Mengke Holdings Limited

盟 科 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1629

LEADING IN INNOVATION
STRIVING FOR EXCELLENCE

Interim Report 2018

CONTENTS

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 10008, Willow House
Cricket Square
Grand Cayman KY1–1001
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
(Note: the information contained in this website does not form part of this interim report)

Company secretary
Mr. Lau Ka Ming

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
Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House
Cricket Square
Grand Cayman KY1–1001
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

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") 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 six months ended 30 June 2018 (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, in order to boost our sales, 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.

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) *(Note 1)*	**102,400**	110,338
Actual production volume (thousand metres)	**48,794**	45,660
Utilisation rate *(Note 2)*	**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 (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 set out below in the paragraph headed "Use of Net Proceeds from the Listing" in this interim report.

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, 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 interim report, 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 interim report, 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.

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 Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company on the Exchange, by private arrangement or by way of a general offer throughout the Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, 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 ("Mr. Zhang")	Interest in a controlled corporation *(Note 1)*	281,252,000	56.25%

Note:

1. These Shares are held by Happily Soar Limited, 76% of the issued share capital of which is beneficially held by Mr. Zhang. 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.

Interests in Associated Corporations of the Company

As at 30 June 2018, 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 2018, 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 2018, 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 *(Note 1)*	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 *(Note 2)*	93,748,000	18.75%
Ms. Lai Pik Chu	Interest of spouse *(Note 3)*	93,748,000	18.75%
Shareholder Value Fund	Beneficial owner	45,704,000	9.14%
CM Asset Management (Hongkong) Company Limited	Investment manager	45,704,000	9.14%

Notes:

1. 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 under the SFO.

2. These Shares are held by Liberal Rite Limited, the entire issued share capital of which is beneficially held by Mr. Shiu. 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.

3. 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 under the SFO.

Save as disclosed above, as at 30 June 2018, 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 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 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 report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the period under review, none of the Directors or 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.

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

Save as disclosed above or in this interim report, no Director had any material interests in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Period.

AUDIT COMMITTEE

The Company established the audit committee of the Board (the "Audit Committee") on November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the CG Code set out in Appendix 14 to the Listing Rules. 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 composition of the Audit Committee meets the requirements of Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee, among other things, are to ensure the adequacy and effectiveness of the accounting and financial controls of the Group, oversee the performance of internal control systems and financial reporting process, monitor the integrity of the financial statements and compliance with statutory and listing requirements and oversee the independence and qualifications of the external auditors and objectivity and the effectiveness of the audit process in accordance with applicable standards. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 together with the notes attached thereto have been reviewed by the Audit Committee but have not been audited by the Company's auditor.

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 throughout the Period.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Company was informed by Happily Soar Limited and Liberal Rite Limited (collectively, the "Selling Shareholders"), which as at the date of this interim report held 281,252,000 Shares and 93,748,000 Shares, respectively (representing approximately 56.25% and 18.75% of the total number of issued Shares, respectively), that on 31 July 2018, the Selling Shareholders entered into non-legally binding memorandums of understanding (the "MOUs") with two potential buyers, under which the preliminary terms for the potential buyers to acquire and the Selling Shareholders to sell the entire shareholding held by the Selling Shareholders in the Company were set out. If the transactions under the MOUs are materialised, it may lead to a change in control of the Company and trigger a mandatory general offer under the Code on Takeovers and Mergers for all the issued Shares. For further information of the transactions, please refer to the announcement of the Company dated 2 August 2018. Other than the above, there was no material subsequent event during the period from 1 July 2018 up to the date of this interim report.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June **2018** ***RMB'000*** **(Unaudited)**	 2017 *RMB'000* (Unaudited)
Revenue	*7*	**102,189**	96,305
Costs of sales	*9*	**(85,460)**	(80,096)
Gross profit		**16,729**	16,209
Other income and other losses — net	*8*	**313**	3,290
Distribution expenses	*9*	**(5,648)**	(6,998)
Administrative expenses	*9*	**(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	*10*	**(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	*11*	**0.21 cents**	0.27 cents

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Assets			
Non-current assets			
Prepaid operating lease		**11,937**	12,104
Property, plant and equipment	*13*	**35,539**	37,290
Intangible assets		**82**	108
Prepayments	*14*	**672**	–
Deferred income tax assets		**285**	485
		48,515	49,987
Current assets			
Inventories		**71,594**	63,232
Trade and other receivables and prepayments	*14*	**136,005**	147,853
Notes receivables	*14*	**2,000**	3,499
Amounts due from a related party		**–**	1,511
Restricted cash	*15*	**31,388**	38,719
Cash and cash equivalents	*16*	**12,980**	14,776
		253,967	269,590
Total assets		**302,482**	319,577
Equity and liabilities			
Equity			
Share capital	*17*	**4,459**	4,459
Other reserves		**101,642**	101,392
Retained earnings		**11,885**	10,823
Total equity		**117,986**	116,674

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Deferred government grants		**1,163**	1,236
Current liabilities			
Borrowings	*18*	**15,000**	14,980
Trade and other payables	*19*	**108,315**	121,966
Notes payables	*19*	**60,000**	62,313
Amounts due to related parties		**–**	2,086
Current income tax liabilities		**18**	322
		183,333	201,667
Total liabilities		**184,496**	202,903
Total equity and liabilities		**302,482**	319,577

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2018	**4,459**	**101,392**	**10,823**	**116,674**
Profit and total comprehensive income for the period	**–**	**–**	**1,062**	**1,062**
Share–based compensation reserve	**–**	**250**	**–**	**250**
Balance at 30 June 2018	**4,459**	**101,642**	**11,885**	**117,986**
Balance at 1 January 2017	4,459	100,892	6,099	111,450
Profit and total comprehensive income for the period	–	–	1,367	1,367
Share–based compensation reserve	–	250	–	250
Balance at 30 June 2017	4,459	101,142	7,466	113,067

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	**2,655**	1,123
Interest and other finance costs paid	**(341)**	(461)
Income tax paid	**(288)**	(304)
Net cash generated from operating activities	**2,026**	358
Cash flows from investing activities		
Purchases of property, plant and equipment	**(3,284)**	(3,134)
Changes in amounts due from a related party	**1,511**	(1,519)
Net cash used in investing activities	**(1,773)**	(4,653)
Cash flows from financing activities		
Proceeds from borrowings	**16,388**	2,000
Repayments of borrowings	**(16,368)**	–
Changes in amounts due to related parties	**(2,086)**	(4,905)
Net cash used in financing activities	**(2,066)**	(2,905)
Net decrease in cash and cash equivalents	**(1,813)**	(7,200)
Cash and cash equivalents at beginning of the period	**14,776**	23,833
Exchange gains/(losses) on cash and cash equivalents	**17**	(52)
Cash and cash equivalents at end of the period	**12,980**	16,581

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

3.1 Adoption of HKFRS 9 *(Continued)*

3.1.1 HKFRS 9 — impact of adoption *(Continued)*

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.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

3.1 Adoption of HKFRS 9 *(Continued)*

3.1.2 HKFRS 9 — accounting policies applied from 1 January 2018 (Continued)

(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 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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 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 2017.

5 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").

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

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 2017.

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, cash and cash equivalents and restricted cash.

As at 30 June 2018, 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 2018 and 31 December 2017 are as follows:

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash at banks:		
— Big four commercial banks *(Note (i))*	**834**	922
— Other listed banks	**12,146**	13,854
	12,980	14,776
Restricted cash:		
— Other listed banks	**31,388**	38,719

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.

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

As at 30 June 2018, approximately 74.5% (31 December 2017: approximately 78.1%) of the Group's trade receivables were due from the top five largest customers, while approximately 23.2% (31 December 2017: approximately 34.1%) 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 14.

(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 and notes receivables. 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.

6 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 packing materials for cigarette in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM 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 (31 December 2017: same).

7 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.

8 OTHER INCOME AND OTHER LOSSES — NET

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

9 EXPENSES BY NATURE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(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	**101,191**	97,386

10 INCOME TAX EXPENSE

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

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 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).

10 INCOME TAX EXPENSE *(Continued)*

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

The Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") in 2013 and re-designated as the same in 2016. The qualification is valid for three years ending 31 December 2018. Consequently, the subsidiary is entitled to preferential income tax rate of 15% for the six months ended 30 June 2018 (six months ended 30 June 2017: 15%).

11 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 owners 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).

12 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).

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings *RMB'000* (Unaudited)	Machinery *RMB'000* (Unaudited)	Motor vehicles *RMB'000* (Unaudited)	Office equipment *RMB'000* (Unaudited)	Assets under construction *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
At 1 January 2018						
Cost	**38,337**	**18,615**	**1,553**	**2,256**	**395**	**61,156**
Accumulated depreciation	**(9,499)**	**(12,297)**	**(990)**	**(1,080)**	**–**	**(23,866)**
Net book amount	**28,838**	**6,318**	**563**	**1,176**	**395**	**37,290**
Six months ended 30 June 2018						
Opening net book amount	**28,838**	**6,318**	**563**	**1,176**	**395**	**37,290**
Additions	**228**	**–**	**–**	**12**	**–**	**240**
Transfers	**–**	**395**	**–**	**–**	**(395)**	**–**
Depreciation charges	**(974)**	**(687)**	**(122)**	**(208)**	**–**	**(1,991)**
Closing net book amount	**28,092**	**6,026**	**441**	**980**	**–**	**35,539**
At 30 June 2018						
Cost	**38,565**	**19,010**	**1,553**	**2,268**	**–**	**61,396**
Accumulated depreciation	**(10,473)**	**(12,984)**	**(1,112)**	**(1,288)**	**–**	**(25,857)**
Net book amount	**28,092**	**6,026**	**441**	**980**	**–**	**35,539**
At 1 January 2017						
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
Six months ended 30 June 2017						
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
At 30 June 2017						
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

As at 30 June 2018, property, plant and equipment with carrying amounts of RMB25,136,000 (31 December 2017: RMB23,725,000) were pledged as collaterals for the borrowings (Note 18) and bank acceptance notes payables (Note 19) of the Group.

14 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 *(Note (a))*	**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") *(Note (b))*	**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 *(Note (c))*	**2,000**	3,499

Notes:

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

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (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
	130,821	145,580

(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). 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 (Note 18) of the Group.

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

15 RESTRICTED CASH

	As at 30 June 2018 ***RMB'000*** **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Deposits in designated banks as collateral for issuance of bank acceptance notes and denominated in RMB	**31,388**	38,719

16 CASH AND CASH EQUIVALENTS

	As at 30 June 2018 ***RMB'000*** **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Cash at banks and denominated:		
— RMB	**11,163**	12,738
— HK$	**1,817**	2,038
	12,980	14,776

17 SHARE CAPITAL

	Number of ordinary shares	**Share capital** *HK$*
Authorised ordinary share of HK$0.01 each:		
At 31 December 2017 and 30 June 2018	1,000,000,000	10,000,000

	Number of ordinary shares	**Share capital** *HK$*	*RMB'000*
Issued and fully paid up:			
At 1 January and 30 June 2018	500,000,000	5,000,000	4,459
At 1 January and 30 June 2017	500,000,000	5,000,000	4,459

18 BORROWINGS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Current:		
Short term bank borrowings — secured	**15,000**	14,980

The borrowings were secured by prepaid operating lease, property, plant and equipment (Note 13), and trade receivables (Note 14(c)) of the Group as at 30 June 2018 (31 December 2017: same).

19 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade payables *(Note (a))*	**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
	108,315	121,966
Notes payables — bank acceptance notes *(Note (b))*	**60,000**	62,313

19 TRADE AND OTHER PAYABLES AND NOTES PAYABLES *(Continued)*

Notes:

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

	As at 30 June 2018 ***RMB'000*** **(Unaudited)**	As at 31 December 2017 *RMB'000* (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 (Note 13) and restricted cash (Note 15) of the Group as at 30 June 2018 (31 December 2017: same).

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

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 and key management personnel of the Company
Yichang Kunxiang Trading Co., Ltd. ("Yichang Kunxiang")	Ultimately controlled by Mr. Zhang

20 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management compensations

Key management compensations for the period are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries, wages, bonuses, welfare and other benefits	**796**	486
Contributions to pension plans	**61**	56
	857	542

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 report, 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.