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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 2016

INTERIM RESULTS

The board (the "Board") of directors ("Directors") of China Ludao Technology Company Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016 (the "Reporting Period"), together with the unaudited comparative figures for the six months ended 30 June 2015. These unaudited interim results have been reviewed by the Company's audit committee (the "Audit Committee") and approved by the Board on 29 August 2016.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 *RMB'000* (Unaudited)	2015 *RMB'000* (Unaudited)
Revenue	*5*	**141,075**	126,928
Cost of sales	*6*	**(103,473)**	(95,983)
Gross profit		**37,602**	30,945
Other income and other gains	*5*	**422**	2,052
Selling expenses	*6*	**(7,269)**	(5,958)
Administrative expenses	*6*	**(14,536)**	(33,676)
Operating profit/(loss)		**16,219**	(6,637)
Finance income	*7*	**506**	196
Finance costs	*7*	**(9)**	(848)
Finance income/(costs) – net		**497**	(652)
Profit/(loss) before income tax		**16,716**	(7,289)
Income tax expense	*8*	**(2,756)**	(2,314)
Profit/(loss) for the period		**13,960**	(9,603)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**282**	594
Total comprehensive income/(loss) for the period		**14,242**	(9,009)
Earnings/(losses) per share for profit/(loss) attributable to owners of the Company during the period			
– basic and diluted (RMB per share)	*9*	**0.03**	(0.02)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Land use rights		**5,371**	4,999
Property, plant and equipment		**89,235**	85,836
Intangible assets		**488**	539
Deferred income tax assets		**394**	394
Prepayment for property, plant and equipment		**8,483**	5,345
		103,971	97,113
Current assets			
Inventories		**36,700**	35,037
Trade and other receivables	*10*	**138,546**	140,941
Cash and cash equivalents		**129,651**	120,819
Pledged bank deposits		**13,866**	18,711
		318,763	315,508
Total assets		**422,734**	412,621
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*12*	**3,801**	3,801
Share premium		**134,143**	134,143
Other reserves		**75,517**	75,235
Retained earnings		**112,892**	98,932
Total equity		**326,353**	312,111

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

	Note	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		**1,155**	1,155
Current liabilities			
Trade and other payables	*11*	**90,597**	98,750
Current income tax liabilities		**1,985**	605
Borrowings		**2,644**	–
		95,226	99,355
Total liabilities		**96,381**	100,510
Total equity and liabilities		**422,734**	412,621
Net current assets		**233,537**	216,153
Total assets less current liabilities		**327,508**	313,266

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited interim consolidated financial statements for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2015, 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 2016 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised loss	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

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.

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 expense. 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 2015.

4. SEGMENT INFORMATION

The executive directors ("EDs") are chief operating decision makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products. The Group sells its products on contract manufacturing service ("CMS") basis to overseas market and on original brand manufacturing ("OBM") basis in the People's Republic of China ("PRC") market. All products are manufactured under the same production lines and distributed through distributors network. EDs review and assess performance of the Group on a combined basis and management considered that there is only one reportable operating 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	
	2016	2015
	RMB'000	*RMB'000*
United States of America	**61,223**	58,462
Mainland China	**33,656**	36,971
Europe	**8,472**	8,659
Others	**37,724**	22,836
	141,075	126,928

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

Non-current assets

Non-current assets consist of land use rights, property, plant and equipment and intangible assets which are all located in the PRC as at 30 June 2016 and 31 December 2015.

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	
	2016	2015
	RMB'000	*RMB'000*
Customer A	**28,817**	–
Customer B	**17,823**	13,464
Customer C	**15,301**	9,634
Customer D	**13,687**	–
Customer E	**12,203**	15,877
Customer F	**11,745**	40,859
	99,576	79,834

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 gains recognized are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**141,075**	126,928
Other income and other gains		
Government grants	**1**	35
Others	**421**	2,017
	422	2,052

6. EXPENSE BY NATURE

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Depreciation and amortisation	**2,822**	2,242
Employee benefit expenses, excluding amount including in research and development costs	**12,008**	10,874
Raw materials used	**93,136**	86,457
Changes in inventories of finished goods and work in progress	**2,207**	2,705
Water and electricity expenditures	**1,538**	1,192
Transportation and travelling expenses	**4,112**	3,295
Telecommunication expenses	**197**	225
Advertising costs	**379**	504
Other tax expenses	**1,056**	1,015
Research and development costs		
– Employee benefit expenses	**2,355**	1,873
– Materials and others, excluding depreciation and amortisation	**1,672**	1,223
Entertainment expenses	**448**	187
Share option expenses *(Note)*	**–**	20,928
Professional services fee	**609**	1,049
Other expenses	**2,739**	1,848
Total	**125,278**	135,617

Note:

On 29 June 2015, the Company granted share option 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.

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. All options are immediately vested in full and as such, an one-off non-cash share option expense had been expensed during the period ended 30 June 2015.

7. FINANCE INCOME/(COSTS) – NET

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Interest income	**506**	196
Interest expense	**(9)**	(848)
Finance income/(costs) – net	**497**	(652)

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 2016.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Company Limited ("Ludao PRC"), an indirectly wholly-owned subsidiary of the Company, 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 qualification of High and New Technology Enterprise of Ludao PRC will be due on September 2016 and the Company is in the process of applying of such qualification at present.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**2,756**	2,314

9. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2015 and 2016.

	Six months ended 30 June	
	2016	2015
Profit/(loss) attributable to equity holders of the Company *(RMB'000)*	**13,960**	(9,603)
Weighted average number of ordinary shares in issue *(thousands of shares)*	**480,000**	422,541
Basic earnings/(losses) per share *(RMB per share)*	**0.03**	(0.02)
Diluted earnings/(losses) per share *(RMB per share) (Note)*	**0.03**	(0.02)

Note:

Diluted earnings/(losses) 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 proceed are share issues for no consideration which causes dilution to earnings/(losses) per share. During the Reporting Period, the diluted earnings/(losses) per share of the Company approximates the basic earnings/(losses) per share.

10. TRADE AND OTHER RECEIVABLES

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade receivables, net (a)	**84,004**	92,688
Prepayments and deposits	**48,044**	42,274
Other receivables	**5,468**	5,629
Notes receivable	**1,030**	350
	138,546	140,941

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2016 and 31 December 2015 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 2016 *RMB'000*	31 December 2015 *RMB'000*
Up to 3 months	**63,205**	65,401
3 to 6 months	**16,531**	23,400
6 to 12 months	**3,982**	3,855
Over 12 months	**517**	263
	84,235	92,919
Impairment provision	**(231)**	(231)
	84,004	92,688

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 62% (31 December 2015: 64%) of the Group's revenue for the period. They accounted for approximately 68% (31 December 2015: 76%) of the gross trade receivable balances as at 30 June 2016.

11. TRADE AND OTHER PAYABLES

	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade payables (a)	**26,050**	23,044
Notes payable (b)	**51,945**	58,590
Advance from customers	**6,507**	7,364
Other tax payables	**1,830**	3,863
Accrued expenses	**2,112**	3,848
Other payables	**2,153**	2,041
	90,597	98,750

The fair values of trade and other payables approximated to their carrying values as at 30 June 2016 and 31 December 2015 respectively.

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Up to 3 months	**23,883**	18,400
3 to 6 months	**698**	3,139
6 to 12 months	**580**	497
Over 12 months	**889**	1,008
	26,050	23,044

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

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

12. SHARE CAPITAL

	30 June 2016 and 31 December 2015	
	Number of shares (thousands)	*HK$'000*
Authorized Capital:		
Ordinary shares of HK$0.01 each	2,000,000	20,000
Issued and fully paid:		
480,000,000 ordinary shares of HK$0.01 each	480,000	4,800

	Issued and fully paid: Share Capital The Group and Company	
	Number of ordinary shares (of HK$0.01 each)	*RMB'000*
At 1 January 2015	400,000,000	3,170
Share placing (a)	80,000,000	631
At 30 June 2015, 1 January 2016 and 30 June 2016	480,000,000	3,801

(a) On 11 May 2015, the Company placed 80,000,000 ordinary shares of HK$0.01 each to independent third parties at a price of HK$1.33 per share. The net proceeds received were approximately HK$104.6 million (equivalent to approximately RMB82.0 million) after deducting issue cost of RMB1,265,000.

(b) All shares issued rank pari passu against each other.

13. DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2016 (2015: nil).

14. CONTINGENT LIABILITIES

As at 30 June 2016, the Group and the Company had no significant contingent liabilities (31 December 2015: nil).

15. COMMITMENTS

(a) Capital commitments – Group

The Group's capital expenditure contracted for but not yet incurred is as follow:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
Property, plant and equipment	**3,169**	4,252

(b) Operating lease commitments

The Group leases certain of its office premises under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
Not later than one year	**225**	181
Later than one year and not later than five years	**540**	113
	765	294

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AT A GLANCE

The Group is one of the leading manufacturers specializing in aerosol products in the PRC. The Group is principally engaged in the research and development, manufacture and sale of aerosol and related products. The Company sells our products on CMS basis to overseas markets and on OBM basis in the PRC market. The Group's 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.

The Company's 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.

The global economy was fluctuating in the first half of 2016. The United States (the "US") has slowed down the growth of its economy while the European Union's economy was still too vulnerable to be recovered. In China, the overall economy was stable during the Reporting Period with an increase of approximately 6.7% in GDP for the first and second quarter respectively. However, this growth represented an approximately 0.3% lower than the one in the corresponding period of last year. To overcome the adverse economic stress, the Board and the management of the Company fully understand the overall situation so as to adopt a proper business strategy. Meanwhile, the Company has also conducted substantial investigations and researches towards the market, and strengthened the strategic cooperation with different customers. Therefore, the Group's response capability has been significantly improved, and the advantage in research & development and cost control has been consolidated. Despite the turnover of the Group's OBM business has decreased in the first half of 2016, the turnover of its CMS business has continued to increase.

For the six months ended 30 June 2016, the turnover of the Group was RMB141.1 million representing an increase of approximately 11.1% as compared to the corresponding period of 2015. Accordingly, our Group recorded a net profit of RMB14.0 million as compared to a net loss of RMB9.6 million for the corresponding period in 2015. The earnings per share of the Group was RMB0.03 during the Reporting Period as compared to the losses per share of RMB0.02 for the corresponding period of last year.

Looking forward, the Group will continue to strive for the promising future and expansion of the Group by improving our research and development capabilities of aerosol products, focusing on the development of high value added aerosol products, controlling operating costs, expanding production capacity, improving the Group's core product competitiveness and brand images and exploring new markets.

FINANCIAL REVIEW

Turnover

CMS

For the six months ended 30 June 2016, the turnover for the Group's CMS business was approximately RMB107.4 million (2015: RMB89.9 million), representing an increase of approximately 19.5% as compared to the corresponding period in 2015.

Despite the global economy had a fluctuating and slow growth in the first half of 2016, the Group has positively developed the markets in South America, North America and Japan and consolidated the strategic cooperation with customers. Besides, the Group has made the additional efforts on its auto care products and personal care products. The positive trend in Group's CMS business continued to benefit from the increasing number of overseas orders. As such, the Group will still develop new markets apart from its deepening US market, and continue to maintain high quality products with competitive prices and strengthen its CMS business in the second half of 2016.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2016 was approximately RMB33.7 million (2015: RMB37.0 million), representing a decrease of approximately 8.9% as compared to the corresponding period in 2015.

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 the 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 toward its OBM business.

Other Income and Other Gains – Net

Other income and other gains of the Group was approximately RMB0.4 million (2015: RMB2.1 million), representing a decrease of approximately RMB1.7 million as compared to the corresponding period of 2015. Such decrease was primarily due to the decrease on technical service fee received during the Reporting Period.

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 2016, selling expenses was approximately RMB7.3 million (2015: RMB6.0 million), representing an increase of approximately 21.7% as compared to the corresponding period of 2015. The increase was primarily due to the increase in travelling and transportation expenses.

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 2016, administrative expenses was approximately RMB14.5 million (2015: RMB33.7 million), representing a decrease of approximately 57.0% as compared to the corresponding period of 2015. The significant decrease 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 Income/(Costs) – net

For the six months ended 30 June 2016, the Group recorded net finance income of approximately RMB0.5 million (2015: net finance costs of RMB0.7 million). The change from net finance loss to net finance income was primarily due to the increase in interest income of approximately RMB0.3 million and the decrease in interest expense of approximately RMB0.9 million.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2016 was RMB2.8 million, representing an increase of approximately RMB0.5 million as compared with approximately RMB2.3 million for the corresponding period of 2015, which was mainly attributable by the increase in profit of the Group.

Net Profit/(Loss)

The Group recorded net profit for the six months ended 30 June 2016 of approximately RMB14.0 million (2015: net loss of RMB9.6 million), representing a significant increase of approximately RMB23.6 million as compared to the corresponding period of 2015. Such increase was primarily due to the net impact of (i) increase in gross profit of approximately RMB6.7 million; and (ii) decrease in administrative expense of approximately RMB19.1 million.

Highlights of Balance Sheet

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 2016	31 December 2015
	RMB'000	*RMB'000*
Prepayment to suppliers of raw materials	**17,290**	17,587
Deposits for price-locking agreements	**28,000**	22,900
Other prepayments & deposits	**2,754**	1,787
	48,044	42,274

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had net current assets of approximately RMB223.5 million (31 December 2015: RMB216.2 million) and the Group's cash and bank deposits totalled approximately RMB143.5 million (31 December 2015: 139.5 million). The current ratio of the Group slightly increased from 3.2 as at 31 December 2015 to 3.3 as at 30 June 2016.

The equity attributable to shareholders of the Company as at 30 June 2016 amounted to approximately RMB326.4 million (31 December 2015: RMB312.1 million). The gearing ratio (based on the total debt over the total equity) of the Group has decreased from 19% as at 31 December 2015 to 17% as at 30 June 2016.

BORROWINGS AND THE PLEDGE OF THE GROUP'S ASSETS

Bank borrowings of RMB2.6 million (31 December 2015: nil) and notes payable of RMB51.9 million (31 December 2015: RMB58.6 million) were secured by our properties, plant and equipment, land use rights and pledge bank deposits with an aggregate carrying amount of RMB31.0 million (31 December 2015: RMB36.8 million). Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

Save as disclosed herein, there was no other charge on the Group's assets and the Group did not have any significant contingent liabilities.

FINANCING

The Board considers that the existing financial resources together with funds generated from business operations will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining additional financing with favourable terms.

EXCHANGE RATE EXPOSURE

During the six months ended 30 June 2016, the Group mainly operates in the PRC with most transactions settled in RMB. The majority of the Group's 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, the Group 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.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2016.

EMPLOYEES AND EMOLUMENTS POLICY

As at 30 June 2016, the Group had employed a total of 398 employees in the PRC and Hong Kong (31 December 2015: 373). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. 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. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.

MATERIAL INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANY

During the Reporting Period, the Group did not have any material investment held, material acquisition and disposal of subsidiary and associated company.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the six months ended 30 June 2016, the net proceeds from the Company's Initial Public Offer ("IPO") had been applied as follows:

	Actual net proceeds	**Amount utilised up to 30 June 2016**	**Balance unutilised balance as at 30 June 2016**
	HK$ million	*HK$ million*	*HK$ million*
To increase production capacity by financing the first phase of constructing new production facility	32	32	–
To expand the domestic distribution channel	14	14	–
To promote our own brand names by increasing marketing and advertising efforts	7	3	4
To fund the working capital requirement	6	6	–
Total	59	55	4

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The new production plant, as disclosed in the Company's announcement on 15 June 2015 and in the 2015 annual report, has completed the trial run and officially commenced production since June 2016. In the second half of 2016, the Company intends to invest in upgrading the existing production plant and production line.

Going forward, the Group will continue to promote our own brand names under our OBM business and sustain our competitiveness in the aerosol products manufacturing market in the PRC. Meanwhile, the Group will continue to explore new business opportunities in the overseas market so as to promote a more diversified quality customer base by strengthening our distribution network.

CAPITAL EXPENDITURE

During the six months ended 30 June 2016, the Group's capital expenditure amounted to approximately RMB11.4 million (six months ended 30 June 2015: RMB15.3 million), of which RMB10.9 million (2015: RMB15.0 million) was used for the purchases of property, plant and equipment.

At as 30 June 2016, the Group had capital commitments of RMB3.2 million (31 December 2015: RMB4.3 million) in respect of fixed assets, which are to be funded by internal resources.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2016, 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 written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls 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 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 2016 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 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 Companies ("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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.ludaocn.com). The interim report of the Company for the six months ended 30 June 2016 will be dispatched to shareholders of the Company and published on the websites of the Hong Kong Stock Exchange and the Company in due course.

By order of the Board
Yu Yuerong
Chairman & executive director

Hong Kong, 29 August 2016

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.