China Ludao Technology Company Limited
中國綠島科技有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2023)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of China Ludao Technology Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2016. The following financial information is extracted from the audited consolidated financial statements as set out in the Group's 2017 annual report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**Year ended 31 December** **2017** ***RMB'000***	2016 *RMB'000*
Revenue	*4*	**395,741**	274,232
Cost of sales	*5*	**(307,346)**	(196,990)
Gross profit		**88,395**	77,242
Other income	*4*	**1,828**	559
Other (loss)/gains – net	*4*	**(960)**	3,849
Selling expenses	*5*	**(18,608)**	(21,612)
Administrative expenses	*5*	**(41,196)**	(35,817)
Operating profit		**29,459**	24,221
Finance income		**2,027**	3,626
Finance costs		**(6,808)**	(69)
Finance (costs)/income – net		**(4,781)**	3,557
Share of results of a joint venture		**2,054**	–
Profit before income tax		**26,732**	27,778
Income tax expense	*6*	**(4,882)**	(4,496)
Profit for the year		**21,850**	23,282
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(583)**	260
Total comprehensive income for the year attributable to the owners of the Company		**21,267**	23,542
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	*8*	**0.05**	0.05

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	**As at 31 December** **2017** *RMB'000*	2016 *RMB'000*
ASSETS			
Non-current assets			
Investment in a joint venture	*9*	**54,551**	–
Land use rights		**5,186**	5,310
Property, plant and equipment	*10*	**96,237**	89,609
Investment property		**7,900**	6,400
Intangible assets		**361**	466
Deferred income tax assets		**352**	372
Prepayments for investment	*11*	**70,219**	–
Prepayments for property, plant and equipment		**2,409**	3,917
		237,215	106,074
Current assets			
Inventories	*12*	**56,029**	37,723
Trade and other receivables	*13*	**181,821**	154,055
Financial assets at fair-value through profit or loss		**–**	19,240
Cash and cash equivalents		**54,268**	25,851
Short-term bank deposits		**88,139**	81,100
Pledged bank deposits		**23,198**	14,371
		403,455	332,340
Total assets		**640,670**	438,414
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*18*	**3,801**	3,801
Share premium	*18*	**134,143**	134,143
Other reserves		**60,080**	78,303
Retained earnings		**158,896**	119,406
Total equity		**356,920**	335,653

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2017

	Note	**As at 31 December** **2017** **RMB'000**	2016 *RMB'000*
LIABILITIES			
Non-current liabilities			
Bonds	*15*	**46,650**	–
Deferred government grants		**875**	1,010
Bank borrowings	*16*	**–**	1,284
Deferred income tax liabilities		**377**	152
		47,902	2,446
Current liabilities			
Trade and other payables	*14*	**140,775**	99,230
Current income tax liabilities		**394**	178
Bank borrowings	*16*	**44,602**	907
Loans from a third party	*17*	**50,077**	–
		235,848	100,315
Total liabilities		**283,750**	102,761
Total equity and liabilities		**640,670**	438,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Ludao Technology Company Limited (the "Company") was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of aerosol products for household and auto care, air fresheners, personal care products and insecticides. The ultimate holding company of the Company is Ludao China Investments Holdings Limited ("Ludao Investments") which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), who has an effective 46.3% interest in the Company.

On 11 October 2013, shares of the Company were listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2018.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets through profit or loss and investment property, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

3. 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 mainly to overseas markets and on original brand manufacturing ("OBM") basis in the People's Republic of China (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 concluded 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 customers

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**96,401**	61,541
United States of America	**166,220**	135,470
Europe	**12,628**	15,243
Japan	**43,071**	6,170
Chile	**55,616**	28,426
Others	**21,805**	27,382
	395,741	274,232

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

The amounts provided to the EDs with respect to total assets are measured in a manner consistent with that of consolidated financial statements.

Non-current assets as at 31 December 2017 and 2016 consist of land use rights, property, plant and equipment, intangible assets and investment property which are mainly located in the PRC.

Information about major customers

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

	2017	2016
	RMB'000	*RMB'000*
Customer A	**103,672**	56,977
Customer B	**53,772**	28,017
Customer C	**33,962**	–
Customer D	**30,329**	29,934
Customer E	**23,875**	21,617
	245,610	136,545

4. REVENUE, OTHER INCOME AND OTHER (LOSS)/GAINS – NET

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**395,741**	274,232
Other income		
Government grants	**607**	447
Technical service fee	**1,209**	117
Others	**12**	(5)
	1,828	559
Other (loss)/gains – net		
Foreign exchange (loss)/gain	**(2,785)**	2,608
Fair value gain on investment property	**1,500**	1,028
Others	**325**	213
	(960)	3,849

5. EXPENSES BY NATURE

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

	2017	2016
	RMB'000	*RMB'000*
Depreciation and amortisation	**7,621**	6,530
Employee benefit expenses, excluding amount included in share option expense and research and development costs	**33,080**	24,751
Raw materials used	**273,530**	181,965
Changes in inventories of finished goods and work in progress	**11,205**	(1,150)
Water and electricity expenditures	**3,530**	3,111
Transportation and travelling expenses	**13,406**	16,404
Telecommunication expenses	**543**	482
Advertising expenses	**600**	820
Other tax expenses	**2,556**	2,259
Research and development costs		
– Employee benefit expenses	**5,592**	4,469
– Materials and others, excluding depreciation and amortisation	**5,030**	3,663
Auditor's remuneration – Audit services	**1,756**	1,513
Entertainment expenses	**1,914**	1,134
Operating lease expenses	**2,239**	1,335
Professional services fees	**1,924**	1,313
Other expenses	**2,624**	5,820
Total	**367,150**	254,419

6. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Current income tax	**4,637**	4,322
Deferred income tax	**245**	174
	4,882	4,496

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

	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**26,732**	27,778
Less: share of results of a joint venture	**(2,054)**	–
	24,678	27,778
Tax calculated at the tax rate of 15% (2016: 15%)	**3,702**	4,167
Additional research and development deductible expenses	**(844)**	(660)
Expenses not deductible for tax purposes	**2,024**	989
	4,882	4,496

7. DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2017 (2016: Nil).

8. EARNINGS PER SHARE

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

	2017	2016
Profit attributable to owners of the Company *(RMB'000)*	**21,850**	23,282
Weighted average number of ordinary shares in issue *(thousands of shares)*	**480,000**	480,000
Basic earnings per share *(RMB per share)*	**0.05**	0.05

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. 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 per share. During the year, the outstanding share options are antidilutive. Therefore, the diluted earnings per share of the Company equals the basic earnings per share.

9 INVESTMENT IN A JOINT VENTURE

During the year, the Group acquired 50% equity interest in Illustrious Success Limited ("Illustrious Success") for a consideration of RMB52,000,000.

Illustrious Success is a company limited by shares incorporated in British Virgin Island ("BVI") and mainly engaged in investment holding in the PRC. Its significant subsidiary, Chaoyang Guanghua New Energy and Technology Limited, is mainly engaged in supplying heat generated from thermal energy and sewage water in the PRC.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2016						
Cost	41,876	34,397	8,895	5,412	22,817	113,397
Accumulated depreciation	(9,772)	(12,259)	(3,181)	(2,349)	–	(27,561)
Net book amount	32,104	22,138	5,714	3,063	22,817	85,836
Year ended 31 December 2016						
Opening net book amount	32,104	22,138	5,714	3,063	22,817	85,836
Additions	1,245	1,677	306	748	6,137	10,113
Disposal	–	(124)	(6)	–	–	(130)
Transfer	28,020	868	–	–	(28,888)	–
Depreciation	(2,633)	(2,224)	(822)	(531)	–	(6,210)
Closing net book amount	58,736	22,335	5,192	3,280	66	89,609
At 31 December 2016						
Cost	71,141	36,598	9,148	6,160	66	123,113
Accumulated depreciation	(12,405)	(14,263)	(3,956)	(2,880)	–	(33,504)
Net book amount	58,736	22,335	5,192	3,280	66	89,609
Year ended 31 December 2017						
Opening net book amount	58,736	22,335	5,192	3,280	66	89,609
Additions	1,280	1,243	9,018	858	1,510	13,909
Transfer	50	1,350	–	–	(1,400)	–
Depreciation	(3,154)	(2,676)	(834)	(617)	–	(7,281)
Closing net book amount	56,912	22,252	13,376	3,521	176	96,237
At 31 December 2017						
Cost	72,471	39,191	18,166	7,018	176	137,022
Accumulated depreciation	(15,559)	(16,939)	(4,790)	(3,497)	–	(40,785)
Net book amount	56,912	22,252	13,376	3,521	176	96,237

Depreciation expenses have been charged in:

	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**3,134**	2,229
Administrative expenses	**4,133**	3,959
Selling expenses	**14**	22
Total	**7,281**	6,210

As at 31 December 2017, the Group's buildings with the carrying amount of RMB12,271,000 (2016: RMB12,703,000) were pledged to secure notes payable (Note 14(b)).

11. PREPAYMENTS FOR INVESTMENT

During the year, the Group entered into a sale and purchase agreement with Perfect Century Group Limited (the "Vendor"), pursuant to which the Vendor agreed to sell and the Group agreed to purchase 25% equity interest of Ever Clever Group Limited, which is principally engaged in heat supply business in the PRC, for a consideration of RMB160,000,000.

The consideration shall be paid by the Group to the Vendor, subject to a profit guarantee adjustment, by way of (i) cash consideration of RMB112,000,000; (ii) allotment and issue of 11,800,000 consideration shares in the amount of RMB16,000,000 at an issue price of HKD1.60 per consideration share by the Company in favour of the Vendor; and (iii) issue of convertible bonds in the principal amount of RMB32,000,000 by the Company in favour of the Vendor.

As at 31 December 2017, the Group has paid RMB70,000,000 for the consideration and RMB219,000 for costs related to the acquisition.

12. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**26,014**	18,913
Work in progress	**220**	898
Finished goods	**29,795**	17,912
Inventories – net	**56,029**	37,723

The cost of inventories included in cost of sales during the year ended 31 December 2017 amounted to RMB284,735,000 (2016: RMB180,815,000).

During the year, the Group did not make or reverse any provision for inventories (2016: Nil).

13. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables, net (a)	**105,056**	88,349
Prepayments and deposits	**71,268**	62,074
Notes receivable	**–**	600
Other receivables	**5,497**	3,032
	181,821	154,055

(a) Trade receivables

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

	2017	2016
	RMB'000	*RMB'000*
Up to 3 months	**69,860**	58,306
3 to 6 months	**29,070**	20,114
6 to 12 months	**5,040**	9,929
Over 12 months	**1,409**	291
	105,379	88,640
Impairment provision	**(323)**	(291)
	105,056	88,349

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 62% (2016: 61%) of the Group's revenue for the year. They accounted for 74% (2016: 78%) of the gross trade receivable balances as at 31 December 2017.

As at 31 December 2017, trade receivables of RMB6,126,000 (2016: RMB9,929,000) were past due but not considered impaired. These related to a number of independent customers for whom there was no significant financial difficulty noted and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables is as follows:

	2017	2016
	RMB'000	*RMB'000*
6 to 12 months	**5,040**	9,929
Over 12 months	**1,086**	–
	6,126	9,929

As of 31 December 2017, trade receivables of RMB323,000 (2016: RMB291,000) were impaired and fully provided for. The impaired receivables mainly relate to wholesalers, which have not been dealing with the Company for more than 2 years. It was assessed that all of these receivables would not be recovered. The ageing of these receivables is over 2 years.

14. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables (a)	**36,405**	24,435
Notes payable (b)	**82,960**	62,724
Advance from customers	**4,599**	4,501
Other taxes payable	**6,455**	1,993
Accrued expenses	**5,157**	2,467
Other payables	**5,199**	3,110
	140,775	99,230

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

	2017	2016
	RMB'000	*RMB'000*
Up to 3 months	**34,600**	20,881
3 to 6 months	**1,120**	143
6 to 12 months	**173**	2,370
Over 12 months	**512**	1,041
	36,405	24,435

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.

15. BONDS

	2017	2016
	RMB'000	*RMB'000*
Additions	**44,386**	–
Accrued interest	**2,348**	–
Currency translation difference	**(84)**	–
As at 31 December	**46,650**	–
Fair value	**45,692**	–

During the year, the Company issued 2-year bonds at total par value of HKD59,000,000 (equivalent to RMB49,318,100) with coupon rate of 6% (the "2017 Bonds"). The total net proceeds after issuance costs were RMB44,386,290 and the effective interest rate is 11.91% per annum.

The Company may at any time before the maturity date redeem the 2017 Bonds (in whole or in part) at 100% of the total principal amounts together with payment of interests accrued up to the date of such early redemption.

The fair value of 2017 Bonds is based on discounted cash flows using the market interest rates.

16. BANK BORROWINGS

	2017	2016
	RMB'000	*RMB'000*
Non-current		
Bank borrowings	**–**	1,284
Current		
Bank borrowings	**44,602**	907
	44,602	2,191

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier is within one year.

The annual weighted average effective interest rate as at 31 December 2017 was 3.82% (2016: 5.46%).

The carrying amounts of the bank borrowings are denominated in RMB and approximate to their fair values as the interest of bank borrowings is at floating-rate and the impact of discounting is not material.

17. LOANS FROM A THIRD PARTY

During the year, the Company obtained loans from a third party totally RMB50,077,000. These loans bear annual interest rate of 8% and are guaranteed by Mr. Yu Yuerong, a director and the chief executive of the Company, and Mr. Tan Xiangdong, a director of the Company. The term of the loans is one year but the Company may at any time repay the loans together with payment of interest accrued up to the repayment date.

18. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2017 and 2016 Number of shares *(thousands)*	*HK$'000*
Authorised Capital:		
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**

	Issued and fully paid: Share capital *Number of ordinary shares (of HKD0.01 each)*	*RMB'000*	Share premium *RMB'000*
At 31 December 2016 and 31 December 2017	480,000,000	3,801	134,143

All shares issued rank pari passu against each other.

19. SHARE BASED PAYMENTS

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 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 share options lapsed on 29 June 2017 and none of them have been exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As one of the few top leading manufacturers of the aerosol products in the 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. Meanwhile, the Group also expands the market in Mainland China on CMS basis gradually. 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.

Our OBM business 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.

During the Reporting Period, the global economy continued to improve with a higher growth rate. Developed economies showed positive momentum of development, and the economic development of emerging markets and developing economies had signs of stabilization and recovery. Against the backdrop of global economic recovery, the Board and the management of the Group sized up the situation and grasped the opportunity to strengthen the cooperation with strategic customers, and expand the international market via several channels and modes. Thanks to the unremitting endeavor of the sales team, the Group sustained considerable growth in sales volume of CMS business. Meanwhile, despite the stable and better development of Chinese economy, the Group's OBM business was still doubtfully optimistic with intensified competition in domestic market and greater difficulty in winning customers. The Board and management of the Group will not only continue to consolidate and strengthen the global market, but also invest more resources in domestic market, and utilize its new product research and development capability and cost control capability to continuously improve product quality, expand sales network, and improve its OBM business.

On the other hand, the Group also engaged in energy business of collection and utilization of sewage source thermal energy in July 2017 through project acquisition. This was an important step for the Group to engage in the clean energy business. Considering market demands and national policies, China's clean energy business will have good prospects in future. The Board and management of the Group will invest more resources to enhance its competitiveness in the clean energy business and heat supply business ("Energy Business").

For the Reporting Period, the revenue and net profit of the Group were approximately RMB395.7 million and RMB21.9 million respectively, representing an increase of approximately 44.3% and a decrease of 6.0% respectively over 2016. Basic earnings per share was approximately RMB5 cents (2016: RMB5 cents).

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB360.0 million (2016: RMB212.7 million) representing an increase of approximately 69.3% as compared with last year.

During the Reporting Period, the global economy continued to improve with a higher growth rate. Developed economies showed positive momentum of development, and the economic development of emerging markets and developing economies had signs of stabilization and recovery. Thanks to global economic recovery, the Group had closer cooperation with strategic customers. Therefore, the Group's CMS business maintained good development with staggering growth. The Group will also continue to explore and develop new overseas markets, and maintain quality and competitive price of products in the upcoming financial year to consolidate its CMS business.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB35.7 million (2016: RMB61.5 million), representing a decrease of approximately 42.0% as compared with last year.

With the gradually decelerating growth in the total retail sales of domestic consumer goods 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 integration of marketing strategies, continuous development of innovative products, enrichment of product lines and promotion of the product image and its brand name. Based on the well-established market position in the industry, the Group will improve its OBM business through the integration of strategies.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB307.3 million (2016: RMB197.0 million), representing an increase of approximately 56.0% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB88.4 million (2016: RMB77.2 million), representing an increase of approximately 14.5% as compared to that of the prior year. The gross profit margin was approximately 22.3% (2016: 28.2%), the relevant decrease of approximately 5.9% was primarily due to the changes of products structure and increase of production costs as compared to that of the prior year.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB21.9 million (2016: RMB23.3 million), representing a decrease of approximately 6.0% when compared to the prior year. The net profit margin of the Group decreased from 8.5% in 2016 to 5.5% in 2017. Such decrease was primarily due to the decrease of other gains, increase of administrative expenses and increase of finance costs.

Expenses

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, transportation and travelling expenses, advertising expenses and exhibition expenses. For the Reporting Period, selling expenses was approximately RMB18.6 million (2016: RMB21.6 million), representing a decrease of approximately 13.9% as compared to that of the prior year. The decrease was primarily due to the decrease in sales support expenses and transportation and travelling expenses the Group's during the Reporting Period.

Administrative Expenses

Administrative expenses consist of staff salaries and benefit expenses, depreciation and amortisation, transportation and travelling expenses, office expenses, research and development costs, other tax expenses and entertainment expenses. For the Reporting Period, administrative expenses was approximately RMB41.2 million (2016: RMB35.8 million), representing an increase of approximately 15.1% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries and benefit expense.

Finance (costs)/income – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB4.8 million (2016: net finance income RMB3.6 million), representing a decrease of approximately RMB8.4 million as compared to that of the prior year. The decrease was primarily due to increase in foreign exchange loss and increase of interest expense from bank borrowings.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB4.9 million, representing an increase of approximately RMB0.4 million as compared with RMB4.5 million in 2016. Effective income tax rate for the current period was approximately 18.3%, which was higher as compared with approximately 16.2% over 2016. The higher effective income tax rate was primarily due to the increase in expenses not deductible for tax purpose.

HIGHLIGHT OF BALANCE SHEET

Trade Receivables

As at 31 December 2017, trade receivables of approximately RMB6.1 million were past due, representing a decrease of approximately 38.4% as compared to the amount of RMB9.9 million as at 31 December 2016. The amount of the provision was RMB323,000 as at 31 December 2017 (2016: RMB291,000). The individually impaired receivables mainly relate to wholesalers, which no longer dealt with the Company for more than 2 years. It was assessed that all of the receivables would not be recovered.

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2017 (2016: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the total assets of the Group amounted to approximately RMB640.7 million (2016: RMB438.4 million), and net current assets of approximately RMB167.6 million (2016: RMB232.0 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 63%, which was higher as compared with approximately 19% over 2016. The significant increase was primarily due to the issuance of bonds and the increase of bank borrowings and loans from a third party for financing the business acquisition during the year.

BORROWINGS

As at 31 December 2017, bank borrowings of the Group amounted to approximately RMB44.6 million (2016: RMB2.2 million) with full maturity until 2018.

CAPITAL STRUCTURE

During the Reporting Period, there were no changes in the Company's share capital.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2017, the Group's operating lease commitment amounted to approximately RMB7.9 million (2016: RMB3.8 million). As at 31 December 2017, the Group had capital commitments of approximately RMB93.0 million in respect of equity interest investment and approximately RMB1.5 million in respect of property, plant and equipment (2016: Nil and RMB1.3 million respectively). The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.3 million within one year and approximately RMB1.4 million later than one year and no later than five years.

CONTINGENT LIABILITIES

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

EXCHANGE RATE EXPOSURE

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

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2017, the Group had employed a total of 490 employees (2016: 394). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of Directors have been determined with reference to the skills, knowledge, involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the year. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonuses and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). Other benefits include share options granted or to be granted under the Share Option Schemes and training schemes. The Group will review the remuneration policy and related packages on a regular basis.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested RMB52.0 million, Nil, approximately RMB13.9 million, Nil, RMB70.0 million and Nil in investment in a joint venture, land use rights, property, plant and equipment, investment property, prepayments for investment and financial assets at fair value through profit or loss respectively (2016: Nil, RMB0.4 million, RMB10.1 million, RMB5.4 million, Nil, and RMB19.2 million respectively). Other than the above, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the year ended 31 December 2017, the net proceeds from the initial public offering ("IPO") had been applied as follows:

	Actual net proceeds	**Amount utilised up to 31 December 2017**	**Balance unutilised balance as at 31 December 2017**
	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	4	3
To fund the working capital requirement	6	6	–
Total	59	56	**3**

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 (the "Prospectus").

MATERIAL ACQUISITION

(a) On 4 July 2017, the Company has entered into a sale and purchase agreement with Wealth Linkage Development Limited and four individuals, pursuant to which Wealth Linkage Development Limited 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 announcements dated 4 July 2017 and 5 July 2017.

(b) On 29 November 2017, Prosper One Development Limited, a wholly-owned subsidiary of the Company (the "Purchaser") has entered into a sale and purchase agreement with Perfect Century Group Limited (the "Vendor"), pursuant to which Perfect Century Group Limited agreed to sell and the Company agreed to purchase 25% of equity interest of the target company, Ever Clever Group Limited at the consideration of RMB160 million (equivalent to approximately HK$188.8 million).

The acquisition was completed on 8 January 2018. As at the date of this results announcement, the Purchaser has paid the partial consideration of RMB102 million to the Vendor. Further details of the acquisition are set out in the Company's announcements dated 29 November 2017, 5 December 2017, 28 February 2018 and 9 March 2018.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS

Save as disclosed below, the Company did not conduct any other fund raising activities during the year ended 31 December 2017.

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 "2017 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 results announcement, the 2017 Bonds in an aggregate principal amount of HK$59 million has been successfully subscribed by several independent individual investors.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company planned to continue upgrading the existing production line in the future for the sake of improving the automatic level and production quality. In addition, the Group will continue to invest and develop projects for the research and development, manufacture and sale of medical and edible aerosol products through its joint venture entity in the PRC. Meanwhile, the Company will also consider to further invest in developing the Energy Business through acquisition as disclosed in the Company's announcement dated 5 December 2017.

PROSPECTS

Despite the expected higher growth rate, the global economy will be severely affected by the reverse globalization and trade protectionism, especially intensified trade war between the US and China, which will have a negative impact on the Group's business development. The Board and the management of Group will counterbalance adverse impacts by strengthening cooperation with strategic customers and expanding the international market according to actual situations. Looking forward to the future, the Group will provide integrated solutions for the global aerosol industry, create more values for customers, enhance the long-term relationship with existing CMS customers, and continuously expand new markets by leveraging on its new product research and development capability, cost control and improved production capability.

Based on the stable foundation, the Group is still prudent and optimistic towards its domestic market and OBM business. The Group will continue to improve its OBM business by developing high value-added products, improving existing OBM product line, strictly controlling cost, lifting the brand image, and enhancing the competitiveness of products.

On the other hand, the Group will continue to invest resources in the Energy Business in order to lay solid foundation for further development of and improve the competitiveness of its Energy Business, and seek for new profit growth points.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 12 February 2018, the Company and Mr. Yu Yuerong (the "Guarantor") entered into a placing agreement with Head & Shoulders Securities Limited (the "Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to procure, on a best efforts basis, placees to subscribe the two-year 6.5% coupon unlisted bonds to be issued by the Company.

Further details of the bond placement are set out in the Company's announcement dated 12 February 2018.

Save as disclosed above and in the paragraph headed "MATERIAL ACQUISITION", there is no significant events after the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except code provision A.2.1.

Pursuant to CG Code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu Yuerong ("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'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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct of the Group regarding Director's securities transactions for the year ended 31 December 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.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Audit Committee are, among other things, to make recommendations to the Board on the appointment, re-appointment and removal of the external independent auditor, and any questions of its resignation or dismissal. It is also responsible for reviewing Company's financial information and overseeing of the Company's financial reporting system, risk management and internal control procedures.

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. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee possesses the appropriate professional and accounting qualifications.

The terms of reference setting out the Audit Committees authority and duties are available on both websites of the Company and the Stock Exchange.

During the Reporting Period, the Audit Committee has held two meetings to review the interim and annual financial results and reports, financial reporting and the report on the Company's internal control and risk management review and process.

The Audit Committee has reviewed together with the management and the Company's independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2017 and this announcement.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereon for the year ended 31 December 2017 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration, to make recommendations to the Board on the remuneration package of the Directors and senior management. The remuneration policy for the Directors and senior management was based on their experience, level, responsibility and general market conditions.

The terms of reference setting out the Remuneration Committees authority and duties are available on both websites of the Company and the Stock Exchange.

The Remuneration Committee currently comprises of four members, being three independent non-executive Directors, namely, Mr. Chan Yin Tsung (being the chairman of the Remuneration Committee), Ms. Yau Kit Kuen Jean, Mr. Ruan Lianfa, and one executive Director, Mr. Yu.

During the Reporting Period, there were five meetings held to review and make recommendation on the remuneration packages of individual executive Directors and senior management and director's fee of independent non-executive Directors.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 16 September 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment or re-appointment of Directors and the senior management as well as the succession planning for Directors; ongoing review the structure, size, composition and diversity of the Board on a regular basis and monitor the training and continuous professional development of Directors and senior management.

The terms of reference setting out the Nomination Committees authority and duties are available on both websites of the Company and the Stock Exchange.

The Nomination Committee comprises of four members, being three independent non-executive Directors, namely, Ms. Yau Kit Kuen Jean (being the chairlady of the Nomination Committee), Mr. Chan Yin Tsung, Mr. Ruan Lianfa and one executive Director, Mr. Yu.

During the Reporting Period, the Nomination Committee has held five meetings to review the structure, size, composition and diversity of the Board and made recommendations to the Board in accordance with the Nomination Committee's written terms of reference.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholder.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 17 May 2018 to Wednesday, 23 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting of the company to be held on Wednesday, 23 May 2018, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 16 May 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.ludaocn.com). The annual report of the Company for the year ended 31 December 2017 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 28 March 2018

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.