



**Mengkong Holdings Limited**

**盟科控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

**Stock Code: 1629**



Interim  
Report **2017**

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# CORPORATE INFORMATION

## **Name of directors**

Mr. Zhang Weixiang  
*(Chairman and non-executive Director)*  
Mr. Fu Mingping  
*(Executive Director)*  
Mr. Cheng Tai Kwan Sunny  
*(Independent non-executive Director)*  
Mr. Tan Yik Chung Wilson  
*(Independent non-executive Director)*  
Mr. Yick Ting Fai Jeffrey  
*(Independent non-executive Director)*

## **Registered office**

P.O. Box 1350, Clifton House  
75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## **Headquarters and principal place of business in the PRC**

No. 15 Shantou Road  
Yichang High-Tech Zone  
Hubei Province  
PRC

## **Principal place of business in Hong Kong**

Room A, 17th Floor  
Capitol Centre Tower II  
28 Jardine's Crescent  
Causeway Bay  
Hong Kong

## **Company's website**

[www.mengkeholdings.com](http://www.mengkeholdings.com)  
*(Note: the information contained in this website does not form part of this interim report)*

## **Company secretary**

Mr. Lau Ka Ming *(HKICPA, CPA Australia)*

## **Authorised representatives**

Mr. Zhang Weixiang  
Mr. Lau Ka Ming

## **Audit committee**

Mr. Tan Yik Chung Wilson *(Chairman)*  
Mr. Cheng Tai Kwan Sunny  
Mr. Yick Ting Fai Jeffrey

## **Remuneration committee**

Mr. Yick Ting Fai Jeffrey *(Chairman)*  
Mr. Cheng Tai Kwan Sunny  
Mr. Fu Mingping

## **Nomination committee**

Mr. Cheng Tai Kwan Sunny *(Chairman)*  
Mr. Tan Yik Chung Wilson  
Mr. Fu Mingping

## **Principal share registrar**

Estera Trust (Cayman) Limited  
P.O. Box 1350, Clifton House  
75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## **Hong Kong branch share registrar**

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **Principal bankers**

China Merchants Bank, Yichang Branch  
Bank of China Limited,  
Yichang Dongshan Branch

## **Compliance adviser**

RaffAello Capital Limited  
Room 2002, 20/F  
Tower Two, Lippo Centre  
89 Queensway, Hong Kong

## **Legal adviser as to Hong Kong laws**

ONC Lawyers  
19th Floor  
Three Exchange Square  
8 Connaught Place  
Central, Hong Kong

## **Auditor**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22/F, Prince's Building  
Central  
Hong Kong

## **Stock code**

1629

Mengke Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged 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

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 People’s Republic of China (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 provides 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)	<b>110,338</b>	97,637
Actual production volume (meters) (‘000)	<b>45,660</b>	56,458
Utilisation rate	<b>41.4%</b>	57.8%

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 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 ISO14001:2015 and GB/T28001-2011.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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%
	<i>RMB'000</i>	<i>RMB'000</i>	
	(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 paper. 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. 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 the 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 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 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 RMB22.0 million (as at 31 December 2016: RMB20.0 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 a related party) by total equity as at the dates indicated and multiplied by 100%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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:

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Notes receivables	<b>2,000</b>	–
Prepaid operating lease	<b>12,274</b>	12,441
Property, plant and equipment	<b>24,177</b>	25,325
Trade receivables	<b>19,318</b>	29,420
Restricted cash	<b>27,303</b>	48,123
Total	<b>85,072</b>	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 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, loans to a director of the Company 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 (six months ended 30 June 2016: approximately RMB6.9 million). 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 of directors of the Company 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 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 2017 amounted to approximately RMB12.1 million. As of the date of this interim report, 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 interim report, 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).



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 of the 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 (the “Listing Rules”) 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 30 June 2017.

## Directors’ and Chief Executive’s Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 30 June 2017, the following Director or chief executive of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”)) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules:

### Interests in the Company

Name	Nature of Interest	Number of Shares held (long position)	Approximate percentage of interests
Mr. Zhang Weixiang (Note 1) (“Mr. Zhang”)	Interest in a controlled corporation	281,252,000 (L)	56.25%

Note:

1. Mr. Zhang beneficially owns 76% of the issued share capital of Happily Soar Limited. Therefore, Mr. Zhang is deemed, or taken to be, interested in the same number of the Shares held by Happily Soar Limited for the purpose of the SFO. Mr. Zhang is the sole director of Happily Soar Limited.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## Interests in associated corporations of the Company

As at 30 June 2017, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name	Name of associated corporation	Capacity	Number of Shares held	Approximate percentage of interests
Mr. Zhang	Happily Soar limited	Beneficial owner	76	76%
Mr. Fu Mingping	Happily Soar limited	Beneficial owner	18	18%

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

So far as is known to the Directors, as at 30 June 2017, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or shorts positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity	Number of Shares held (long position)	Approximate percentage of interests
Happily Soar Limited	Beneficial owner	281,252,000	56.25%
Ms. Huang Feixia	Interest of spouse ( <i>Note 1</i> )	281,252,000	56.25%
Liberal Rite Limited	Beneficial owner	93,748,000	18.75%
Mr. Shiu Kwok Kuen ("Mr. Shiu")	Interest in a controlled corporation ( <i>Note 2</i> )	93,748,000	18.75%
Ms. Lai Pik Chu	Interest of spouse ( <i>Note 2</i> )	93,748,000	18.75%
Shareholder Value Fund	Beneficial owner	30,748,000	6.15%
CM Asset Management (Hongkong) Company Limited	Investment manager	30,748,000	6.15%

*Note:*

1. Mr. Zhang beneficially owns 76% of the issued share capital of Happily Soar Limited. Therefore, Mr. Zhang is deemed, or taken to be, interested in the same number of shares held by Happily Soar Limited for the purpose of the SFO. Ms. Huang Feixia is the spouse of Mr. Zhang and is deemed to be interested in all the Shares in which Mr. Zhang is interested.
2. Mr. Shiu beneficially owns the entire issued share capital of Liberal Rite Limited. Therefore, Mr. Shiu is deemed, or taken to be, interested in the same number of shares held by Liberal Rite Limited for the purpose of the SFO. Mr. Shiu is the sole director of Liberal Rite Limited. Ms. Lai Pik Chu is the spouse of Mr. Shiu and is deemed to be interested in all the Shares in which Mr. Shiu is interested.

Save as disclosed above, as at 30 June 2017, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

## Share Option Scheme

A share option scheme (the "Scheme") was conditionally adopted by the written resolutions of all shareholders of the Company passed on 3 November 2016. As of the date of this interim report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme. A summary of the principal terms and conditions of the Scheme is set out in Appendix V to the Prospectus.

## Directors' Interests in Competing Business

During the period under review, none of the Directors nor any of their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## Audit Committee

The Company has an audit committee (the "Audit Committee") with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the CG Code. 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 of the Company for the six months ended 30 June 2017 and is of the view that the preparation of the interim results has complied with applicable accounting standards and requirements. It has also discussed the internal control and financial reporting process with the management of the Group.

## Model Code for Securities Transactions by Directors

The Company has adopted 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.

## 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 interim report.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	6	96,305	126,289
Costs of sales	8	(80,096)	(96,268)
<b>Gross profit</b>		<b>16,209</b>	30,021
Other income and other losses — net	7	3,290	432
Distribution expenses	8	(6,998)	(6,539)
Administrative expenses	8	(10,292)	(19,991)
<b>Operating profit</b>		<b>2,209</b>	3,923
Finance income		298	352
Finance expenses		(588)	(613)
Finance expenses — net		(290)	(261)
<b>Profit before income tax</b>		<b>1,919</b>	3,662
Income tax expense	9	(552)	(2,142)
<b>Profit for the period</b>		<b>1,367</b>	1,520
Other comprehensive income		—	—
<b>Total comprehensive income for the period</b>		<b>1,367</b>	1,520
<b>Attributable to:</b>			
Equity holders of the Company		1,367	1,520
<b>Earnings per share (expressed in RMB per share)</b>			
— Basic and diluted	10	0.27 cents	0.41 cents

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Prepaid operating lease		<b>12,274</b>	12,441
Property, plant and equipment	12	<b>35,238</b>	37,117
Intangible assets		<b>112</b>	128
Prepayments	13	<b>2,567</b>	–
Deferred income tax assets		<b>908</b>	1,424
		<b>51,099</b>	51,110
<b>Current assets</b>			
Inventories		<b>51,802</b>	49,317
Trade and other receivables and prepayments	13	<b>124,140</b>	173,717
Notes receivables	13	<b>3,200</b>	1,000
Loans to a director	20	<b>1,519</b>	–
Restricted cash	14	<b>27,303</b>	48,123
Cash and cash equivalents	15	<b>16,581</b>	23,833
		<b>224,545</b>	295,990
<b>Total assets</b>		<b>275,644</b>	347,100
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	16	<b>4,459</b>	4,459
Other reserves		<b>101,142</b>	100,892
Retained earnings		<b>7,466</b>	6,099
<b>Total equity</b>		<b>113,067</b>	111,450
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred government grants		<b>1,333</b>	1,382

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
<b>Current liabilities</b>			
Borrowings	17	<b>22,000</b>	20,000
Trade and other payables	18	<b>84,378</b>	120,713
Notes payables	18	<b>54,607</b>	88,123
Amounts due to a related party	20	–	4,905
Current income tax liabilities		<b>259</b>	527
		<b>161,244</b>	234,268
<b>Total liabilities</b>		<b>162,577</b>	235,650
<b>Total equity and liabilities</b>		<b>275,644</b>	347,100

**Fu Mingping**  
*Executive Director*

**Zhang Weixiang**  
*Non-Executive Director*

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i> (Unaudited)	Other reserves <i>RMB'000</i> (Unaudited)	Retained earnings <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
<b>Balance at 1 January 2017</b>	<b>4,459</b>	<b>100,892</b>	<b>6,099</b>	<b>111,450</b>
Profit and total comprehensive income for the period	–	–	<b>1,367</b>	<b>1,367</b>
Share-based compensation reserve	–	<b>250</b>	–	<b>250</b>
<b>Balance at 30 June 2017</b>	<b>4,459</b>	<b>101,142</b>	<b>7,466</b>	<b>113,067</b>
<b>Balance at 1 January 2016</b>	–	35,929	17,129	53,058
Profit and total comprehensive income for the period	–	–	1,520	1,520
Share-based compensation reserve	–	250	–	250
<b>Balance at 30 June 2016</b>	–	36,179	18,649	54,828



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Six months ended 30 June</b>	
	<b>2017</b> <i>RMB'000</i> <b>(Unaudited)</b>	<b>2016</b> <i>RMB'000</i> <b>(Unaudited)</b>
<b>Cash flows from operating activities</b>		
Cash generated from/(used in) operations	<b>1,123</b>	(4,186)
Interest and other finance costs paid	<b>(461)</b>	(569)
Income tax paid	<b>(304)</b>	(2,389)
<b>Net cash generated from/(used in) operating activities</b>	<b>358</b>	(7,144)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	<b>(3,134)</b>	(1,567)
Loans to a director	<b>(1,519)</b>	–
Government grants received	–	25
<b>Net cash used in investing activities</b>	<b>(4,653)</b>	(1,542)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	<b>2,000</b>	53,494
Repayments of borrowings	–	(41,494)
Payments of listing expenses	–	(929)
Changes in amounts due to related parties	<b>(4,905)</b>	(6,179)
<b>Net cash (used in)/generated from financing activities</b>	<b>(2,905)</b>	4,892
<b>Net decrease in cash and cash equivalents</b>		
Cash and cash equivalents at beginning of the period	<b>23,833</b>	7,754
Exchange (losses)/gains on cash and cash equivalents	<b>(52)</b>	11
<b>Cash and cash equivalents at end of the period</b>	<b>16,581</b>	3,971

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 General information and basis of presentation

### (a) General information

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

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are principally engaged in the manufacturing and sale of cigarette packaging paper in the People’s Republic of China (the “PRC”). The ultimate parent company of the Company is Happily Soar Limited, a company incorporated in British Virgin Islands (“BVI”) and controlled by Mr. Zhang Weixiang (“Mr. Zhang”).

The 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 (the “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 Estimates

The preparation of the Interim Financial Information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the financial department under policies approved by the board of directors of the Company (the "Board").

The Interim Financial Information has not included all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management policies since the year end.

### (b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of trade and other receivables, notes receivables, loans to a director, cash and cash equivalents and restricted cash.

As at 30 June 2017, substantially all of the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which the management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 30 June 2017 and 31 December 2016 are as follows:

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Cash at banks:		
— Big four commercial banks (Note (i))	<b>2,312</b>	8,223
— Other listed banks	<b>14,269</b>	15,610
	<b>16,581</b>	23,833
Restricted cash:		
— Other listed banks	<b>27,303</b>	48,123

Note:

- (i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

Notes receivables represent bank acceptance notes. The issuing banks of bank acceptance notes are either state-owned banks with investment grade rating or local banks with good reputation. Management believes that these financial institutions are of high credit quality and there is no significant credit risk on the Group's bank deposits and bank acceptance notes.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4 Financial risk management *(Continued)*

### (b) Credit risk *(Continued)*

As at 30 June 2017, approximately 91.8% (as at 31 December 2016: approximately 93.8%) of the Group's trade receivables were due from the top five largest customers, while approximately 44.5% (as at 31 December 2016: approximately 37.8%) of the Group's trade receivables were due from the largest customer.

All of the Group's trade receivables and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers or cash advances and deposits are made to counter parties with appropriate credit history and the Group performs periodic credit evaluations of its customers or counter parties. The Group assesses the credit quality of each customer or counter party by taking into account its financial position, past experience and other factors. Credit limits are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regard, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the consolidated financial statements after assessing the collectability of debts. Further quantitative disclosures in respect of trade and other receivables are set out in Note 13.

### (c) Fair value estimation

Financial instruments carried at fair value or where fair value was disclosed can be categorised by level of the inputs to valuation techniques used to measure fair value. The inputs are categorised into three levels within a fair value hierarchy as follows:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial assets include cash and cash equivalents, restricted cash, trade and other receivables, notes receivables and loans to a director, and the Group's financial liabilities include trade and other payables, notes payables, borrowings and amounts due to a related party. Their carrying values approximated their fair values due to their short maturities.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 5 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 manufacturing and sale of cigarette packaging paper 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 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).

## 6 Revenue

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

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7 Other income and other losses — net

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

## 8 Expenses by nature

	Six months ended 30 June	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (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	<b>97,386</b>	122,798

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9 Income tax expense

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

No provision for Hong Kong profits 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
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax:		
— PRC corporate income tax	36	2,518
Deferred income tax:		
— PRC corporate income tax	516	(376)
	<b>552</b>	2,142

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 10 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).

## 11 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).



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12 Property, plant and equipment

	Plant and buildings <i>RMB'000</i> (Unaudited)	Machinery <i>RMB'000</i> (Unaudited)	Motor vehicles <i>RMB'000</i> (Unaudited)	Office equipment <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
<b>At 1 January 2017</b>					
Cost	35,370	18,475	1,553	1,843	57,241
Accumulated depreciation	(7,738)	(10,910)	(706)	(770)	(20,124)
Net book amount	27,632	7,565	847	1,073	37,117
<b>Six months ended 30 June 2017</b>					
Opening net book amount	27,632	7,565	847	1,073	37,117
Depreciation charges	(911)	(701)	(142)	(125)	(1,879)
Closing net book amount	26,721	6,864	705	948	35,238
<b>At 30 June 2017</b>					
Cost	35,370	18,475	1,553	1,843	57,241
Accumulated depreciation	(8,649)	(11,611)	(848)	(895)	(22,003)
Net book amount	26,721	6,864	705	948	35,238
<b>At 1 January 2016</b>					
Cost	34,670	17,228	1,414	1,775	55,087
Accumulated depreciation	(6,031)	(9,473)	(428)	(457)	(16,389)
Net book amount	28,639	7,755	986	1,318	38,698
<b>Six months ended 30 June 2016</b>					
Opening net book amount	28,639	7,755	986	1,318	38,698
Additions	700	210	139	63	1,112
Depreciation added	(826)	(699)	(136)	(152)	(1,813)
Closing net book amount	28,513	7,266	989	1,229	37,997
<b>At 30 June 2016</b>					
Cost	35,370	17,438	1,553	1,838	56,199
Accumulated depreciation	(6,857)	(10,172)	(564)	(609)	(18,202)
Net book amount	28,513	7,266	989	1,229	37,997

As at 30 June 2017, property, plant and equipment with carrying amounts of RMB24,177,000 (as at 31 December 2016: RMB25,325,000) were pledged as collaterals for the borrowings (Note 17) and bank acceptance notes payables (Note 18) of the Group.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 13 Trade and other receivables and prepayments and notes receivables

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (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
	<b>126,707</b>	173,717
Less : non-current portion of prepayments	<b>(2,567)</b>	–
Current portion of trade and other receivables and prepayments	<b>124,140</b>	173,717
Notes receivables (Note (c))	<b>3,200</b>	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
121 days to 180 days	1,234	882
Over 180 days	4,291	488
	<b>120,884</b>	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 (Note 17) of the Group.

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 14 Restricted cash

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Deposits in designated banks as collateral for issuance of bank acceptance notes and denominated in RMB	<b>27,303</b>	48,123

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC is subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## 15 Cash and cash equivalents

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	As at 31 December 2016 RMB'000 (Audited)
Cash at banks and denominated:		
— RMB	<b>15,411</b>	21,404
— HK\$	<b>1,170</b>	2,429
	<b>16,581</b>	23,833

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC is subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16 Share capital

	Number of ordinary shares	Share capital HK\$
<b>Authorised ordinary share of HK\$0.01 each:</b>		
At 31 December 2016 and 30 June 2017	1,000,000,000	10,000,000

	Number of ordinary shares	Share capital	
		HK\$	RMB'000
<b>Issued and fully paid up:</b>			
At 1 January and 30 June 2017	500,000,000	5,000,000	4,459
At 8 January 2016 (date of incorporation of the Company) and 30 June 2016	100	1	–

## 17 Borrowings

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Current:		
Short term bank borrowings — secured	20,000	20,000
Other borrowings — secured	2,000	–
	<b>22,000</b>	20,000

The borrowings were secured by prepaid operating lease, property, plant and equipment (Note 12), trade receivables and notes receivables (Note 13) and restricted cash (Note 14) of the Group as at 30 June 2017 (as at 31 December 2016: same).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 18 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
	<b>84,378</b>	120,713
Notes payables — bank acceptance notes (Note (b))	<b>54,607</b>	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
	<b>81,961</b>	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 (Note 12) and restricted cash (Note 14) 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 approximated their carrying amounts as at 30 June 2017 due to their short-term maturities (as at 31 December 2016: same).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 19 Commitments

### Capital commitments

	<b>As at 30 June 2017 RMB'000 (Unaudited)</b>	<b>As at 31 December 2016 RMB'000 (Audited)</b>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided	<b>1,400</b>	–

## 20 Related party transactions

- (a) The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship
Mr. Zhang	Non-executive director and controlling shareholder
Mr. Fu Mingping ("Mr. Fu")	Executive director
Yichang Kunxiang Trading Co., Ltd. ("Yichang Kunxiang")	Ultimately controlled by Mr. Zhang
Yichang Hongyi logistics Co., Ltd. ("Hongyi")	Jointly controlled by a close family member of Mr. Fu

- (b) During the period, the Group had the following significant transactions with a related party. The transaction amounts disclosed represent the transaction with the relevant party during the periods when the related party was a related party of the Group:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Transportation expenses paid to: Hongyi (Note (i))	–	969

Note:

- (i) Hongyi was no longer a related party of the Group after 16 March 2016 when the close family member of Mr. Fu disposed of his 50% interest in Hongyi with loss of the joint control.

In the opinion of the directors of the Company, this transaction was carried out on terms agreed with the related party in the ordinary course of business.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20 Related party transactions *(Continued)*

### (c) Key management compensations

Key management compensations for the period are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages, bonuses, welfare and other benefits	486	447
Contributions to pension plans	56	80
	<b>542</b>	527

### (d) Balances with related parties

	As at	As at
	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Loans to a director:		
Mr. Fu <i>(Note (i))</i>	1,519	–
Amounts due to a related party:		
Yichang Kunxiang	–	4,905

Note:

- (i) 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 Mr. Fu with annual interest rate of 5%, which are unsecured and will be matured in September 2017.