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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 2017

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 2017 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2016. These unaudited interim results have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Board on 30 August 2017.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	183,287	141,075
Cost of sales	6	(141,503)	(103,473)
Gross profit		41,784	37,602
Other income and other gains	5	314	422
Selling expenses	6	(8,422)	(7,269)
Administrative expenses	6	(19,705)	(14,536)
Operating profit		13,971	16,219
Finance income	7	1,207	506
Finance costs	7	(110)	(9)
Finance income – net		1,097	497
Profit before income tax		15,068	16,716
Income tax expense	8	(2,853)	(2,756)
Profit for the period		12,215	13,960
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		241	282
Total comprehensive income for the period attributable to the owners of the Company		12,456	14,242
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	9	0.03	0.03

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

		30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
	Note		
ASSETS			
Non-current assets			
Land use rights		5,248	5,310
Property, plant and equipment		89,039	89,609
Investment property		6,400	6,400
Intangible assets		453	466
Deferred income tax assets		372	372
Prepayment for property, plant and equipment		3,181	3,917
		<u>104,693</u>	<u>106,074</u>
Current assets			
Inventories		66,067	37,723
Trade and other receivables	10	157,220	154,055
Financial assets at fair-value through profit or loss		–	19,240
Cash and cash equivalents		49,751	25,851
Short-term bank deposits		92,100	81,100
Pledged bank deposits		15,161	14,371
		<u>380,299</u>	<u>332,340</u>
Total assets		<u>484,992</u>	<u>438,414</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	11	3,801	3,801
Share premium		134,143	134,143
Other reserves		57,616	78,303
Retained earnings		152,549	119,406
Total equity		<u>348,109</u>	<u>335,653</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2017

		30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred government grants		1,013	1,010
Bank borrowings		831	1,284
Deferred income tax liabilities		169	152
		<u>2,013</u>	<u>2,446</u>
Current liabilities			
Trade and other payables	12	125,743	99,230
Current income tax liabilities		1,464	178
Bank borrowings		7,663	907
		<u>134,870</u>	<u>100,315</u>
Total liabilities		<u><u>136,883</u></u>	<u><u>102,761</u></u>
Total equity and liabilities		<u><u>484,992</u></u>	<u><u>438,414</u></u>
Net current assets		<u><u>245,429</u></u>	<u><u>232,025</u></u>
Total assets less current liabilities		<u><u>350,122</u></u>	<u><u>338,099</u></u>

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 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, 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 2016, 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

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current period of the Group. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group for current and previous accounting periods.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted

The Group did not early adopt any 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 2016.

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 and the People's Republic of China ("PRC") market and on original brand manufacturing ("OBM") basis in the 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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
United States of America	77,999	61,223
Mainland China	46,223	33,656
Europe	8,184	8,472
Others	50,881	37,724
	<u>183,287</u>	<u>141,075</u>

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, investment property and intangible assets which are all located in the PRC as at 30 June 2017 and 31 December 2016.

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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	55,237	11,745
Customer B	22,306	15,301
Customer C	15,204	17,823
Customer D	11,863	12,203
Customer E	10,031	–
Customer F	–	28,817
Customer G	–	13,687
	114,641	99,576

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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	183,287	141,075
Other income and other gains		
Government grants	48	1
Others	266	421
	314	422

6. EXPENSE BY NATURE

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

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation and amortisation	3,805	2,822
Employee benefit expenses, excluding amount including in research and development costs	16,671	12,008
Raw materials used	131,489	93,136
Changes in inventories of finished goods and work in progress	(1,123)	2,207
Water and electricity expenditures	1,680	1,538
Transportation and travelling expenses	5,322	4,112
Telecommunication expenses	260	197
Advertising costs	173	379
Other tax expenses	1,013	1,056
Research and development costs		
– Employee benefit expenses	2,363	2,355
– Materials and others, excluding depreciation and amortisation	2,173	1,672
Entertainment expenses	886	448
Operating lease expenses	1,064	328
Professional services fee	939	609
Other expenses	2,915	2,411
Total	169,630	125,278

7. FINANCE INCOME – NET

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	1,207	506
Interest expense	(110)	(9)
Finance income – net	<u>1,097</u>	<u>497</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 2017.

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 2016 to 31 December 2018.

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	2,838	2,756
Deferred income tax	15	–
	<u>2,853</u>	<u>2,756</u>

9. 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 2017 and 2016.

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>12,215</u>	<u>13,960</u>
Weighted average number of ordinary shares in issue (<i>thousands of shares</i>)	<u>480,000</u>	<u>480,000</u>
Basic earnings per share (<i>RMB per share</i>)	<u><u>0.03</u></u>	<u><u>0.03</u></u>
Diluted earnings per share (<i>RMB per share</i>) (<i>Note</i>)	<u><u>0.03</u></u>	<u><u>0.03</u></u>

Note:

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the Reporting Period, diluted earnings per share were the same as basic earnings per share due to the absence of dilutive potential ordinary shares.

As at 30 June 2016, 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 shares) for the same amount of proceed are share issues for no consideration which causes dilution to earnings per share. During the six months 30 June 2016, the diluted earnings per share of the Company approximates the basic earnings per share.

10. TRADE AND OTHER RECEIVABLES

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Trade receivables, net (a)	88,206	88,349
Prepayments and deposits	64,360	62,074
Notes receivable	250	600
Other receivables	4,404	3,032
	<u>157,220</u>	<u>154,055</u>

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2017 and 31 December 2016 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 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Up to 3 months	70,369	58,306
3 to 6 months	15,577	20,114
6 to 12 months	1,554	9,929
Over 12 months	997	291
	<u>88,497</u>	<u>88,640</u>
Impairment provision	<u>(291)</u>	<u>(291)</u>
	<u>88,206</u>	<u>88,349</u>

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 63% (31 December 2016: 61%) of the Group's revenue for the period. They accounted for approximately 71% (31 December 2016: 78%) of the gross trade receivable balances as at 30 June 2017.

11. SHARE CAPITAL

	30 June 2017 and 31 December 2016	
	Number of shares (thousands)	HK\$'000
<i>Authorised Capital:</i>		
Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each	<u>480,000</u>	<u>4,800</u>
	Issued and fully paid: Share Capital The Group and Company Number of ordinary shares (of HK\$0.01 each)	
		RMB'000
At 1 January 2016, 30 June 2016, 31 December 2016 and 30 June 2017	<u>480,000,000</u>	<u>3,801</u>

All shares issued rank pari passu against each other.

12. TRADE AND OTHER PAYABLES

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Trade payables (a)	33,783	24,435
Notes payable (b)	77,952	62,724
Advance from customers	7,825	4,501
Other tax payables	2,544	1,993
Accrued expenses	148	2,467
Other payables	3,491	3,110
	<u>125,743</u>	<u>99,230</u>

The fair values of trade and other payables approximated to their carrying values as at 30 June 2017 and 31 December 2016 respectively.

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

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Up to 3 months	31,700	20,881
3 to 6 months	188	143
6 to 12 months	334	2,370
Over 12 months	1,561	1,041
	<u>33,783</u>	<u>24,435</u>

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.

13. DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2017 (2016: nil).

14. CONTINGENT LIABILITIES

As at 30 June 2017, the Group and the Company had no significant contingent liabilities (31 December 2016: nil).

15. COMMITMENTS

(a) Capital commitments

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

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Property, plant and equipment	<u>1,469</u>	<u>1,281</u>

(b) Operating lease commitments

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

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Not later than one year	2,007	1,723
Later than one year and not later than five years	<u>3,647</u>	<u>2,107</u>
	<u>5,654</u>	<u>3,830</u>

16. EVENTS AFTER THE REPORTING PERIOD

On 4 July 2017, the Company has entered into sales and purchase agreement with Wealth Linkage Development Limited (the “Vendor”) and four individual (“the Guarantors”), pursuant to which the Vendor agreed to sell and the Company agreed to purchase 50% of the issued ordinary shares and 50% shareholder’s loan of the Target Company, Illustrious Success Limited at the consideration of RMB52,000,000 (equivalent to approximately HK\$59,898,860).

The acquisition was completed in July 2017. Further details of the acquisition are set out in the Company’s announcement dated 4 July 2017 and 5 July 2017.

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. Meanwhile, the Group also expands the market in Mainland China on CMS basis gradually. 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 offers 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 continued to improve in the first half of 2017. The developed economies recovered stably overall with the economies in the U.S., Eurozone and Japan picked up momentum in general. Among the emerging economies, China and India continued to spearhead the growth. However, the imbalance global recovery without any sign of robust structural growth still posed some risks and uncertainties. In response to the uncertainties of global economy, the board of directors (the "Board" or "Director(s)") and management of the Company fully understood the overall situation and adopted a proper business strategy to promote the development of the Group's CMS business, which continued to maintain a positive growth. Despite the economic development in Mainland China showed more signs of stabilization and improvement, the turnover of our OBM business continued to decline due to fierce competition in the industry. To improve the Group's results in Mainland China, the Group also utilized its advantages of research & development and technology, large-scaled production capability and cost control efficiently to actively explore the Group's CMS business in Mainland China.

For the six months ended 30 June 2017, the turnover of the Group was approximately RMB183.3 million, representing an increase of approximately 29.9% as compared with that of in the corresponding period of 2016. Accordingly, our Group recorded a net profit of approximately RMB12.2 million as compared with a net profit of approximately RMB14.0 million for the corresponding period in 2016. The earnings per share of the Group was RMB0.03 during the Reporting Period which remained at similar level as compared with the earnings per share of RMB0.03 for the corresponding period of last year.

Looking forward, the Group will focus on the consolidation and expansion of existing aerosol business. By strengthening product research, enlarging production capacity and controlling cost, the Group will strive to enhance the competitiveness of core products and its brand image while expand into new markets. On the other hand, the Group will continue to explore other investment opportunities. Particularly, it is the our intention to expand into the clean energy business market through merger and acquisition, so as to seize the huge market of new energy utilization as a new impetus for the profits of the Group.

FINANCIAL REVIEW

Turnover

CMS

For the six months ended 30 June 2017, the turnover of the Group's CMS business was approximately RMB158.6 million (2016: RMB107.4 million), representing an increase of approximately 47.7% as compared with that of in the corresponding period of 2016.

In the first half of 2017, the global economy continued to improve and the Group's CMS business maintained a positive momentum of development. The Group continued to establish its presence in South America, North America and Japan and strengthen the cooperation with strategic customers. In addition, the Group continued to make additional investment in its auto care products and personal care products and actively promoted the development of its CMS business in Mainland China. 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 2017.

OBM

The turnover of the Group's OBM business of the Group for the six months ended 30 June 2017 was approximately RMB24.6 million (2016: RMB33.7 million), representing a decrease of approximately 27.0% as compared with that of in the corresponding period in 2016.

Despite the economic development in Mainland China showed more signs of stabilization and improvement, the turnover of our OBM business continued to decline as the Group's OBM business was adversely affected by the drop in orders from domestic customers due to fierce competition in the industry. The Group will strive to eliminate such impact by developing innovative products, enriching product lines and promoting its product image and brand name continuously. Meanwhile, the Group also plans to actively promote product innovation to cater for the needs of customers in Mainland China and improve its OBM business in the second half of 2017.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2017 was approximately RMB141.5 million (2016: RMB103.5 million), representing an increase of approximately 36.7% as compared with that of in the corresponding period of 2016. Such increase was in line with the overall increase in the Group's sales of approximately 29.9%.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2017, the Group recorded gross profit of approximately RMB41.8 million (2016: approximately RMB37.6 million) and the gross profit margin was approximately 22.8% (2016: 26.7%). The decrease in gross profit margin was mainly due to the changes in product mix and an increase in product cost.

Other Income and Other Gains – Net

Other income and other gains of the Group for the six months ended 30 June 2017 was approximately RMB0.3 million (2016: approximately RMB0.4 million), representing a decrease of approximately RMB0.1 million as compared with that of in the corresponding period of 2016. 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 2017, selling expenses was approximately RMB8.4 million (2016: approximately RMB7.3 million), representing an increase of approximately 15.9% as compared with that of in the corresponding period of 2016. 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 2017, administrative expenses was approximately RMB19.7 million (2016: approximately RMB14.5 million), representing an increase of approximately 35.6% as compared with that of in the corresponding period of 2016. The significant increase in administrative expenses was primarily due to an increase in staff salaries and benefit expenses and increase in operating lease expenses.

Finance Income – net

For the six months ended 30 June 2017, the Group recorded net finance income of approximately RMB1.1 million (2016: approximately RMB0.5 million). The increase in finance income was primarily due to the increase in interest income of approximately RMB0.7 million.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2017 was approximately RMB2.9 million, representing a slightly increase of approximately RMB0.1 million as compared with approximately RMB2.8 million for the corresponding period of 2016, which was mainly due to the increase in expenses not deductible for tax purpose.

Profit for the period

The Group recorded profit for the period for the six months ended 30 June 2017 of approximately RMB12.2 million (2016: approximately RMB14.0 million), representing a decrease of approximately RMB1.8 million as compared with that of in the corresponding period of 2016. Such decrease was primarily due to the net impact of (i) decrease in gross profit margin; and (ii) increase in administrative expense of approximately RMB5.2 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 follows:

	As at	
	30 June	31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment to suppliers of raw materials	32,909	29,416
Deposits for price-locking agreements	28,000	28,000
Other prepayments & deposits	3,451	4,658
	<u>64,360</u>	<u>62,074</u>

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the total assets of the Group amounted to approximately RMB485.0 million (31 December 2016: approximately RMB438.4 million), and the net current assets of approximately RMB245.4 million (31 December 2016: approximately RMB232.0 million) and the Group's cash and bank deposits totalled approximately RMB157.0 million (31 December 2016: approximately RMB121.3 million). The current ratio of the Group decreased from 3.3 as at 31 December 2016 to 2.8 as at 30 June 2017.

The equity attributable to shareholders of the Company as at 30 June 2017 amounted to approximately RMB348.1 million (31 December 2016: approximately RMB335.7 million). The gearing ratio (based on the total debt over the total equity) of the Group increased from 19% as at 31 December 2016 to 24.8% as at 30 June 2017.

BORROWINGS AND THE PLEDGE OF THE GROUP'S ASSETS

As at 30 June 2017, bank borrowings of RMB8.5 million (31 December 2016: RMB2.2 million) and notes payable of RMB78.0 million (31 December 2016: RMB62.7 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB39.3 million (31 December 2016: RMB38.8 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 the Group believes that it will, if necessary, be capable of obtaining additional financing with favourable terms.

CAPITAL EXPENDITURE

During the six months ended 30 June 2017, the Group's capital expenditure amounted to approximately RMB1.8 million (six months ended 30 June 2016: approximately RMB11.4 million), of which approximately RMB1.7 million (2016: approximately RMB10.9 million) was used for the purchases of property, plant and equipment.

At as 30 June 2017, the Group had capital commitments of approximately RMB1.5 million (31 December 2016: approximately RMB1.3 million) in respect of fixed assets, which are to be funded by internal resources.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities (31 December 2016: nil).

EXCHANGE RATE EXPOSURE

During the six months ended 30 June 2017, the Group mainly operated 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 does 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 2017 (2016: nil).

EMPLOYEES AND EMOLUMENTS POLICY

As at 30 June 2017, the Group had employed a total of 428 employees in the PRC and Hong Kong (31 December 2016: 394). 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 Reporting 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 2017, the net proceeds from the Company's Initial Public Offer ("IPO") had been applied as follows:

	Actual net proceeds <i>HK\$ million</i>	Amount utilised up to 30 June 2017 <i>HK\$ million</i>	Balance unutilised balance as at 30 June 2017 <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	14	—
To promote our own brand names by increasing marketing and advertising efforts	7	4	3
To fund the working capital requirement	6	6	—
Total	<u>59</u>	<u>56</u>	<u>3</u>

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.

FUND RAISING ACTIVITY

On 20 July 2017, the Company entered into a referral agreement pursuant to which an independent third party company agreed to act as a referral agent for the purposes of referring subscribers to the Company for issue of the 6% coupon bonds due in 2019 (the “Bonds”) in an aggregate principal amount of up to HK\$100 million during the referral period from 20 July 2017 to 31 January 2018.

The proceeds will be used by the Company (i) for strengthening the financial position of the Group; (ii) for investment activities when such suitable investment opportunities arise and (iii) any remaining balance will be used as general working capital of the Group.

Up to the date of this report, the Bonds in an aggregate principal amount of HK\$59 million has been successfully subscribed by several independent individual investors.

Further details of the Bonds can be found in the Company’s announcement dated 20 July 2017.

Save as disclosed above, the Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2017 and the date of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On July 2017, the Group has acquired a group company which engages in clean energy business of collection and utilization of sewage source thermal energy in the PRC, laying a foundation for entering and exploring the huge market of new energy utilization. Looking forward, the Group intends to further expand the market of clean energy business through merger and acquisition in the future and expects it will become another major business segment and a new profit driver for the Group.

Meanwhile, the Group will also actively develop aerosol business. On one hand, the Group will continue to expand new overseas market of CMS business, and focus on product development and research, enhance manufacturing capability and cost control to create higher values for customers. On the other hand, the Group will continue to consolidate the domestic market and OBM business, and improve its own brand image as well as product competitiveness through focusing on the development of products with high added value, optimizing existing product lines of OBM business and strictly controlling cost, and therefore improve existing OBM business.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2017, 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 currently comprises of three independent non-executive Directors, namely Mr. Chan Yin Tsung (being the chairman of the Audit Committee), Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed internal controls and risk management review and process and financial reporting matters. The Audit committee has also reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made 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, 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 has considerable 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 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 as set out in Appendix 10 to the Listing Rules as its code of conduct of the Group regarding Directors’ securities transactions for the six months ended 30 June 2017. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the Model Code during 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.ludao.cn>). The interim report of the Company for the six months ended 30 June 2017 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, 30 August 2017

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Yu Yuerong, Mr. Tan Xiangdong, Mr. Chen Baoyuan, Ms. Pan Yili, and Mr. Wang Xiaobing; one non-executive Director, namely Mr. Tian Tingshan; and three independent non-executive Directors, namely Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.