	*4*	**5,924**	33
Distribution expenses	*5*	**(17,987)**	(17,947)
Administrative expenses	*5*	**(25,926)**	(52,217)
Operating profit/(loss)		**6,958**	(5,537)
Finance income		**543**	522
Finance expenses		**(1,092)**	(1,593)
Finance expenses — net	*6*	**(549)**	(1,071)
Profit/(loss) before income tax		**6,409**	(6,608)
Income tax expense	*7*	**(1,685)**	(2,827)
Profit/(loss) for the year		**4,724**	(9,435)
Other comprehensive income		**–**	–
Total comprehensive income/(loss) for the year		**4,724**	(9,435)
Attributable to:			
Equity holders of the Company		**4,724**	(9,435)
Earnings/(losses) per share (expressed in RMB per share)			
— Basic and diluted	*8*	**0.94 cents**	(2.43) cents

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Prepaid operating lease		**12,104**	12,441
Property, plant and equipment		**37,290**	37,117
Intangible assets		**108**	128
Deferred income tax assets		**485**	1,424
		49,987	51,110
Current assets			
Inventories		**63,232**	49,317
Trade and other receivables and prepayments	*10*	**147,853**	173,717
Notes receivables	*10*	**3,499**	1,000
Amounts due from a related party	*12*	**1,511**	–
Restricted cash		**38,719**	48,123
Cash and cash equivalents		**14,776**	23,833
		269,590	295,990
Total assets		**319,577**	347,100
EQUITIES AND LIABILITIES			
Equity			
Share capital		**4,459**	4,459
Other reserves		**101,392**	100,892
Retained earnings		**10,823**	6,099
Total equity		**116,674**	111,450
Liabilities			
Non-current liabilities			
Deferred government grants		**1,236**	1,382
Current liabilities			
Borrowings		**14,980**	20,000
Trade and other payables	*11*	**121,966**	120,713
Notes payables	*11*	**62,313**	88,123
Amounts due to related parties		**2,086**	4,905
Current income tax liabilities		**322**	527
		201,667	234,268
Total liabilities		**202,903**	235,650
Total equity and liabilities		**319,577**	347,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 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 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands.

The Company is an investment holding company. 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 ("Happily Soar"), a company incorporated in the British Virgin Islands ("BVI") and controlled by Mr. Zhang Weixiang.

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

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

2 BASIS OF PREPARATION

(a) Compliance with HKFRS and Hong Kong Companies Ordinance

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

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost convention.

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Amendments to HKFRS 7 "Statement of cash flows: additional disclosure to evaluate changes in liabilities arising from financing activities"
- Amendment to HKFRS 12 "Disclosure of interest in other entities: clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information"
- Amendments to HKAS 12 "Income taxes: clarify how to account for deferred tax assets related to debt instruments measured at fair value."

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods. The amendments to HKAS7 require disclosure of changes in liabilities arising from financing activities.

(d) New standards and interpretations not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

		Effective for financial year beginning on or after
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
Amendment to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018 or when the entity first applies HKFRS 9
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

3 REVENUE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales of cigarette packaging products:		
— transfer metallised paper	**224,528**	276,976
— laminated metallised paper	**13,737**	29,823
	238,265	306,799
Processing service income	**45**	3,909
	238,310	310,708

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Customer A	**76,645**	106,173
Customer B	**64,313**	101,447
Customer C	**32,391**	Not applicable*
Customer D	**27,116**	57,643

*Note**: The revenue of the particular customer for the particular year is less than 10% of the Group's revenue for the particular year.

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 from the PRC.

As at 31 December 2017, all of the operating related non-current assets were located in the PRC (31 December 2016: same).

4 OTHER INCOME AND OTHER GAINS — NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other income:		
Sales of raw materials and waste materials	**834**	765
Rental income	**934**	934
Subsidy income	**5,288**	326
	7,056	2,025
Other expenses:		
Cost of raw materials and waste materials sold	**(824)**	(685)
Cost of rental	**(379)**	(379)
	(1,203)	(1,064)
Other gains/(losses):		
Net foreign exchange gains/(losses)	**71**	(928)
Other income and other gains — net	**5,924**	33

5 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials and consumables used	**195,522**	234,087
Changes in inventories of finished goods and work in progress	**(9,530)**	5,440
Staff costs (including directors' emoluments)	**15,917**	16,955
Transportation expenses	**14,463**	13,145
Utilities	**3,565**	4,104
Depreciation	**3,475**	3,468
Entertainment expenses	**3,625**	3,339
Travelling expenses	**1,811**	877
Other taxes and surcharges	**1,191**	2,267
Auditors' remuneration	**1,126**	1,225
Maintenance expenses	**723**	589
Amortisation of prepaid operating lease	**225**	225
Impairment provision for trade receivables	**1,046**	–
Professional fees in respect of listing	**–**	26,076
Other expenses	**4,117**	4,481
Total cost of sales, distribution expenses and administrative expenses	**237,276**	316,278

6 FINANCE EXPENSES — NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income:		
— interest income	**543**	515
— exchange gains	**–**	7
	543	522
Finance expenses:		
— interest expenses	**(941)**	(1,308)
— exchange losses	**(151)**	–
— discount charges on bank acceptance notes	**–**	(285)
	(1,092)	(1,593)
Finance expenses — net	**(549)**	(1,071)

7 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
— PRC corporate income tax	**746**	3,384
Deferred income tax:		
— PRC corporate income tax	**939**	(557)
	1,685	2,827

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 2017 (2016: 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 2017 (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%.

The Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") in 2013 and re-designated as the same in 2016. The qualification is valid for three years ending 31 December 2018. Consequently, the subsidiary is entitled to preferential income tax rate of 15% for the year ended 31 December 2017 (2016: 15%).

8 EARNINGS/(LOSSES) PER SHARE

(a) Basic

The basic earnings/(losses) per share is calculated on the earnings/(losses) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year.

	Year ended 31 December	
	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**4,724**	(9,435)
Weighted average number of shares in issue (thousands shares)	**500,000**	387,671
Basic earnings/(losses) per share (expressed in RMB per share)	**0.94 cents**	(2.43) cents

(b) Diluted

Diluted earnings/(losses) per share presented is the same as the basic earnings/(losses) per share as there were no potentially dilutive ordinary shares issued during the year ended 31 December 2017 (2016: same).

9 DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: same).

10 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*	**145,580**	170,567
Less: provision for impairment of trade receivables	**(1,046)**	–
Trade receivables — net	**144,534**	170,567
Deductible value-added-tax ("VAT")	**–**	2,429
Others	**3,319**	721
	147,853	173,717

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Notes receivables	**3,499**	1,000

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 30 days	**82,098**	121,300
31 days to 60 days	**20,584**	27,830
61 days to 90 days	**26,658**	19,576
91 days to 120 days	**9,570**	491
121days to 180 days	**5,196**	882
Over 180 days	**1,474**	488
	145,580	170,567

The Group's sales are usually made on credit terms of 30 to 180 days. As at 31 December 2017, trade receivables of RMB109,823,000 (31 December 2016: RMB152,965,000) were fully performing.

As at 31 December 2017, trade receivables of RMB34,711,000 (31 December 2016: RMB17,602,000) 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:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
61 days to 90 days	**21,140**	15,741
91 days to 120 days	**8,696**	491
121 days to 180 days	**4,447**	882
Over 180 days	**428**	488
	34,711	17,602

11 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**112,455**	110,040
Accrual for staff costs and allowances	**1,939**	2,287
Payables for acquisition of property, plant and equipment	**2,492**	639
Other tax payables	**2,296**	495
Accrual for listing expenses	**–**	3,316
Other payables	**2,784**	3,936
	121,966	120,713

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Notes payables — bank acceptance notes	**62,313**	88,123

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 30 days	**80,929**	79,358
31 to 60 days	**15,634**	18,047
61 to 90 days	**5,227**	7,264
91 to 180 days	**6,968**	3,102
Over 180 days	**3,697**	2,269
	112,455	110,040

12 AMOUNTS DUE FROM A RELATED PARTY

It represented the loans provided to a director and the relevant interests accrued, which were unsecured and has been repaid subsequently in 2018.

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. The customers of the Group include some of the "Top 100 Enterprises" in the printing industry awarded by the 2016 China Printing Manager Annual Conference, including Hubei Golden Three Gorges Printing Industry Co., Ltd. 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.

Business Review

Sales and Marketing

During the period under review, the Group continued to expand into new markets in China, such as Sichuan Province, and had won six out of seven tenders submitted. However, the "Action Plan on Key Mission of Three Eliminations, One Decrease and One Addition (2016–2018)" issued by the State Tobacco Monopoly Administration of the PRC triggered an industry-wide destocking. The Action Plan requires that the total amount of national tobacco stocks must not exceed 50 million boxes by the end of 2017. Consequently, there was a significant decrease in the year-end stocking of the customers. The lower demand and the decrease in unit price of both transfer metallised paper and laminated metallised paper thus led to a drop in the revenue of the Group.

The Group had a total of 13 sales representatives to formulate marketing strategies, devise marketing plan, manage sales business, arrange for logistics and develop customer service model during the period under review. The Group places strong emphasis on customer satisfaction and its marketing team provides full services from product development, order protection and market maintenance, to after-sales and technical services. The sales representatives of the Group pay monthly visits to customers, 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 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 2017, together with the comparative figures for the corresponding period of last year. The actual production volume in the reporting period reduced by approximately 22.6% as compared with that of 2016, which was primarily due to lower sales volume of the Group and resulted in a reduction in the utilisation rate.

	Year ended 31 December	
	2017	2016
Production capacity (thousand metres)	**222,264**	222,264
Actual production volume (thousand metres)	**112,577**	145,433
Utilisation rate	**50.7%**	65.4%

The Group has employed part of the net proceeds raised from the listing of the shares of the Company (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2016 (the "Listing") to upgrade the production facilities and expand capacity. The new plants and buildings are expected to be in used in 2018. Details on the use of net proceeds from the Listing are set out below in the section headed "Use of Net Proceeds from the Listing".

Quality Control

As of 31 December 2017, the Group had a total of 11 quality control staff. It purchased specialty equipment imported from various countries to advance the quality control procedures of the Group.

The Company is awarded with the certification and has passed the third party audit of environmental and occupational health safety management system in accordance with ISO14001:2015 and GB/T28001-2011.

Financial Review

Revenue

For the year ended 31 December 2017, the revenue was approximately RMB238.3 million (2016: approximately RMB310.7 million), representing a decrease of approximately 23.3% as compared with that in 2016. The decrease in revenue was the result of (i) lower demand for the products of the Group; (ii) the decrease in unit price of both transfer metallised paper and laminated metallised paper; and (iii) decrease in processing service income due to its ad-hoc in nature.

The following table sets forth the breakdown of the Group's revenue for the years ended 31 December 2017 and 2016:

	Year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	*%*
Sales of cigarette packaging products:			
— transfer metallised paper	**224,528**	276,976	–18.9%
— laminated metallised paper	**13,737**	29,823	–53.9%
Processing service income	**45**	3,909	–98.8%
Total	**238,310**	310,708	–23.3%

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately 30.4% from approximately RMB64.6 million for the year ended 31 December 2016 to approximately RMB44.9 million for the year ended 31 December 2017 due to the decrease in revenue. The gross profit margin decreased from approximately 20.8% to approximately 18.9%.

Other Income and Other Gains — Net

For the year ended 31 December 2017, the Group's other income and other gains comprised sales of raw materials and waste materials, rental income, subsidy income and exchange gains. Other expenses and other losses comprised cost of raw materials and waste materials sold and cost of rental. The net of other income and other gains increased from approximately RMB33,000 in 2016 to approximately RMB5.9 million in 2017, primarily because the Group had received government grants of approximately RMB5.3 million.

Distribution Expenses

For the year ended 31 December 2017, distribution expenses consisted of (i) transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) other expenses. The distribution expenses were approximately RMB18.0 million in 2017, as compared to approximately RMB17.9 million in 2016.

Administrative Expenses

For the year ended 31 December 2017, administrative expenses 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 RMB52.2 million in 2016 to approximately RMB25.9 million in 2017. The decrease in administrative expenses of the Group was mainly due to the absence of the one-off listing expenses for the period under review (2016: approximately RMB26.1 million).

Finance Expenses — Net

For the year ended 31 December 2017, net finance expenses represented the net amount of finance income and finance expenses. Finance income consisted of interest income from bank deposits. Finance expenses consisted of interest expenses from bank borrowings and exchange losses. The net finance expenses were approximately RMB549,000 in 2017, as compared to approximately RMB1.1 million in 2016. The decrease was mainly due to the decrease in interest expenses from bank borrowings.

Income Tax Expense

The Group's income tax expense decreased by approximately 40.4% from approximately RMB2.8 million in 2016 to approximately RMB1.7 million in 2017, which was mainly due to the drop in profit before tax for the year ended 31 December 2017 excluding the one-off listing expenses in 2016, most of which were not deductible for tax purpose.

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

For the year ended 31 December 2017, the Group's profit attributable to equity holders of the Company was approximately RMB4.7 million (loss attributable to equity holders of the Company in 2016: approximately RMB9.4 million). The profit turnaround was mainly attributable to the absence of the one-off listing expenses for the year ended 31 December 2017.

Liquidity and Capital Resources

Net Current Assets

The Group recorded net current assets of approximately RMB67.9 million as at 31 December 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 31 December 2017 were approximately RMB15.0 million (2016: approximately RMB20.0 million). The Group's gearing ratio decreased from approximately 22.3% as at 31 December 2016 to approximately 14.6% as at 31 December 2017. The decrease of gearing ratio was mainly due to an increase in total equity and a decrease in borrowings and amounts due to related parties as at 31 December 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 year ended 31 December 2017, the Group's total capital expenditure amounted to approximately RMB3.9 million, which was mainly used in the purchase of office equipment and assets under construction.

Treasury Policies

The Group adopts a prudent approach in respect of 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 and short term bank borrowings repayable within one year.

Charge on Assets

The Group's borrowings and notes payables were secured by its prepaid operating lease, property, plant and equipment, 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 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Prepaid operating lease	**12,104**	12,441
Property, plant and equipment	**23,725**	25,325
Trade receivables	**17,047**	29,420
Restricted cash	**38,719**	48,123
Total	**91,595**	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 year ended 31 December 2017 (2016: same).

Contingent Liabilities

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

Foreign Exchange Risk

The Group's transactions were mainly conducted in Renminbi ("RMB"), the functional currency of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, amounts due from a related party 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 year ended 31 December 2017 (2016: same).

Human Resources and Remuneration

As at 31 December 2017, the Group employed 158 employees (2016: 176) with total staff costs of approximately RMB15.9 million incurred for the same year (2016: approximately RMB17.0 million). The decrease of staff costs of the Group was mainly due to the decrease in number of administrative staff. The Group's remuneration packages are generally structured with reference to prevailing market conditions and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2017 (2016: nil).

Use of Net Proceeds from the Listing

The Shares were listed on the Main Board of the Stock Exchange on 25 November 2016 with actual net proceeds received by the Company 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 relating to the air-conditioning system and investment in operation, market expansion and technical development as disclosed in the prospectus of the Company dated 15 November 2016 (the "**Prospectus**"). Actual amount of the net proceeds utilised up to 31 December 2017 amounted to approximately RMB13.3 million. As of the date of this announcement, unutilised net proceeds amounted to approximately RMB24.3 million, which is intended to be primarily invested in production plant and equipment upgrade and technical development.

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 2017.

Capital Commitments

As at 31 December 2017, the Group did not have any capital commitments (2016: same).

Future Outlook

Looking forward, it is anticipated that China's economic growth will remain stable and the tobacco sector in the country will continue to undergo industry upgrades. The Group is optimistic about the long-term development of the cigarette packaging industry as new opportunities are emerging. The Group intends to solidify its existing markets while continuing to explore new ones, in particular, Guangdong Province and Chongqing City. In preparation of the peak season in the second half of the year, the Group will step up its efforts in sales and marketing. Meanwhile, the Group plans to proactively join the upcoming tender biddings in 2018, with an objective to obtaining new orders and new customers.

In support of the anticipated business growth, the Group intends to upgrade its production facilities by purchasing new manufacturing machines, as well as to expand its warehouses and other ancillary facilities. The Group plans to take such initiatives in order to enhance its production and capacity efficiency, and thereby elevate its product quality and competitiveness.

The Group endeavours to make good use of the net proceeds from the Listing to invest in various aspects of the Group's business such as operation, marketing and technical development in the direction of further enhancing the Group's 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") for the year ended 31 December 2017.

Model Code for Securities Transactions by Directors

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 for the year ended 31 December 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 year ended 31 December 2017.

Important Event after the Reporting Period

There was no material subsequent event during the period from 1 January 2018 up 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 Friday, 25 May 2018.

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, 21 May 2018 to Friday, 25 May 2018 (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, 18 May 2018.

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 2017 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 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 2017 Annual Report is expected to be despatched to the shareholders of the Company on or before Friday, 20 April 2018 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, 28 March 2018

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.