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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 2018

HIGHLIGHTS

- Revenue for the six months ended 30 June 2018 increased by approximately 6.1% or RMB5.9 million to approximately RMB102.2 million.
- Gross profit for the six months ended 30 June 2018 increased by approximately 3.2% or RMB520,000 to approximately RMB16.7 million.
- Profit attributable to equity holders of the Company for the six months ended 30 June 2018 decreased by approximately 22.3% or approximately RMB305,000 to approximately RMB1.1 million.
- Basic earnings per share of the Company for the six months ended 30 June 2018 was approximately RMB0.21 cents (six months ended 30 June 2017: approximately RMB0.27 cents)
- The board of directors of the Company resolved not to pay interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

INTERIM 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 2018 (the “Period”) together with the comparative results for the six months ended 30 June 2017 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2018	2017
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	102,189	96,305
Costs of sales	6	(85,460)	(80,096)
Gross profit		16,729	16,209
Other income and other losses — net	5	313	3,290
Distribution expenses	6	(5,648)	(6,998)
Administrative expenses	6	(10,083)	(10,292)
Operating profit		1,311	2,209
Finance income		259	298
Finance expenses		(324)	(588)
Finance expenses — net		(65)	(290)
Profit before income tax		1,246	1,919
Income tax expense	7	(184)	(552)
Profit for the period		1,062	1,367
Other comprehensive income		—	—
Total comprehensive income for the period		1,062	1,367
Attributable to:			
Equity holders of the Company		1,062	1,367
Earnings per share (expressed in RMB per share)			
— Basic and diluted	8	0.21 cents	0.27 cents

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2018	As at 31 December 2017
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Prepaid operating lease		11,937	12,104
Property, plant and equipment		35,539	37,290
Intangible assets		82	108
Prepayments	10	672	–
Deferred income tax assets		285	485
		<u>48,515</u>	<u>49,987</u>
Current assets			
Inventories		71,594	63,232
Trade and other receivables and prepayments	10	136,005	147,853
Notes receivables	10	2,000	3,499
Amounts due from a related party		–	1,511
Restricted cash		31,388	38,719
Cash and cash equivalents		12,980	14,776
		<u>253,967</u>	<u>269,590</u>
Total assets		<u>302,482</u>	<u>319,577</u>
EQUITIES AND LIABILITIES			
Equity			
Share capital		4,459	4,459
Other reserves		101,642	101,392
Retained earnings		11,885	10,823
Total equity		<u>117,986</u>	<u>116,674</u>
Liabilities			
Non-current liabilities			
Deferred government grants		1,163	1,236
Current liabilities			
Borrowings		15,000	14,980
Trade and other payables	11	108,315	121,966
Notes payables	11	60,000	62,313
Amounts due to related parties		–	2,086
Current income tax liabilities		18	322
		<u>183,333</u>	<u>201,667</u>
Total liabilities		<u>184,496</u>	<u>202,903</u>
Total equity and liabilities		<u>302,482</u>	<u>319,577</u>

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 (as revised) 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 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, the non-executive Director and controlling shareholder of the Company.

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").

This interim condensed consolidated financial information of the Group for the six months ended 30 June 2018 ("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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard 34 Interim financial reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the Company during the interim reporting period.

The accounting policies applied are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended Hong Kong Financial Reporting Standards ("HKFRS") as set out below in Note 3.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

3.1 Adoption of HKFRS 9

3.1.1 HKFRS 9 — impact of adoption

HKFRS 9 addresses the recognition, classification and measurement of financial assets and financial liabilities, and derecognition of financial instruments, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its classification of financial assets and liabilities and has not identified any significant impact from the adoption of the new standard on 1 January 2018.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as under HKAS 39. The Group's trade and other receivables are subject to impairment under the new expected credit losses model.

The Group is required to revise its impairment methodology under HKFRS 9 for trade and other receivables. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses an expected lifetime loss allowance for trade receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established expected credit losses model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of expected credit losses on financial assets was immaterial as at 1 January 2018.

3.1.2 HKFRS 9 — accounting policies applied from 1 January 2018

The following describes the Group's updated financial instruments policy to reflect the adoption of HKFRS 9:

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Trade and other receivables that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gains or losses arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) (if any), together with foreign exchange gains and losses.

(c) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Impairment on other receivables is measured as either 12-month expected losses or lifetime expected losses. If a significant increase in credit risk of a receivable occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

3.2 Adoption of HKFRS 15

3.2.1 HKFRS 15 — impact of adoption

The Group adopted the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group's sales of cigarette packaging products are within the scope of the standard.

The Group has assessed its performance obligations under its arrangements pursuant to HKFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under HKFRS 15 and the deliverables considered to be units of account under HKAS 18 and the consideration is allocated to its performance obligations based on the relative fair value of each deliverables both under HKFRS 15 and HKAS 18.

The Group has concluded that there is no significant impact of HKFRS 15 on revenue recognition as at 1 January 2018 and the six months ended 30 June 2018.

There is no material change of accounting policy for revenue with the adoption of HKFRS 15.

4 REVENUE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of cigarette packaging products:		
— transfer metallised paper	89,611	91,203
— laminated metallised paper	12,573	5,102
	102,184	96,305
Processing service income	5	—
	102,189	96,305

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A:	28,190	38,213
Customer B:	21,032	11,707
Customer C:	15,023	Not applicable*
Customer D:	Not applicable*	29,874

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

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 2018, majority of the non-current assets were located in the PRC (as at 31 December 2017: same).

5 OTHER INCOME AND OTHER LOSSES — NET

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other income:		
Subsidy income	73	3,082
Rental income	467	467
	<u>540</u>	<u>3,549</u>
Other expenses:		
Cost of rental	(189)	(189)
Other losses:		
Exchange losses	(38)	(70)
Other income and other losses — net	<u>313</u>	<u>3,290</u>

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Raw materials and consumables used	82,617	79,787
Changes in inventories of finished goods and work in progress	(1,095)	(3,929)
Staff costs (including directors' emoluments)	7,545	7,365
Transportation expenses	4,588	6,236
Utilities	1,672	1,605
Depreciation	1,858	1,746
Entertainment expenses	880	1,767
Other taxes and surcharges	381	364
Amortisation of prepaid operating lease	111	111
Impairment provision for trade and other receivables	—	1
Other expenses	2,634	2,333
Total cost of sales, distribution expenses and administrative expenses	<u>101,191</u>	<u>97,386</u>

7 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 2018 (six months ended 30 June 2017: 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 2018 (six months ended 30 June 2017: same).

On 16 March 2007, the National People's Congress of the PRC 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 six months ended 30 June 2018 (six months ended 30 June 2017: 15%).

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax:		
— PRC corporate income tax	384	36
Deferred income tax:		
— PRC corporate income tax	(200)	516
	184	552

8 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated on the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	1,062	1,367
Weighted average number of shares in issue (thousands shares)	500,000	500,000
Basic earnings per share (expressed in RMB per share)	0.21 cents	0.27 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 outstanding during the six months ended 30 June 2018 (six months ended 30 June 2017: same).

9 DIVIDENDS

The Board resolved not to pay any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

10 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables (<i>Note (a)</i>)	130,821	145,580
Less: provision for impairment of trade receivables	(1,046)	(1,046)
Trade receivables — net	129,775	144,534
Deductible value-added-tax (“VAT”) (<i>Note (b)</i>)	1,345	—
Others	5,557	3,319
	136,677	147,853
Less: non-current portion of prepayments	(672)	—
Current portion of trade and other receivables and prepayments	136,005	147,853
Notes receivables (<i>Note (c)</i>)	2,000	3,499

Notes:

(a) Ageing analysis of trade receivables based on invoice date as at 30 June 2018 is as follows:

	As at 30 June 2018 <i>RMB'000</i> (Unaudited)	As at 31 December 2017 <i>RMB'000</i> (Audited)
Less than 30 days	49,826	82,098
31 days to 60 days	2,173	20,584
61 days to 90 days	22,015	26,658
91 days to 120 days	13,843	9,570
121 days to 180 days	13,969	5,196
Over 180 days	28,995	1,474
	<u>130,821</u>	<u>145,580</u>

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

(c) Notes receivables of the Group as at 30 June 2018 mainly represent bank acceptance notes issued by banks with maturity period of 180 days (31 December 2017: same).

(d) As at 30 June 2018, trade receivables with carrying amount of RMB14,387,000 (31 December 2017: RMB17,047,000) were pledged as collaterals for the borrowings of the Group.

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

11 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	As at 30 June 2018 <i>RMB'000</i> (Unaudited)	As at 31 December 2017 <i>RMB'000</i> (Audited)
Trade payables (<i>Note (a)</i>)	104,806	112,455
Accrual for staff costs and allowances	729	1,939
Payables for acquisition of property, plant and equipment	120	2,492
Other tax payables	466	2,296
Other payables	2,194	2,784
	<u>108,315</u>	<u>121,966</u>
Notes payables — bank acceptance notes (<i>Note (b)</i>)	<u>60,000</u>	<u>62,313</u>

Notes:

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

	As at 30 June 2018 <i>RMB'000</i> (Unaudited)	As at 31 December 2017 <i>RMB'000</i> (Audited)
Less than 30 days	38,484	80,929
31 to 60 days	7,985	15,634
61 to 90 days	9,568	5,227
91 to 180 days	42,461	6,968
Over 180 days	6,308	3,697
	104,806	112,455

- (b) As at 30 June 2018, 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 2018 (31 December 2017: same).
- (c) The fair value of trade and other payables and notes payables approximate their carrying amounts as at 30 June 2018 due to their short-term maturities (31 December 2017: same).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group principally engage in the manufacturing and sale of cigarette 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.

BUSINESS REVIEW

Sales and Marketing

In the Period, the tobacco industry in China is gradually recovering. The Group's sales revenue rebounded by approximately 6.1%, mainly driven by several factors: (i) the Group has consolidated its market share in existing markets and dedicated additional efforts in market expansion; (ii) new markets are maturing gradually and achieved sales growth; and (iii) the tobacco industry in China recorded a solid performance in the first half of 2018.

During the Period, we continued to expand into new markets in China, including Yunnan Province, Guangdong Province, and Sichuan Province. Our new customers including Yunnan Kunming World Grand Innovation Printing Co., Ltd., Guangdong New Grand Long Packing Co., Ltd. and Hubei Wuhan Sizhen Optical Information Technology Co., Ltd. At the end of the 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.

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 Period and their comparison with the corresponding period in 2017.

	Six months ended 30 June	
	2018	2017
Production capacity (thousand metres) (<i>Note 1</i>)	102,400	110,338
Actual production volume (thousand metres)	48,794	45,660
Utilisation rate (<i>Note 2</i>)	47.7%	41.4%

Notes:

- (1) Production capacity is determined and calculated by multiplying the daily capacity of the laminating machines with the applicable number of days of operation and the number of laminating machines during the period. It is assumed that the daily operating hours for the laminating machines to be 18 hours, operating 280 days per year, taking into account staff holidays, public holidays and seasonal factors. The production capacity is based on 70% of the maximum speed at which the laminating machines are operated for quality optimisation purpose.
- (2) Utilisation rate is calculated by dividing actual production volume by production capacity for the relevant periods.

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 on 25 November 2016 (the “Listing Date”) to upgrade the production facilities and expand production capacity. Details on the use of net proceeds from the Listing will be laid out below in the paragraph headed “Use of Net Proceeds from the Listing” in this announcement.

Quality Control

During the Period, the Company obtained the certification and 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 Period, the revenue was approximately RMB102.2 million (six months ended 30 June 2017: approximately RMB96.3 million), representing an increase of approximately 6.1% as compared with the same period in 2017. The rise in revenue was driven by increased orders from existing customers as well as new customers, due to the additional efforts in expanding the market.

The following table sets forth the breakdown of the Group's revenue for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June		
	2018	2017	Change%
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Cigarette packaging product — transfer metallised paper	89,611	91,203	(1.7%)
Cigarette packaging product — laminated metallised paper	12,573	5,102	146.4%
Processing service income	5	—	N/A

Gross Profit and Gross Profit Margin

The Group's gross profit increased from approximately RMB16.2 million for the six months ended 30 June 2017 to approximately RMB16.7 million for the six months ended 30 June 2018. The Group's gross profit margin decreased from approximately 16.8% for the six months ended 30 June 2017 to approximately 16.4% for the six months ended 30 June 2018. The decrease in gross profit margin was the result of (i) increase in the price of some of the raw materials; and (ii) change of product mix in the sales during the Period.

Other Income and Other Expenses – Net

For the six months ended 30 June 2018, 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 expenses decreased from approximately RMB3.3 million for the six months ended 30 June 2017 to approximately RMB313,000 for the Period, mainly due to receiving one-off government grants of approximately RMB3.1 million for the six months ended 30 June 2017.

Distribution Expenses

During the Period under review, 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 decreased by approximately 19.3% from approximately RMB7.0 million for the six months ended 30 June 2017 to approximately RMB5.6 million for the six months ended 30 June 2018. The decrease in distribution expenses of the Group was mainly due to the decrease in transportation expenses and entertainment expenses.

Administrative Expenses

For the Period, 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 RMB10.3 million for the six months ended 30 June 2017 to approximately RMB10.1 million for the six months ended 30 June 2018. The decrease in administrative expenses of the Group was mainly due to the decrease in other taxes and repair and maintenance expenses.

Finance Expenses – Net

For the Period, net finance expenses represented the net amount of finance income and finance expenses. Finance income consisted of interest income from bank deposits and exchange gains. Finance expenses consisted of interest expenses from bank borrowings. The decrease in net finance expenses was mainly due to the decrease in interest expenses incurred from bank borrowings which was attributable to the decrease in bank borrowings.

Income Tax Expense

The Group's income tax expense decreased by approximately 66.7% from approximately RMB552,000 for the six months ended 30 June 2017 to approximately RMB184,000 for the Period. The decrease was mainly due to the decrease of profit before income tax and non-deductible expenses for the six months ended 30 June 2018.

Profit Attributable to Equity Holders of the Company

For the Period, the Group's profit attributable to equity holders of the Company was approximately RMB1.1 million (six months ended 30 June 2017: approximately RMB1.4 million). The decrease in profit attributable to equity holders of the Company for the Period under review was primarily due to the decrease of other income.

LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB70.6 million as at 30 June 2018, while the net current assets as at 31 December 2017 was approximately RMB67.9 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 30 June 2018 were RMB15.0 million (as at 30 June 2017: RMB22.0 million). The Group's gearing ratio decreased from approximately 19.5% as at 30 June 2017 to approximately 12.7% as at 30 June 2018. The decrease of gearing ratio was mainly due to an increase in total equity and the decrease in borrowings as at 30 June 2018. 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 Period, the Group's total capital expenditure amounted to approximately RMB3.3 million (six months ended 30 June 2017: approximately RMB3.1 million), which was mainly used in acquisition of equipments.

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

During the Period, there was no change in the capital structure of the Company. There has been no change in the capital structure of the Group since the Listing Date. The capital structure of the Group consists of bank borrowings and equity attributable to shareholders of the Group comprising issued share capital and reserves. The issued share capital of the Group comprises 500,000,000 ordinary Shares of HK\$0.01 each in one class only. Total equity of the Group amounted to approximately RMB118.0 million as at 30 June 2018 (as at 31 December 2017: approximately RMB116.7 million).

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 2018 RMB'000	As at 31 December 2017 RMB'000
Prepaid operating lease	11,937	12,104
Property, plant and equipment	25,136	23,725
Trade receivables	14,387	17,047
Restricted cash	31,388	38,719
Total	82,848	91,595

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 during the Period (six months ended 30 June 2017: nil).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities (as at 30 June 2017: 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 were 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 ("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 six months ended 30 June 2018 (six months ended 30 June 2017: same).

HUMAN RESOURCES AND REMUNERATION

As at 30 June 2018, the Group employed 150 employees (as at 30 June 2017: 154) with total staff costs of approximately RMB7.5 million incurred for the Period (six months ended 30 June 2017: approximately RMB7.4 million). The increase of staff costs of the Group was mainly due to the net impact of decrease in number of administrative employees and increase of the average salary level of the staff. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 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 of the Company dated 15 November 2016 (the “Prospectus”). Actual amount of the net proceeds utilised up to 30 June 2018 amounted to approximately RMB14.0 million. As of the date of this announcement, unutilised net proceeds amounted to approximately RMB23.6 million. The delay in the application of the intended use of proceeds is due to the postponement of the execution plan of the purchase and upgrade of production equipment and maintenance of the production facility, upgrade of non-production facilities and technique development. The unutilised net proceeds will be applied in the same manner set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

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 2018.

CAPITAL COMMITMENTS

As at 30 June 2018, the Group had no capital commitments for acquisition of property, plant and equipment (as at 30 June 2017: approximately RMB1.4 million).

FUTURE OUTLOOK

Looking forward, China’s economic growth is anticipated to remain stable with a positive prospect. The industry-wide destocking is in a good progress and fostered a sustained recovery in the cigarette industry, which contributes to the stable development of cigarette packaging industry. The Group will further consolidate its market position in existing markets and dedicate its efforts in exploring new markets in Yunnan Province, Guangdong Province, and Chongqing City. In order to strengthen marketing effectiveness, the Group adopts spatial integrated marketing strategy throughout the production and sales process.

The Group plans to invest approximately RMB8.0 million in research and development projects for the year ending 31 December 2018. During the Period under review, we adopted a new production technology of laminating the inner liner paper of the cigarette packet. The new production technology is not yet widely available in China and has good potential for further development. We will continue our capital input in research and development so that the Group’s competitiveness could be enhanced.

The Group is proactively preparing to join the upcoming tender biddings of Wuhan Hongzhicai Packaging Company Limited and Wuhan Hongjinlong Printing Company Limited in the second half of 2018. Meanwhile, relevant product development engaged by the Group for new customers is expected to mature and expected to turn into new orders gradually.

As the second half of the year is conventionally the peak season of the tobacco industry, it is expected the market demand will be stimulated. The Group will take this opportunity to further enhance the efforts in market expansion to increase market share.

The Group will make full use of the net proceeds from the Listing to invest in various aspects such as operation, marketing and technical development. With the solid foundation, the Group will also keep equipping itself in order to maximize the value for shareholders.

Share Option Scheme

A share option scheme (the “Scheme”) was conditionally adopted by the written resolutions of the Company’s shareholders passed on 3 November 2016. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The principal terms of the Scheme are summarised in the section headed “D. Share Option Scheme” in Appendix V of the Prospectus. As of the date of this announcement, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme.

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 as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) throughout the Period.

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 all the required standards in the Model Code throughout the Period.

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 Period.

Important Events after the Reporting Period

There was no material subsequent event after the Period and 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 Interim Results have not been audited by the Company’s auditor but the Audit Committee has reviewed the Interim Results and is of the view that the preparation of the Interim Results complied with applicable accounting standards and requirements and has 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 2018 Interim Report is expected to be despatched to the shareholders of the Company on or before Thursday, 27 September 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 Period.

By order of the Board
Mengke Holdings Limited
Zhang Weixiang
Chairman and Non-executive Director

Hong Kong, 31 August 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.