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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of China Ludao Technology Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2015, together with the comparative figures for the six months ended 30 June 2014. These results have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Board on 28 August 2015.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	126,928	103,427
Cost of sales	6	<u>(95,983)</u>	<u>(80,346)</u>
Gross profit		30,945	23,081
Other income and other gains – net	5	2,052	3,559
Selling expenses	6	(5,958)	(5,741)
Administrative expenses	6	<u>(33,676)</u>	<u>(9,932)</u>
Operating (loss)/profit		(6,637)	10,967
Finance income	7	196	549
Finance costs	7	<u>(848)</u>	<u>(190)</u>
Finance (costs)/income – net		<u>(652)</u>	<u>359</u>
(Loss)/profit before income tax		(7,289)	11,326
Income tax expenses	8	<u>(2,314)</u>	<u>(2,393)</u>
(Loss)/profit for the period		<u>(9,603)</u>	<u>8,933</u>
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		<u>594</u>	<u>(566)</u>
Total comprehensive (loss)/income for the period		<u>(9,009)</u>	<u>8,367</u>
(Losses)/earnings per share attributable to owners of the Company during the period (RMB per share)	9		
– basic		<u>(0.02)</u>	<u>0.02</u>
– diluted		<u>(0.02)</u>	<u>0.02</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		30 June 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
	<i>Note</i>		
ASSETS			
Non-current assets			
Land use rights		5,058	5,115
Property, plant and equipment		81,285	70,284
Intangible assets		919	729
Deferred income tax assets		416	416
Prepayment for property, plant and equipment and land use right		7,795	6,063
		<u>95,473</u>	<u>82,607</u>
Current assets			
Inventories		36,833	33,762
Trade and other receivables	10	151,000	187,349
Cash and cash equivalents		125,990	26,821
Pledged bank deposits		13,793	11,982
		<u>327,616</u>	<u>259,914</u>
Total assets		<u>423,089</u>	<u>342,521</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	3,801	3,170
Share premium		134,143	52,153
Other reserves		72,215	50,693
Retained earnings		87,222	96,825
Total equity		<u>297,381</u>	<u>202,841</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015

		30 June 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred government grants		<u>1,300</u>	<u>1,300</u>
Current liabilities			
Trade and other payables	11	105,730	107,706
Current income tax liabilities		1,540	1,674
Borrowings		<u>17,138</u>	<u>29,000</u>
		<u>124,408</u>	<u>138,380</u>
Total liabilities		<u>125,708</u>	<u>139,680</u>
Total equity and liabilities		<u>423,089</u>	<u>342,521</u>
Net current assets		<u>203,208</u>	<u>121,534</u>
Total assets less current liabilities		<u>298,681</u>	<u>204,141</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2015 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’. The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Report Standards (“HKFRSs”).

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2015 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 July 2015 and have not been early adopted

		Effective for accounting periods beginning on or after
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKAS 1	Disclosure initiative	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (amendments)	Investment entities	1 January 2016
Annual improvement 2014		1 January 2016

		Effective for accounting periods beginning on or after
HKAS 27 (amendments)	Equity method in separate financial statements	1 January 2016
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between and investor and its associate or joint venture	1 January 2016
HKAS 16 and HKAS 41 (amendments)	Agriculture bearer plants	1 January 2016
HKFRS 11 (amendments)	Acquisition of interests in joint operation	1 January 2016
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15	Revenue from contracts with customer	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

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

3. ESTIMATES

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by 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 2014 except for accounting estimates related to recognition of share option expenses.

Recognition of share option expenses

The Company has granted share options on 29 June 2015. The Group uses the binomial valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as the risk free interest rate, dividend yield, expected volatility and staff annual retention rate, is required to be made by the directors in applying the binomial valuation model.

4. 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 external customers

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
United States of America	58,462	46,878
Mainland China	36,971	43,148
Europe	8,659	8,328
Others	22,836	5,073
	126,928	103,427

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 30 June 2015 and 31 December 2014.

Information about major customers

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

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	40,859	8,950
Customer B	15,877	17,259
Customer C	13,464	27,666
Customer D	9,634	2,507
	<u>79,834</u>	<u>56,382</u>

5. REVENUE, OTHER INCOME AND OTHER GAINS

The Group is principally engaged in the sale of products and provision of related services. Revenue, other income and other loss recognized are as follows:

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sales of goods	<u>126,928</u>	<u>103,427</u>
Other income and other gains – net		
Government grants	35	2,850
Others	<u>2,017</u>	<u>709</u>
	<u>2,052</u>	<u>3,559</u>

6. EXPENSES BY NATURE

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

	For the six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation and amortisation	2,242	1,823
Employee benefit expenses, excluding amount included in research and development costs	10,874	9,875
Raw materials used	86,457	79,807
Changes in inventories of finished goods and work in progress	2,705	(6,693)
Water and electricity expenditures	1,192	1,420
Transportation and travelling expenses	3,295	2,598
Telecommunication expenses	225	235
Advertising costs	504	461
Other tax expenses	1,015	637
Research and development costs	3,096	3,774
Entertainment expenses	187	176
Share option expenses (<i>Note</i>)	20,928	–
Professional services fees	1,049	805
Other expenses	1,848	1,101
Total	135,617	96,019

Note:

On 29 June 2015, the Company granted share options to certain Directors, employees and eligible participants to subscribe for a total of 40,000,000 ordinary shares of the Company, subject to their acceptance, under the share option scheme adopted by the Company on 16 September 2013. The exercise price of the share options is HK\$2.26 per share and the validity period of the share options are two years (i.e. 29 June 2015 to 28 June 2017).

The total fair value of the share options, which had been valued by an independent valuer using the binomial valuation model, had been determined to be approximately RMB20.9 million. As such, a once off non-cash share based payment expense had been expensed during the period ended 30 June 2015.

7. FINANCE (COSTS)/INCOME – NET

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	196	549
Interest expense	<u>(848)</u>	<u>(190)</u>
Finance (costs)/income – net	<u><u>(652)</u></u>	<u><u>359</u></u>

8. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempt from the payment of the Cayman Islands income tax.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin 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 six months ended 30 June 2015.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the “CIT Law”), the companies comprising the Group which were established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Co., Ltd (“Ludao PRC”) was qualified as a High and New Technology Enterprise, and accordingly it is entitled to the 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 six months ended 30 June 2015 was 15% (2014: 15%).

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	2,314	2,370
Deferred income tax	<u>–</u>	<u>23</u>
	<u><u>2,314</u></u>	<u><u>2,393</u></u>

9. LOSSES/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 six months ended 30 June 2014 and 2015.

	Six months ended 30 June	
	2015	2014
(Loss)/profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>(9,603)</u>	<u>8,933</u>
Weighted average number of ordinary shares in issue (<i>thousands of shares</i>)	<u>422,541</u>	<u>400,000</u>
Basic (losses)/earnings per share (<i>RMB per share</i>)	<u>(0.02)</u>	<u>0.02</u>
Diluted (losses)/earnings per share (<i>RMB per share</i>) (<i>Note</i>)	<u>(0.02)</u>	<u>0.02</u>

Note:

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market share price of the Company's shares) for the same amount of proceeds are share issues for no consideration which causes dilution to (losses)/earnings per share. During the period under review, the outstanding share options do not have any material dilutive impact. Therefore, the diluted (losses)/earnings per share of the Company approximates the basic (losses)/earnings per share.

10. TRADE AND OTHER RECEIVABLE

	30 June 2015 <i>RMB'000</i>	31 December 2014 <i>RMB'000</i>
Trade receivables (a)	106,164	135,502
Prepayments and deposits	40,950	48,262
Other receivables	<u>3,886</u>	<u>3,585</u>
	<u>151,000</u>	<u>187,349</u>

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2015 and 31 December 2014 respectively.

(a) 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:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Up to 3 months	66,410	80,201
3 to 6 months	22,686	36,321
6 to 12 months	16,556	18,026
Over 12 months	512	954
	106,164	135,502

The Group's sales are made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 67% (31 December 2014: 52%) of the Group's revenue for the period. They accounted for approximately 64% (31 December 2014: 55%) and of the gross trade receivable balances as at 30 June 2015.

11. TRADE AND OTHER PAYABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade payables (a)	24,675	26,918
Notes payable (b)	67,109	59,859
Advance from customers	6,581	7,051
Other tax payables	2,246	6,793
Accrued expenses	3,838	4,700
Other payables	1,281	2,385
	105,730	107,706

The fair values of trade and other payables approximated to their carrying values as at 30 June 2015 and 31 December 2014 respectively.

- (a) The ageing analysis of trade payables is as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Up to 3 months	19,526	15,712
3 to 6 months	1,731	7,222
6 to 12 months	1,611	1,633
Over 12 months	1,807	2,351
	24,675	26,918

The credit period granted by the Group's suppliers ranges from 0 to 90 days.

- (b) Notes payable represented non-interest bearing bank acceptance notes with maturity dates within six months, and were guaranteed by pledged bank deposits and secured by certain property, plant and equipment and the land use rights of the Group.

12. SHARE CAPITAL

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
<i>Authorized:</i>		
2,000,000,000 ordinary shares of HK\$0.01 each	20,000	20,000
Issued and fully paid:		
Share capital		
The Group and Company		
<i>Number of ordinary shares (of HK\$0.01 each)</i>		<i>RMB'000</i>
At 1 January 2015 and 2014 and 30 June 2014	400,000,000	3,170
Share placing (a)	80,000,000	631
At 30 June 2015	480,000,000	3,801

- (a) On 11 May 2015, the Company, placed an aggregate 80,000,000 existing ordinary shares of the Company to independent third parties at a price of HK\$1.33 per share, for a total cash consideration of HK\$106,400,000. The excess of the proceeds from the placement of shares over the shares issued, net of transaction costs directly attributable to placement of shares, was credited to 'share premium' account.

13. DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2015 (2014: HK\$ nil).

14. CONTINGENT LIABILITIES

As at 30 June 2015, the Group and the Company had no significant contingent liabilities (31 December 2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AT A GLANCE

We are a leading manufacturer of aerosol products in the People's Republic of China ("PRC"). Our Group is principally engaged in the research and development, manufacture and sale of aerosol and related products. We sell our products on contract manufacturing service ("CMS") basis to overseas markets and on original brand manufacturing ("OBM") basis in the PRC market. Our products can be divided into four major categories, namely (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides.

For the six months ended 30 June 2015 (the "Reporting Period"), the turnover of the Group was approximately RMB126.9 million representing an increase of approximately 22.7% as compared to the corresponding period of 2014. However, due to the issuance of share options, our Group incurred a net loss of approximately RMB9.6 million as compared to a net profit of approximately RMB8.9 million for the corresponding period in 2014.

Our OBM business which offer products under our own brand names of "Green Island", "Ludao" ("綠島"), "JIERJIA" ("吉爾佳") and "EAGLEIN KING" ("鷹王"), mainly through a network of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC. Due to the slowdown of the PRC economy, the Group's sale of OBM products has decreased. We will put additional effort in promoting our products in chain stores and supermarket as well as e-commerce platform to expand our sales channel.

As announced by the Company on 15 June 2015, the construction of the new production plant had been completed with new production lines installed and is currently undergoing production trials. The new production plant, located at Sanmen Industry Zone in Zhejiang Province with a site area of approximately 7,038 square metres, is expected to increase the Group's annual production capacity of its aerosol products by approximately 100 million cans when fully operational. Five advanced automatic aerosol production lines had since been installed and are undergoing production trials. The new production plant will assist the Company in meeting the recent increase in demand from the Company's CMS customers and enable the Company to further develop its own branded products.

Looking ahead, the Directors are still optimistic towards both the domestic market and overseas market. We are still working towards in becoming the leading domestic enterprise in aerosol manufacturing in the PRC. Our Group will explore different ways to expand the domestic distribution channel and promote our own brand name products.

FINANCIAL REVIEW

Turnover

CMS

For the six months ended 30 June 2015, the turnover for the Group's CMS business was approximately RMB89.9 million (2014: RMB60.3 million), representing an increase of approximately 49.1% as compared to the corresponding period in 2014.

The global economy recovered gradually during 2015 with steady growth in the retail markets. The Group's CMS business has benefited from such recovery as evidenced by the increase in sales orders from overseas customers. However, there are concerns that such trend may not be sustainable. As such, the Group will continue to maintain high quality products with competitive prices and strengthen its CMS business in the second half of 2015.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2015 was approximately RMB37.0 million (2014: RMB43.1 million), representing a decrease of approximately 14.2% as compared to the corresponding period in 2014.

With the gradual decelerating growth in the total retail sales of consumer goods in the PRC and the increasing competition in the aerosol products segment, the Group's OBM business had been adversely affected by the slowdown in order placement from domestic customers. The Group will strive to counterbalance such impact through the continuous development of innovative products, enrichment of the product line and promotion of the product image and its brand name. Based on the loyalty gained from our domestic customers and the well-established market position in the industry, the Group is still optimistic towards its OBM business.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2015 was approximately RMB96.0 million (2014: RMB80.3 million), representing an increase of approximately 19.5% as compared to the corresponding period of 2014. Such increase was in line with the overall increase in the Group's sales of approximately 22.7%.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2015, the Group recorded gross profit of approximately RMB30.9 million (2014: RMB23.1 million) and the gross profit margin was approximately 24.4% (2014: 22.3%). The significant increase in gross profit was primarily due to our increase in sales to CMS customers and which has a relatively higher gross profit margin than our OBM products.

Other Income and Other Gains – Net

Other income and other gains of the Group was approximately RMB2.1 million (2014: RMB3.6 million), representing a decrease of approximately RMB1.5 million as compared to the corresponding period of 2014. The decrease was primarily due to the decrease in government grants of RMB2.8 million for the six months ended 30 June 2015.

Expenses

Selling Expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2015, selling expenses was approximately RMB6.0 million (2014: RMB5.7 million), representing an increase of approximately 5.3% as compared to the corresponding period of 2014. The increase was primarily due to the increase in transportation expenses incurred from the sales to the Group's overseas customers during the period.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2015, administrative expenses was approximately RMB33.7 million (2014: RMB9.9 million), representing an increase of approximately 240.4% as compared to the corresponding period of 2014. The significant increase in administrative expenses was primarily due to share option expenses incurred during the six months ended 30 June 2015 of approximately RMB20.9 million.

Finance (costs)/income – net

For the six months ended 30 June 2015, the Group recorded net finance costs of approximately RMB0.7 million (2014 net finance income: RMB0.4 million), representing a decrease of approximately RMB1.1 million as compared to the corresponding period of 2014. The change from net finance income to net finance costs was primarily due to the increase in interest expense incurred from bank borrowings of approximately RMB0.7 million.

Income Tax Expenses

The income tax expenses of the Group for the six months ended 30 June 2015 was RMB2.3 million, representing a decrease of approximately RMB0.1 million as compared with approximately RMB2.4 million for the corresponding period of 2014. Effective income tax rate (before share option expenses) for the current period was approximately 17.0%, which was lower as compared with approximately 21.2% for the corresponding period of 2014. The lower effective income tax rate was due to a decrease in non-deductible expenses (excluding share option expense) incurred outside the PRC.

Net (Loss)/Profit

The Group's incurred net loss for the six months ended 30 June 2015 of approximately RMB9.6 million (2014 net profit: RMB8.9 million), representing a decrease of approximately RMB18.5 million as compared to the corresponding period of 2014. Such decrease was primarily due to the net impact of (i) increase in gross profit of approximately RMB7.8 million; and (ii) increase in administrative expenses of approximately RMB23.8 million which is primarily due to share option expenses. For illustrative purpose only, the Company recorded net profit of approximately RMB11.3 million before share option expenses for the six months ended 30 June 2015, which represent an increase in net profit of approximately 27% as compared to the corresponding period in 2014.

Highlights of Balance Sheet

Trade Receivable

As at 30 June 2015, trade receivable of RMB17.1 million was overdue, representing a decrease of approximately 10.0% as compared to the amount of RMB19.0 million for the year ended 31 December 2014. Concern has been raised by the Board to the management of the Group and assessment on the outstanding balance of the trade receivable has been performed, in particular to the aging of such debts, payment histories, trading records and other available information regarding the respective customers.

Despite the fact that the credit period granted to customers is normally between 0 to 180 days and trade receivables of RMB17.1 million was overdue, provision of doubtful debt was not considered necessary by the Board after taking into account the following factors:

- (i) RMB12.1 million was settled by the customers in respect of the overdue trade receivables of RMB17.1 million; and
- (ii) These related to a number of independent customers that have good track records with the Group for 2-10 years.

The management is of the view that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality after making assessment of the above factors. The management has confidence to recover the outstanding balances in the third quarter of 2015.

Prepayment & deposits

Prepayment & deposits primarily consist of prepayment to suppliers for raw materials, deposits for price-locking agreements and other miscellaneous prepayment & deposits. Breakdown is as follow:

	As at	
	30 June	31 December
	2015	2014
	RMB'000	RMB'000
Prepayment to suppliers of raw materials	16,967	17,976
Deposits for price-locking agreements	22,900	28,000
Other prepayments & deposits	1,083	2,286
	<u>40,950</u>	<u>48,262</u>

Of the RMB17.0 million prepayment of raw materials, the Company had made RMB14.5 million prepayment to five different major suppliers.

Deposits for price-locking agreements had decreased by RMB5.1 million as the price of tinsplate aerosol cans had dropped due to the decrease in the price of tin and as such, a lower deposit for the price-locking agreement was negotiated.

Other prepayments & deposits include prepayment for advertising and marketing expenses, transportation expenses, professional expenses, rental deposits and prepayment and deposits for utility expenses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the total assets of the Group amounted to approximately RMB423.1 million (31 December 2014: RMB342.5 million), and net current assets of approximately RMB203.2 million (31 December 2014: RMB121.5 million).

The gearing ratio (based on the total debt over the total equity) of the Group has decreased from approximately 44% as at 31 December 2014 to approximately 28% as at 30 June 2015. The majority of borrowings are on floating interest rate terms.

Bank borrowings of the Group, which were unsecured, amounted to approximately RMB17.1 million as at 30 June 2015 (31 December 2014: RMB29.0 million) (of which RMB10.0 million, RMB7.1 million are denominated in RMB and US\$ respectively) with full amount expiring before 30 June 2016. Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

The Group adopts a prudent approach in its financial management and has maintained a stable financial position throughout the six months ended 30 June 2015 as demonstrated by the above figures.

EXCHANGE RATE EXPOSURE

During the six months ended 30 June 2015, 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 POLICY

As at 30 June 2015, the Group had employed a total of 370 employees (31 December 2014: 367). The Group remunerates its employees based on their performance, experience and prevailing industry practices. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performance and share options are granted to attract and retain eligible employees of the Group.

The emoluments of Directors have been determined with reference to the skills, knowledge, and 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 period.

MATERIAL INVESTMENTS HELD

During the six months ended 30 June 2015, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the six months ended 30 June 2015, the net proceeds from the Company's Initial Public Offer had been applied as follows:

	Actual net proceeds	Amount utilized up to 30 June 2015	Balance unutilized balance as at 30 June 2015
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
To increase production capacity by financing the first phase of constructing new production facility	32	32	–
To expand the domestic distribution channel	14	10	4
To promote our own brand names by increasing marketing and advertising efforts	7	2	5
To fund the working capital requirement	<u>6</u>	<u>6</u>	<u>–</u>
Total	<u><u>59</u></u>	<u><u>50</u></u>	<u><u>9</u></u>

The unused net proceeds have been placed in interest bearing deposits with licensed banks in Hong Kong and PRC in accordance with the intention of the Board as disclosed in the prospectus dated 30 September 2013.

FUND RAISING ACTIVITIES

The Directors have considered various ways of raising funds and considered that the placings of new shares represent an attractive opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company.

On 11 May 2015, the Company issued 80,000,000 new shares of HK\$0.01 each to not less than six independent third parties at a price of HK\$1.33 per share under the general mandate granted to the Directors at the annual general meeting of the Company held on 8 May 2014. Such placing was announced on 27 April 2015 and the closing price of the shares was HK\$1.66 on the last trading day as at 27 April 2015. The net proceeds of approximately HK\$104.6 million were intended to be used for the general working capital of the Group. As at 30 June 2015, (i) approximately HK\$24.9 million had been used for the repayment of borrowings and notes payable; and (ii) approximately HK\$8.6 million had been used for the general operating expenses of the Group, and the remaining balance of HK\$71.1 million is kept in an interest bearing bank account pending for usage.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Going forward, the Group will continue to promote our own brand names of 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 strengthen our distributors' network. Apart from strengthening the Group's current business, the Group will explore new business opportunities as and when appropriate, in order to enhance shareholder's value.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 30 June 2015, the Group's operating lease commitments amounted to approximately RMB1.2 million (31 December 2014: RMB1.1 million). As at 30 June 2015, the Group capital commitments amounted to RMB3.8 million (31 December 2014: RMB3.2 million).

CONTINGENT LIABILITIES

As at 30 June 2015, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee was established with terms of reference which has been adopted 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 of three independent non-executive Directors, namely Mr. Wong Chi Wai (being the chairman of the Audit Committee), Ms. Cho Mei Ting and Mr. Ruan Lianfa. The Group's accounting principles and practices, financial statements and related materials for the period had been reviewed by the Audit Committee.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements matters of the Group for the six months ended 30 June 2015 and recommended its adoption by the Board.

CORPORATE GOVERNANCE PRACTICES

For the period under review, in the opinion of the Directors, 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 of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") except CG Code provision A.2.1.

Pursuant to CG Code provision A.2.1, the role(s) 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as 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 that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the Reporting Period.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2015.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (<http://www.ludaocn.com>). The interim report of the Company for the six months ended 30 June 2015 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

By order of the Board

Yu Yuerong

Chairman & executive director

Hong Kong, 28 August 2015

As at the date of this announcement, the Board comprises Mr. Yu Yuerong, Mr. Chen Baoyuan, Ms. Pan Yili, Ms. Wang Jinfei and Mr. Wang Xiaobing as the executive directors, and Ms. Cho Mei Ting, Mr. Wong Chi Wai and Mr. Ruan Lianfa as the independent non-executive directors.