China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of China Ludao Technology Company Limited (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013, together with the comparative figures for the year ended 31 December 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

		Year ended 31 December	
	Note	**2013**	2012
		RMB'000	*RMB'000*
Revenue	*3*	**251,382**	228,852
Cost of sales	*4*	**(188,860)**	(173,574)
Gross profit		**62,522**	55,278
Other income	*3*	**9,303**	5,459
Other loss – net	*3*	**(1,528)**	(349)
Selling expenses	*4*	**(11,423)**	(9,967)
Administrative expenses	*4*	**(29,648)**	(22,980)
Operating profit		**29,226**	27,441
Finance income		**565**	877
Finance costs		**(335)**	(21)
Finance income – net		**230**	856
Profit before income tax		**29,456**	28,297
Income tax expense	*5*	**(5,449)**	(4,485)
Profit for the year		**24,007**	23,812
Other comprehensive income			
Items that may be reclassified to profit or loss			
Currency translation differences		**(1,032)**	79
Total comprehensive income for the year		**22,975**	23,891
Earnings per share for profit attributable to owners of the Company – basic and diluted (Renminbi ("RMB") per share)	*14*	**0.07**	0.08

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Land use rights		**1,934**	1,984
Property, plant and equipment	*9*	**51,530**	45,346
Intangible assets		**896**	866
Deferred income tax assets		**243**	264
Prepayment for property, plant and equipment and land use rights		**6,032**	620
		60,635	49,080
Current assets			
Inventories	*8*	**30,329**	24,590
Trade and other receivables	*10*	**132,047**	77,121
Cash and cash equivalents		**54,291**	36,284
Pledged bank deposits		**18,498**	22,287
		235,165	160,282
Total assets		**295,800**	209,362
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*6*	**3,170**	–
Share premium		**52,153**	–
Other reserves		**48,479**	34,918
Retained earnings		**78,601**	58,044
Total equity		**182,403**	92,962

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
LIABILITIES			
Current liabilities			
Trade and other payables	*11*	**101,132**	114,963
Current income tax liabilities		**2,265**	1,437
Borrowings	*12*	**10,000**	–
		113,397	116,400
Total liabilities		**113,397**	116,400
Total equity and liabilities		**295,800**	209,362
Net current assets		**121,768**	43,882
Total assets less current liabilities		**182,403**	92,962

NOTES:

1. GENERAL INFORMATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

China Ludao Technology Company Limited was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1180, Cayman Islands. The Group is principally engaged in the manufacturing and sale of air fresheners, aerosol insecticides, household cleaners and auto care products in the People's Republic of China (the "PRC"). The ultimate holding company of the Company is Ludao China Investments Limited ("Ludao Investments") which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"). The ultimate controlling party of the Group is Mr. Yu Yuerong who has 67.6% interest in the Company.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company, the Company acquired the entire issued share capital of Ludao Investments Holdings Limited ("Ludao BVI"), through a share exchange with Ludao Investments, the owner of Ludao BVI and the holding company of the Company, and Neland Development Limited ("Neland"). Upon completion of the Reorganisation, the Company became the holding company of the Group and Ludao BVI acts as the intermediate holding company of Zhejiang Ludao Technology Co., Ltd. ("Ludao PRC"), an operating subsidiary of the Group.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 October 2013 (the "Listing Date").

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention,

Change in accounting policy and disclosure

(a) "Consolidated income statement" and "Consolidated statement of comprehensive income" were presented separately in the consolidated financial statements for the year ended 31 December 2012. In preparing the consolidated financial statements for the year, for simplicity and conciseness, the Company elected to present one "Consolidated statement of comprehensive income" and accordingly, combined "Consolidated income statement" with "Consolidated statement of comprehensive income". The change does not have impact on the results, financial position and cash flows of the Company and the Group for the current and previous years.

(b) New and amended standards that have been issued and are effective for periods commencing on 1 January 2013 and are relevant to the Group

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change to the Group resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The adoption of this amended standard does not have significant impacts to the Group.

Amendment to HKFRS 7, 'Financial instruments: Disclosures', on asset and liability offseting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The adoption of this amended standard does not have significant impact to the Group.

HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The adoption of this newly effective standard does not have significant impact to the Group.

HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The adoption of this newly effective standard does not have significant impact to the Group.

(c) New and amended standards have been issued but are not yet effective for the financial year and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
HKAS 32 (amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (amendments)	Recoverable amount disclosures for non-financial assets	1 January 2014
HKAS 39 (amendments)	Novation of derivatives	1 January 2014
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 10, HKFRS 12 and HKAS 27 (amendments)	Investment entities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
HK (IFRIC) Interpretation 21	Levies	1 January 2014

The Group did not early adopt any of these new or revised standards, amendments and interpretation to existing standards. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

2. SEGMENT INFORMATION

Management reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports reviewed by the executive directors of the companies comprising the Group that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and relative products which is considered by management as one single business segment.

Geographical information

The following tables present information on revenue and certain assets of the Group by geographical segment.

Revenue from customers

	2013	2012
	RMB'000	*RMB'000*
United states of America	**98,053**	150,154
Mainland China	**81,949**	38,212
Europe	**19,439**	18,701
Others	**51,941**	21,785
	251,382	228,852

The revenue information above is based on delivery location of the customers.

Non-current assets

Non-current assets for this purpose consist of land use rights, property, plant and equipment and intangible assets which are all located in the PRC as at 31 December 2013 and 2012.

Information about major customers

Revenue from major customers, each of them accounted for 5% or more of the Group's revenue, are set out below:

	2013	2012
	RMB'000	*RMB'000*
Fayeshine D and M Co., Ltd.	**60,686**	75,493
Ningbo Rejoice Import and Export Co., Ltd.	**37,351**	11,320
Yiwu Weijia Cosmetics Co. Ltd	**22,267**	–
Empresas Demaria S.A.	**18,079**	373
Yiwu Weiwei Cosmetics Co. Ltd	**195**	15,221
Ningbo Hiking Import and Export Co., Ltd.	**–**	61,615
	138,578	164,022

3 REVENUE, OTHER INCOME AND OTHER GAIN/(LOSS)

The Group is principally engaged in the sale of products. Revenue, other income and other gain/(loss) recognised are as follows:

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**251,382**	228,852
Other income		
Government grants *(a)*	**8,155**	3,195
Sales of scrap materials	**1,148**	2,264
	9,303	5,459
Other gain/(loss)-net		
Net foreign exchange loss	**(1,730)**	(398)
Others	**202**	49
	(1,528)	(349)
	7,775	5,110

(a) The amount mainly represents government grants received by Ludao PRC for subsidising its research and development expenditures, and as an incentive for the Company to attempt an initial public offering and listing of its shares on Main Board of The Stock Exchange.

4 EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	2013	2012
	RMB'000	*RMB'000*
Depreciation and amortisation	**3,720**	2,975
Employee benefit expenses, excluding amount included in research and development costs	**15,070**	12,012
Raw materials used	**181,491**	163,134
Changes in inventories of finished goods and work in progress	**(5,012)**	71
Reversal of provision for write-down of inventories – net	**(201)**	(176)
Reversal of bad debts	**(90)**	–
Water and electricity expenditures	**2,916**	2,334
Transportation and travelling expenses	**6,450**	6,481
Telecommunication expenses	**426**	330
Exhibition expenses	**100**	366
Advertising cost	**764**	142
Other tax expenses	**1,654**	1,840
Research and development costs		
– Employee benefit expenses	**4,403**	2,585
– Materials and others	**3,645**	5,863
Auditor's remuneration	**1,800**	28
Entertainment expenses	**470**	203
Office expenses	**137**	291
Listing expenses	**8,910**	6,471
Operating lease expenses	**412**	209
Bank charges	**147**	118
Donations	**786**	–
Professional fees	**307**	–
Other expenses	**1,626**	1,244
Total	**229,931**	206,521

5 INCOME TAX EXPENSE

	2013	2012
	RMB'000	*RMB'000*
Current income tax	**5,428**	4,458
Deferred income tax	**21**	27
	5,449	4,485

Pursuant to the rules and regulations of the Cayman Islands, the Group was not subject to any income tax in the Cayman Islands.

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the year (2012: nil).

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Ludao PRC was qualified as a High and New Technology Enterprise, and accordingly, it is entitled to a preferential rate of 15% for the three years from 1 January 2013 to 31 December 2015. The income tax rate of Ludao PRC for the year ended 31 December 2013 was 15% (2012: 15%).

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Group as follows:

	2013	2012
	RMB'000	*RMB'000*
Profit before income tax	**29,456**	28,297
Tax calculated at the tax rate of 15%	**4,418**	4,245
Accelerated research and development deductible expenses	**(633)**	(688)
Expenses not deductible for taxation purposes	**1,664**	928
	5,449	4,485

6 SHARE CAPITAL

	Share capital	
	The Group and Company	
	Number of ordinary shares (of HKD0.01 each)	*RMB'000*
At 1 January 2012	–	–
Upon incorporation of the Company on 25 May 2012 (a)	1	–
Share issued (b)	999	–
At 31 December 2012 and 1 January 2013	1,000	–
Issue of shares for the acquisition of a subsidiary(c)	9,000	–
New Issue (d)	100,000,000	792
Capitalisation Issue (e)	299,990,000	2,378
At 31 December 2013	400,000,000	3,170

(a) The Company was incorporated on 25 May 2012 with an authorised share capital of HKD390,000 divided into 39,000,000 Shares of HKD0.01 each, of which 1 share was allotted to Reid Services Limited, and was then transferred to Ludao Investments on 25 May 2012.

(b) On 25 May 2012, Ludao Investments and Neland subscribed for 900 Shares and 99 Shares of the Company respectively at par value.

(c) On 16 September 2013, the Company issued and allotted 8,109 shares and 891 shares (all credited as fully paid) to Ludao Investments and Neland respectively pursuant to a share swap agreement, as consideration for the acquisition by the Company of the entire issued share capital of Ludao BVI. The difference between the amounts of net assets of Ludao BVI on the acquisition date and nominal value of the shares allotted amounting to RMB13,572,000, was credited to the share premium account of the Company.

(d) On 11 October 2013, 100,000,000 shares of HKD0.01 per share were issued at HKD0.80 each per share through a placing and public offer (the "New Issue") for HKD80,000,000 (approximately RMB63,400,000). After the New Issue, the issued and fully-paid share capital of the Company increased by HKD1,000,000 (RMB792,500). The difference between the New Issue proceeds and the increased issued and fully-paid share capital, amounting to RMB62,607,500, was credited to the share premium account.

(e) On 16 September 2013, pursuant to a resolution, the directors were authorised to capitalise the amount of HKD2,999,900 (RMB2,378,000) as 299,990,000 shares issued to the then existing shareholders, at HKD0.01 each from the amount standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). These shares were issued in conjunction with the New Issue.

7 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation or the companies now comprising the Group during the year ended 31 December 2013 (2012: nil).

8 INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**15,197**	14,671
Work in progress	**6,666**	2,214
Finished goods	**8,466**	7,906
	30,329	24,791
Less: provision for write-down of inventories	**–**	(201)
Inventories – Net	**30,329**	24,590

The cost of inventories included in cost of sales during the years ended 31 December 2013 amounted to RMB176,479,000 (2012: RMB163,205,000).

During the year, the Group reversed a provision for write-down of inventories amounting to RMB201,000 (2012: RMB176,000). The relevant inventories were sold to independent customers during the year. The above amounts are included in 'cost of sales' in the consolidated statement of comprehensive income.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2012						
Cost	33,899	16,638	1,942	3,204	–	55,683
Accumulated depreciation	(4,135)	(5,758)	(1,091)	(819)	–	(11,803)
Net book amount	29,764	10,880	851	2,385	–	43,880
Year ended 31 December 2012						
Opening net book amount	29,764	10,880	851	2,385	–	43,880
Additions	363	3,428	199	282	84	4,356
Transfer	80	–	–	–	(80)	–
Depreciation	(1,055)	(1,185)	(284)	(366)	–	(2,890)
Closing net book amount	29,152	13,123	766	2,301	4	45,346
At 31 December 2012						
Cost	34,342	20,066	2,141	3,486	4	60,039
Accumulated depreciation	(5,190)	(6,943)	(1,375)	(1,185)	–	(14,693)
Net book amount	29,152	13,123	766	2,301	4	45,346
Year ended 31 December 2013						
Opening net book amount	29,152	13,123	766	2,301	4	45,346
Additions	1,252	3,454	257	565	4,163	9,691
Depreciation	(1,312)	(1,566)	(288)	(341)	–	(3,507)
Closing net book amount	29,092	15,011	735	2,525	4,167	51,530
At 31 December 2013						
Cost	35,594	23,520	2,398	4,051	4,167	69,730
Accumulated depreciation	(6,502)	(8,509)	(1,663)	(1,526)	–	(18,200)
Net book amount	29,092	15,011	735	2,525	4,167	51,530

Depreciation expenses of RMB1,687,000 (2012: RMB1,215,000) have been charged to cost of sales and RMB1,820,000 (2012: RMB1,675,000) have been charged to administrative expenses in the consolidated statement of comprehensive income for the year.

As 31 December of 2013, the Group's buildings at the carrying amount of RMB21,765,000 (2012: RMB22,454,000) were pledge to secured notes payable.

10 TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**89,458**	45,124
Less: provision for impairment	**–**	(90)
Trade receivables, net	**89,458**	45,034
Prepayments and deposits	**41,500**	17,158
Amount due from a related party	**–**	2,912
Amount due from Controlling Shareholder	**–**	8,080
Other receivables	**1,039**	3,937
Notes receivable	**50**	–
	132,047	77,121

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	2013	2012
	RMB'000	*RMB'000*
RMB	**79,858**	43,484
USD	**51,537**	33,637
HKD	**652**	–
	132,047	77,121

The fair values of trade and other receivables approximate to their carrying values as at the year end dates.

Trade receivables

The credit period granted to customers is between 0 to 180 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	2013	2012
	RMB'000	*RMB'000*
Up to 3 months	**71,835**	32,143
3 to 6 months	**16,188**	8,803
6 to 12 months	**125**	4,081
Over 12 months	**1,310**	97
	89,458	45,124

The Group's sales are mainly made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 58% (2012: 76%) of the Group's revenue for the year. They accounted for approximately 64% (2012: 68%) and of the gross trade receivable balances as at 31 December 2013.

As at 31 December 2013, trade receivables of RMB1,734,000 (2012: RMB19,440,000) were past due but not considered impaired. These relate to a number of independent customers that have good track records with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**–**	6,549
3 to 6 months	**299**	8,803
6 to 12 months	**125**	4,081
Over 12 months	**1,310**	7
	1,734	19,440

11 TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**22,920**	19,059
Notes payable	**60,879**	66,973
Advance from customers	**9,765**	8,044
Other tax payables	**1,980**	765
Accrued expenses	**4,505**	2,602
Amount due to Controlling Shareholder	**–**	17,209
Other payables	**1,083**	311
	101,132	114,963

12 BORROWINGS

The carrying amounts of the borrowings are denominated in RMB, and were approximated to their fair values as at 31 December 2013. The weighted average effective interest rate is 6.60% per annum.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates or maturity dates whichever is the earlier are as follows:

	6 months or less	**6 to 12 months**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
– At 31 December 2013	7,000	3,000	10,000
– At 31 December 2012	–	–	–

13 DEFERRED INCOME TAX

Deferred tax liabilities:

Pursuant to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the CIT Law"), a 10% withholding tax will be levied on the dividends declared by companies established in the PRC from profits generated after 1 January 2008 to their foreign investors. As at 31 December 2013, the Group did not recognise deferred tax liabilities of RMB9,696,000 (2012: RMB6,246,000) on approximately RMB96,961,000 (2012: RMB62,460,000) of profits generated from Ludao PRC after 1 January 2008 as the directors confirmed that no dividends would be declared by Ludao PRC out of those profits in the foreseeable future considering the cash flow requirements of the Group.

14 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to owners of the Company (RMB'000)	**24,007**	23,812
Weighted average number of ordinary shares in issue (thousands of shares)	**322,466**	300,000
Basic earnings per share (RMB per share)	**0.07**	0.08

In determining the number of shares in issue, the total of 300,000,000 shares issued on the incorporation of the Company, the Reorganisation of the Group and Capitalisation Issue were deemed to have been in issue since 1 January 2012.

For the year ended 31 December 2013 and 2012, diluted earnings per share were the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at year end date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The uncertainties in the global economic and business environment such as the ongoing concerns over Europe's sovereign debt crisis and cut off of funding from China's Central Bank to limit the unregulated "shadow bank", such affect both the global and domestic economy in 2013 as well as the performance of the Group. In such case, our clients adopted a conservative approach during the course of placing orders, which intensified the market competition and affected the bargaining power in pricing as well as the sales volume. In order to prevail in this difficult environment and exploit available opportunities, the Group has continued its stringent control policies in both production and financial management. The Group has placed emphasis on modernizing and scrutinizing production methods to increase efficiency and to maximize productivity, and has continued to expand new product lines and explore sales opportunities in the global market.

Looking back, the Group's ability to tackle adverse operating conditions has been the foundation on which the Group has built its reputation as a trusted manufacturer. Looking forward, the Group will continue its mission of forging long-term relationships with customers by continuing to supply trustworthy products for its customers.

In the forthcoming year, the Group will focus more on the domestic market where demand of aerosol products in PRC will grow as a result of the increase in the disposable income of the people in PRC.

FINANCIAL REVIEW

Turnover

Contract Manufacturing Service ("CMS")

For the year ended 31 December 2013 (the "Reporting Period"), the turnover for the Group's CMS business was approximately RMB169.5 million (2012: RMB190.7 million), representing a decrease of approximately 11.1% over 2012.

The slow recovery of the economies in the world and the shortage of labor in the manufacturing market in Mainland China made the aerosol industry a difficult year. During the Reporting Period, the uncertainty in the global economy has continued to depress the consumer spending sentiment. The sluggish consumer demand has inevitably impacted the performance of the Group's CMS business. The Group continues to be committed to maintain its competitiveness in terms of productivity, quality and reliability. Efforts have also placed in enhancing safety precautions and quality control in order to ensure its products are of their optimal quality before they are delivered to the customers. Nevertheless, the Group will continue to manufacture high quality products with competitive prices maintain long-term relationships with customers by providing trustworthy product.

Original Brand Manufacturing ("OBM")

The turnover for OBM business of the Group for the year ended 31 December 2013 was approximately RMB81.9 million (2012: RMB38.2 million), representing an increase of approximately 114.4% over 2012.

During the year under review, the Group has continued to develop its OBM business by developing innovative products, enriching the product line and promoting the product image and its brand name. This strategy has succeeded in receiving encouraging responses from customers and gaining their loyalty, which in turn has helped improving our market position in the industry.

Cost of sales

Cost of sales of the Group for the year ended 31 December 2013 was approximately RMB188.9 million (2012: RMB173.6 million), representing an increase of approximately 8.8% over 2012. Such increase was in line with the overall increase in the Group's sales of approximately 9.8%.

Gross profit and gross profit margin

For the year ended 31 December 2013, the Group recorded gross profit of approximately RMB62.5 million (2012: RMB55.3 million), representing an increase of approximately 13.0% over 2012. The gross profit margin was approximately 24.9% (2012: 24.2%), representing a slight increase of approximately 0.7% over 2012.

Expenses

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the year ended 31 December 2013, selling expenses was approximately RMB11.4 million (2012: RMB10.0 million), representing an increase of approximately 14.0% over 2012. The increase was primarily due to the increase in staff salaries, allowance and bonus as a result of the continuous expansion of our domestic sales.

Administrative Expenses

Administrative expenses consist of staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax, entertainment expenses and listing expenses. For the year ended 31 December 2013, administrative expenses was approximately RMB29.6 million (2012: RMB23.0 million), representing an increase of approximately 28.7% over 2012. The increase was primarily due to (i) the increase in listing expenses, from approximately RMB6.5 million in 2012 to RMB8.9 million in 2013; and (ii) increase in auditor's remuneration of RMB1.8 million.

Finance income – net

For the year ended 31 December 2013, the Group recorded net finance income of approximately RMB230,000 (2012: approximately RMB856,000), representing a decrease of approximately 73.1% over 2012. The decrease in net finance income was due to the net impact of (i) increase in interest expense of approximately RMB314,000; and (ii) decrease in interest income of approximately RMB312,000.

Income tax expenses

The income tax expense of the Group for the year ended 31 December 2013 was RMB5.4 million, representing an increase of RMB0.9 million as compared with RMB4.5 million in 2012. Effective income tax rate for the current period was approximately 18.5%, which was higher as compared with approximately 15.9% over 2012. The higher effective income tax rate was due to the non-deductible listing expenses during 2013.

Net Profit

The Group's net profit for the year ended 31 December 2013 was approximately RMB24.0 million (2012: RMB23.8 million), representing approximately 0.8% increase from the preceding year. The net profit margin of the Group decreased slightly from 10.4% in 2012 to 9.6% in 2013. Such decrease was primarily due to the increase in listing expenses of approximately RMB2.4 million for the period ended 2013 over 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the total assets of the Group amounted to approximately RMB295.8 million (2012: RMB209.4 million), and current liabilities of approximately RMB113.4 million (2012: RMB116.4 million).

The gearing ratio (based on the total debt over the total equity) of the Group has decreased from 72% as at 31 December 2012 to 39% as at 31 December 2013. The decrease in gearing ratio as at 31 December 2013 resulted primarily from the issuance of shares which lead to increase of the total equity during the Reporting Period.

The bank borrowings of the Group, which were unsecured and denominated in RMB, amounted to RMB10.0 million as at 31 December 2013 (2012: Nil) with full amount expiring before 31 December 2014.

CAPITAL STRUCTURE

From the Listing Date to 31 December 2013, there were no changes in the Company's share capital.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2013, the Group's operating lease commitment amounted to approximately RMB2.1 million (2012: RMB0.9 million). As at 31 December 2013, the Group capital commitments amounted to RMB12.9 million (2012: nil).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities.

EXCHANGE RATE EXPOSURE

During the Reporting Period, the Group mainly operates in the PRC with most transactions settled in RMB. The majority of our assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in currencies other than RMB. We currently do not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2013, the Group had employed a total of 341 employees. (2012: 303) The Group remunerates its employees based on their performance, experience and prevailing industry practices.

The emoluments of Directors have been determined with reference to the skills, knowledge, involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the year.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The Group has received approximately HK$59 million total net proceeds, after deducting underwriting fee and other related expenses, from the listing of the Company's shares in October 2013. During the period from Listing Date to 31 December 2013, the net proceeds has been applied as follows:

	Actual net proceeds	Amount utilized up to 31 December 2013	Balance unutilized balance as at 31 December 2013
	HK$ million	*HK$ million*	*HK$ million*
To increase production capacity by financing the first phase of constructing new production facility	32	9	23
To expand the domestic distribution channel	14	1	13
To promote our own brand names by increasing marketing and advertising efforts	7	–	7
To fund the working capital requirement	6	1	5
Total	59	11	48

The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and PRC in accordance with the intention of the Board as disclosed in the Prospectus.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The net proceeds from the Company's Initial Public Offer ("IPO") exercise on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2013 amounted to approximately HK$59 million (approximately RMB48 million). The proposed application of the net proceeds was set out in the paragraph headed "Future plan and use of proceeds" containing in the prospectus dated 30 September 2013 (the "Prospectus").

Going forward, the Group will continue to promote our own brand names under our OBM business and capture the growth potential of aerosol products manufacturing in the PRC. Meanwhile, the Group will continue to explore new business opportunities in other provinces so as to promote a more diversified quality customer base by strengthening our distributors' network. In addition, the Group will strive to further develop our logistics channel to cope with the rising cost of travelling and transportation expenses. Further capital will be invested in enhancing the Group's product development and capabilities.

PROSPECTS

The sovereign debt crisis in Europe, cut off of funding from China's Central Bank to limit the unregulated "shadow bank" and their knock-on effects on both global and domestic economies cause uncertainties in the economic outlook and have adversely affected consumer sentiment. The Group expects the operating environment of the year ahead will be even more challenging. For the coming year, the Group is conservative but optimistic towards its performance. Looking forward, the Group will strive to lay foundation for future business development with profitability and efficiency as prime objectives. Given our growing market recognition, implementation of strategic restructuring plans and high caliber management team, the Group is confident of achieving performance improvements and a profit margin and maximizing returns for its shareholders.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

There are no significant subsequent events since the end of the Reporting Period.

CORPORATE GOVERNANCE

The shares of the Company were listed on the Main Board of the Stock Exchange on 11 October 2013. During the period, the Company has complied with the code provisions set out in 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"). The Company has complied with code provisions as set out in the CG Code for the year ended 31 December, 2013 except code provision A.2.1.

Pursuant to CG Code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu Yuerong, the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Yu's experience and established market reputation in the industry, and the importance of Mr. Yu in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") was established on 16 September 2013 with written terms are in line with the CG Code as set out in Appendix 14 to the Listing Rules for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, reviewing the financial statements and related materials and providing advice in respect of the financial reporting process, and overseeing the internal control procedures of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Wong Chi Wai (being the chairman of the Audit Committee), Ms. Cho Mei Ting and Mr. Ruan Lianfa.

Disclosure of financial information in this announcement complies with Appendix 16 to the Listing Rules. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December, 2013.

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established on 16 September 2013 with written terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board regarding the Group's policy and structure for all remuneration of Directors and senior management and approving the remuneration package of the individual executive Directors. The Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Wong Chi Wai (being the chairman of the Remuneration Committee), Ms. Cho Mei Ting, Mr. Ruan Lianfa, and one executive Director Mr. Yu Yuerong.

NOMINATION COMMITTEE

The nomination committee (the "Nomination Committee") was established on 16 September 2013 with written terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the senior management as well as the succession planning of the Board. The Nomination Committee comprises three independent non-executive Directors, namely, Ms. Cho Mei Ting (being the chairlady of the Nomination Committee), Mr. Wong Chi Wai, Mr. Ruan Lianfa and one executive Director Mr. Yu Yuerong.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2013.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the law of Cayman Islands being the jurisdiction in which the Company is incorporated under which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholder.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors of the Company have confirmed, following specific enquiry by the Company that they have compiled with the required standard set out in the model code from the Listing Date to the year ended 31 December 2013.

FINAL DIVIDEND

The Board of the Directors does not recommend payment of any dividend in respect of the year ended 31 December 2013.

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

With effect from 31 March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Branch Share Registrar"), will change its address from 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong to Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong. All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.ludaocn.com). The annual report of the Company for the year ended 31 December 2013 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
China Ludao Technology Company Limited
Yu Yuerong
Chairman & executive Director

Hong Kong, 24 March 2014

As at the date of this announcement, the Board comprises Mr. Yu Yuerong, Mr. Han Jianhua and Ms. Pan Yili as the executive Directors, and Mr. Wong Chi Wai, Ms. Cho Mei Ting and Mr. Ruan Lianfa as the independent non-executive Directors.