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 2018

ANNUAL RESULTS

The board (the "Board") of directors (the "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 2018 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2017. The following financial information is extracted from the audited consolidated financial statements as set out in the Group's 2018 annual report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**Year ended 31 December 2018** *RMB'000*	2017 *RMB'000*
Revenue	*4*	**405,047**	395,741
Cost of sales		**(309,907)**	(307,346)
Gross profit		**95,140**	88,395
Other income	*4*	**4,275**	1,828
Other gains/(loss) – net	*4*	**9,823**	(960)
Selling expenses		**(22,744)**	(18,608)
Administrative expenses		**(46,356)**	(41,196)
Operating profit		**40,138**	29,459
Finance income		**2,369**	2,027
Finance costs		**(18,950)**	(6,808)
Finance costs – net		**(16,581)**	(4,781)
Share of results of a joint venture		**5,126**	2,054
Profit before income tax		**28,683**	26,732
Income tax expense	*6*	**(5,444)**	(4,882)
Profit for the year		**23,239**	21,850
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(4,818)**	(583)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income	*11*	**(3,495)**	–
Other comprehensive income for the year, net of tax		**(8,313)**	(583)
Total comprehensive income for the year attributable to the owners of the Company		**14,926**	21,267
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	*8*	**0.05**	0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investments in joint ventures	*9*	**62,418**	54,551
Land use rights		**5,062**	5,186
Property, plant and equipment	*10*	**101,074**	96,237
Investment property		**11,700**	7,900
Intangible assets		**266**	361
Deferred income tax assets		**331**	352
Financial asset at fair value through other comprehensive income	*11*	**148,660**	–
Financial asset at fair value through profit or loss	*11*	**2,442**	–
Prepayments for investment	*11*	**–**	70,219
Prepayments for property, plant and equipment		**2,247**	2,409
		334,200	237,215
Current assets			
Inventories	*12*	**44,034**	56,029
Trade and other receivables	*13*	**221,309**	181,821
Amount due from a joint venture		**500**	–
Financial asset at fair value through profit or loss	*11*	**6,206**	–
Cash and cash equivalents		**69,538**	54,268
Short-term bank deposits		**103,099**	88,139
Pledged bank deposits		**17,324**	23,198
		462,010	403,455
Total assets		**796,210**	640,670
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*20*	**3,901**	3,801
Share premium	*20*	**150,143**	134,143
Other reserves		**55,660**	60,080
Retained earnings		**178,242**	158,896
Total equity		**387,946**	356,920

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

		As at 31 December	
	Notes	**2018**	2017
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Bonds	*15*	**15,102**	46,650
Note	*16*	**102,420**	–
Convertible bonds	*17*	**31,456**	–
Deferred government grants		**739**	875
Deferred income tax liabilities		**949**	377
		150,666	47,902
Current liabilities			
Trade and other payables	*14*	**134,761**	140,775
Contract liabilities	*14*	**9,583**	–
Current income tax liabilities		**1,208**	394
Financial liabilities at fair value through profit or loss	*17*	**2,040**	–
Bank borrowings	*18*	**59,906**	44,602
Bonds	*15*	**50,100**	–
Loans from a third party	*19*	**–**	50,077
		257,598	235,848
Total liabilities		**408,264**	283,750
Total equity and liabilities		**796,210**	640,670

NOTES TO THE FINANCIAL INFORMATION

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 45.2% interest in the Company.

Pursuant to the Group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company, the Company acquired the entire issued share capital of Ludao Investments Holdings Limited ("Ludao BVI"), through a share exchange with Ludao Investments, the owner of Ludao BVI and the holding company of the Company, and Neland Development Limited. Upon completion of the Reorganisation in 2013, the Company became the holding company of the Group and Ludao BVI acts as the intermediate holding company of Zhejiang Ludao Technology Co., Ltd., ("Ludao PRC") an operating subsidiary of the Group in the People's Republic of China (the "PRC").

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

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 2019.

2. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention, except for investment property and certain financial instruments, which are measured 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.

The accounting policies and method of computation used in the preparation of the consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31 December 2017 except for the changes mentioned below.

The Group has adopted the following new standards, amendments and interpretation to existing standards, which are relevant to the Group's accounting policies for the first time adoption on the Group's consolidated financial statements for the financial year beginning on 1 January 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures

The adoption of new and amended standards and interpretation of HKFRS does not have material impact on the consolidated financial statements and does not result in substantial changes to the Group's accounting policies, except the impacts of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" as described below.

A. HKFRS 9 Financial Instruments ("HKFRS 9")

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes of the Group's accounting policies and consolidated financial statements.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. The impacts related to the classification and measurement and the impairment requirements are summarised as follows:

(i) Classification and measurement of financial instruments

The adoption of HKFRS 9 has no significant impact on the classification and measurement of the Group's financial assets and financial liabilities. The carrying amounts for all financial assets and financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECL for trade receivables and financial assets measured at amortised cost earlier than HKAS 39. The impairment of trade receivables and financial assets at amortised cost as at 1 January 2018 has not been materially impacted by the initial application of HKFRS 9.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue and related interpretations". HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

HKFRS 15 introduces a five-steps model when recognising revenue:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

Based on the assessment of the Group, the adoption of HKFRS 15 from 1 January 2018 has resulted in changes of accounting policies of the Group, however, it does not have significant impact on the timing and amounts of revenue recognition of the Group, and no adjustment to the opening balance of equity at 1 January 2018 have been made. However, additional disclosures have been presented in the consolidated financial statements for the year ended 31 December 2018 as a result of adoption of HKFRS 15.

The following new/revised HKFRSs, potentially relevant to the Group's accounting policies and consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*

[2] *Effective for annual periods beginning on or after a date to be determined*

[3] *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020*

[4] *Effective for annual periods beginning on or after 1 January 2020*

The Group has not applied any new amendments that is not yet effective for the current accounting period.

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. Results of investment activities are not material to be disclosed as a separate reportable operating segment. 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

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**107,811**	96,401
United States of America	**171,265**	166,220
Europe	**7,068**	12,628
Japan	**33,440**	43,071
Chile	**64,884**	55,616
Others	**20,579**	21,805
	405,047	395,741

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 2018 and 2017 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:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**105,574**	103,672
Customer B	**62,490**	53,772
Customer C	**23,818**	33,962
Customer D	**n/a**[2]	30,329
Customer E	**n/a**[2]	23,875
Customer F	**33,159**	–

n/a[1] Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2017

n/a[2] Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2018

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

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**405,047**	395,741
Other income		
Government grants	**659**	607
Technical service fee	**2,388**	1,209
Rental income	**314**	–
Others	**914**	12
	4,275	1,828
Other gains/(loss) – net		
Foreign exchange gain/(loss)	**61**	(2,785)
Fair value gain on investment property	**3,800**	1,500
Change in fair value of financial liabilities at fair value through profit or loss	**(530)**	–
Change in fair value of financial asset at fair value through profit or loss	**791**	–
Gain on profit guarantee (Note)	**5,706**	–
Others	**(5)**	325
	9,823	(960)

Note:

On 4 July 2017, the Company entered into a sale and purchase agreement (the "Agreement") to acquire 50% equity interest in Illustrious Success Limited ("Illustrious Success") at a consideration of RMB52,000,000 (the "Consideration") from Wealth Linkage Development Limited（福領發展有限公司） a third party independent of the Company and its connected persons (the "Wealth Linkage"). The acquisition of 50% equity interest in Illustrious success was completed on 7 July 2017.

Pursuant to the Agreement, Wealth Linkage irrevocably undertakes to the Company that the Illustrious Success and its subsidiaries (the "Illustrious Success Group") shall achieve the audited net profit after tax (the "PAT") on a consolidated basis of RMB12,000,000 for the year ended 31 December 2018 compiled by an accounting firm acceptable to the Company (the "Profit Guarantee"). In the event that the amount of shortfall of the PAT for the relevant financial year is more than 5% of the Profit Guarantee for that relevant financial year, Wealth Linkage shall pay to the Company a monetary compensation, the amount of which shall be calculated based on the formula below:–

(The shortfall of the PAT for the relevant financial year ÷ the Profit Guarantee for the relevant financial year) x the Consideration

The Directors of the Company are of the opinion that the PAT on a consolidated basis for the year ended 31 December 2018 of the Illustrious Success Group was approximately RMB10,634,000 according to its consolidated financial statements. Since the shortfall of the Profit Guarantee was approximately RMB1,366,000, a gain of approximately RMB5,706,000, which includes exchange re-translation effect, being the compensation payable by Wealth Linkage, was recognized in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2018.

5. EXPENSES BY NATURE

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

	2018	2017
	RMB'000	*RMB'000*
Depreciation and amortisation	**10,120**	7,621
Employee benefit expenses, excluding amount included in share option expense and research and development costs	**34,116**	33,080
Raw materials used	**295,820**	273,530
Changes in inventories of finished goods and work in progress	**(10,008)**	11,205
Water and electricity expenditures	**3,480**	3,530
Transportation and travelling expenses	**19,382**	13,406
Telecommunication expenses	**535**	543
Advertising expenses	**414**	600
Other tax expenses	**2,931**	2,556
Research and development costs		
– Employee benefit expenses	**4,477**	5,592
– Materials and others, excluding depreciation and amortisation	**5,986**	5,030
Auditor's remuneration – Audit services	**1,086**	1,756
Entertainment expenses	**1,770**	1,914
Operating lease expenses	**4,091**	2,239
Professional services fees	**2,942**	1,924
Other expenses	**1,865**	2,624
	379,007	367,150

6. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current income tax	**4,851**	4,637
Deferred income tax	**593**	245
	5,444	4,882

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:

	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**28,683**	26,732
Less: share of results of a joint venture	**(5,126)**	(2,054)
	23,557	24,678
Tax calculated at the tax rate of 15% (2017: 15%)	**3,534**	3,702
Additional research and development deductible expenses	**(1,283)**	(844)
Effects of income not taxable and expenses not deductible for tax purposes and others	**3,193**	2,024
	5,444	4,882

7. DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2018 (2017: 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.

	2018	2017
Profit attributable to owners of the Company *(RMB'000)*	**23,239**	21,850
Weighted average number of ordinary shares in issue *(thousands of shares)*	**488,987**	480,000
Basic and diluted 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. During the year ended 31 December 2017, the outstanding share options are anti-dilutive and all share options are lapsed. Therefore, the diluted earnings per share of the Company equals the basic earnings per share as at 31 December 2017. During the year ended 31 December 2018, diluted earnings per share is the same as basic earnings per share. There is no dilutive effect on the Convertible Bonds, as they are anti-dilutive.

9 INVESTMENTS IN JOINT VENTURES

(i) During the year ended 31 December 2017, the Group acquired 50% equity interest in Illustrious Success for a consideration of RMB52,000,000.

Illustrious Success is a company limited by shares incorporated in the British Virgin Island 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.

(ii) On 11 September 2017, Ludao PRC, Sinopharm Traditional Chinese Medicine Co., Ltd. and Lu Xian Cao Tang (Jilin) Investment Consultancy Limited entered into a capital contribution agreement for the formation of the joint venture, Sinopharm Junyue Aerosol Group Co. Ltd. ("Sinopharm Junyue Aerosal"). Sinopharm Junyue Aerosal is mainly engaged in investing and developing projects for the research and development, manufacture and sale of medical and edible aerosol products. Details of the capital contribution agreement were disclosed in the Company's announcement dated 11 September 2017.

During the year ended 31 December 2018, the Group contributed RMB2,550,000 to the Sinopharm Junyue Aerosol.

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 2017						
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
Year ended 31 December 2018						
Opening net book amount	56,912	22,252	13,376	3,521	176	96,237
Additions	3,448	2,353	6,265	998	1,778	14,842
Disposal	–	(46)	(31)	(780)	–	(857)
Transfer	1,172	641	–	–	(1,813)	–
Eliminated on disposal	–	23	28	702	–	753
Depreciation	(4,584)	(2,920)	(1,897)	(500)	–	(9,901)
Closing net book amount	56,948	22,303	17,741	3,941	141	101,074
At 31 December 2018						
Cost	77,091	42,139	24,400	7,236	141	151,007
Accumulated depreciation	(20,143)	(19,836)	(6,659)	(3,295)	–	(49,933)
Net book amount	56,948	22,303	17,741	3,941	141	101,074

Depreciation expenses have been charged in:

	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**3,271**	3,134
Administrative expenses	**6,619**	4,133
Selling expenses	**11**	14
Total	**9,901**	7,281

As at 31 December 2018, the Group's buildings with the carrying amount of RMB11,839,000 (2017: RMB12,271,000) were pledged to secure notes payable (Note 14(b)).

11. PREPAYMENTS FOR INVESTMENT/FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended 31 December 2017, the Group entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Perfect Century Group Limited (the "Vendor") for the acquisition of 25% equity interest of Ever Clever Group Limited, ("Ever Clever") which is principally engaged in heat supply business in the PRC, at the consideration of RMB160,000,000 (the "Ever Clever Acquisition").

The consideration shall be paid by the Group to the Vendor 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 Hong Kong dollars ("HKD")1.60 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.

Details of the Sale and Purchase Agreement were disclosed in the Company's announcement on 29 November 2017.

A. Prepayment for investment

During the year ended 31 December 2017, the Group paid RMB70,000,000 for the consideration and approximately RMB219,000 for costs related to the acquisition. On 8 January 2018, the Ever Clever Acquisition was completed. During the year ended 31 December 2018, the remaining consideration was settled. Details of the consideration shares issued and the convertible bonds are set out in Note 20 and 17 respectively.

B. Financial asset at fair value through other comprehensive income

(i) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more appropriate.

(ii) Equity investment at fair value through other comprehensive income

	2018	2017
	RMB'000	*RMB'000*
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	**148,660**	–

The Group designated the Equity investment in Ever Clever as a financial asset at fair value through other comprehensive income upon initial recognition as the investment is not held for trading.

25% equity interest in Ever Clever was initially recognised of approximately RMB152,155,000 at 8 January 2018. The decrease in fair value of the financial asset at fair value through other comprehensive income of approximately RMB3,495,000 was recognised in other reserves.

C. Financial assets at fair value through profit or loss

	2018	2017
	RMB'000	*RMB'000*
Profit guarantee in respect of investment in 25% equity interest of Ever Clever (the "Profit Guarantee")		
– Non-current	**2,442**	–
– Current	**6,206**	–
	8,648	–

During the year ended 31 December 2018, the Group acquired 25% equity interest of Ever Clever, which the Vendor irrevocably guaranteed the Group that, for each of the three twelve-month periods ending on 31 March 2020, the audited net profit after tax of Huailai Hengji Heat Supply Limited Company, a non wholly-owned subsidiary of Even Clever, in accordance with the HKFRS should not be less than RMB55 million for the period from 1 April 2017 to 31 March 2018, RMB65 million for the period from 1 April 2018 to 31 March 2019 and RMB75 million for the period from 1 April 2019 to 31 March 2020 (the "Guaranteed Profit"). The Profit Guarantee represented the fair value of the amount of shortfall between above respective actual profit and guaranteed profit to be received by the Group if the Ever Clever fails to meet the Guaranteed Profit.

Details of the Profit Guarantee were disclosed in the Company's announcement on 29 November 2017.

12. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**24,027**	26,014
Work in progress	**134**	220
Finished goods	**19,873**	29,795
	44,034	56,029

The cost of inventories included in cost of sales during the year ended 31 December 2018 amounted to approximately RMB285,812,000 (2017: RMB284,735,000).

During the year ended 31 December 2018, the Group did not make or reverse any provision for inventories (2017: Nil).

13. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables, net (a)	**131,600**	105,056
Prepayments and deposits	**78,159**	71,268
Notes receivable	**500**	–
Other receivables	**11,050**	5,497
	221,309	181,821

(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:

	2018	2017
	RMB'000	*RMB'000*
Up to 3 months	**75,528**	69,860
3 to 6 months	**40,013**	29,070
6 to 12 months	**12,532**	5,040
Over 12 months	**3,630**	1,409
	131,703	105,379
Impairment provision	**(103)**	(323)
	131,600	105,056

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 59% (2017: 62%) of the Group's revenue for the year. They accounted for 66% (2017: 74%) of the gross trade receivable balances as at 31 December 2018.

As at 31 December 2018, trade receivables of approximately RMB16,059,000 (2017: RMB6,126,000) 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 based on the past due date of these trade receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
6 to 12 months	**12,532**	5,040
Over 12 months	**3,527**	1,086
	16,059	6,126

As of 31 December 2018, trade receivables of approximately RMB103,000 (2017: RMB323,000) 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/CONTRACT LIABILITIES

	2018	2017
	RMB'000	*RMB'000*
Trade payables (a)	**30,353**	36,405
Notes payable (b)	**86,578**	82,960
Advance from customers (c)	**–**	4,599
Other taxes payable	**3,388**	6,455
Accrued expenses	**9,655**	5,157
Other payables	**4,787**	5,199
	134,761	140,775

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

	2018	2017
	RMB'000	*RMB'000*
Up to 3 months	**28,217**	34,600
3 to 6 months	**803**	1,120
6 to 12 months	**127**	173
Over 12 months	**1,206**	512
	30,353	36,405

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.

(c) Advance from customers was classified as contract liabilities under HKFRS 15 starting from 1 January 2018. As at 31 December 2018, advance from customers which was classified as contract liabilities was approximately RMB9,583,000.

15. BONDS

	2018	2017
	RMB'000	*RMB'000*
Non-current	**15,102**	46,650
Current	**50,100**	–
	65,202	46,650

During the year ended 31 December 2017, the Company issued 2-year bonds at total par value of HKD59,000,000 with coupon rate of 6.00% per annum (the "2017 Bonds"). The total net proceeds after issuance costs were RMB44,386,290 and the effective interest rate is 11.91% per annum.

During the year ended 31 December 2018, the Company placed 2-year bonds at total par value of HKD18,500,000 with coupon rate of 6.50% per annum (the "2018 Bonds"). The total net proceeds after issuance costs were RMB14,588,730 and the effective interest rate is 12.29% per annum. The 2018 Bonds is guaranteed by Mr. Yu Yuerong, a Director of the Company.

The Company may at any time before the maturity dates redeem the 2017 Bonds and 2018 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.

16. NOTE

	2018	2017
	RMB'000	*RMB'000*
Non-current	**102,420**	–

During the year ended 31 December 2018, the Company issued 2-year note at total par value of HKD120,000,000 with coupon rate of 9.00% per annum (the "Note"). The total net proceeds after issuance costs were RMB101,397,544 and the effective interest rate is 11.03% per annum. The Note is guaranteed by Mr. Yu Yuerong, a Director of the Company and is secured by a share charge over 25% equity interest in Ever Clever.

The Company may at any time before the maturity dates redeem the Note (in whole or in part) at 100% of the total principal amounts together with payment of interests, outstanding administrative fee and all outstanding amounts payables by the Company to noteholder accrued up to the date of such early redemption.

17. CONVERTIBLE BONDS/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Pursuant to the Sale and Purchase Agreement, the Company issued convertible bonds with an aggregate principal amount of RMB32,000,000 (equivalent to HKD37,760,000) (the "Convertible Bonds") to the Vendor as part of the consideration for the acquisition of 25% equity interest of the issued share capital of Ever Clever in respect of the Sale and Purchase Agreement dated 29 November 2017 entered into between Prosper One Development Limited (the "Purchaser"), a wholly-owned subsidiary of the Company and the Vendor. The Convertible Bonds is denominated in RMB, bears zero interest and will be matured on 29 March 2021. The Company shall redeem at 100% of the principal amount on the maturity date as stated in the deed constituting convertible bonds dated 29 November 2017. The Convertible Bonds holders shall have a right to convert the Convertible Bonds into ordinary shares of the Company at the conversion price of RMB1.356 per share (equivalent to HKD1.60 per share) (the "Initial Conversion Price"). The Initial Conversion Price is subject to adjustment on the occurrence of dilutive or concentration event. The effective interest rate liability component of the Convertible Bonds is 9% per annum.

According to the Profit Guarantee given by the Vendor in favour of the Purchaser pursuant to the terms of the Sale and Purchase Agreement, the Convertible Bonds holders have the right to convert their Convertible Bonds into fully paid ordinary shares of the Company at any time during the conversion period.

The Convertible Bonds shall be exercised, redeemed, returned and cancelled according to the mechanism stated in the Sale and Purchase Agreement. Details of the Sale and Purchase Agreement were disclosed in the Company's announcement dated 29 November 2017.

The convertible option should be separated from the liability component and accounted for as a derivative liability with subsequent changes in fair value recognised in profit or loss. It was because the host contract (i.e. liability component) was denominated in a currency (i.e RMB) which was not the functional currency (i.e HKD) of the Company. Hence, this does not meet the fixed for fixed criteria. The fair values at the date of issuance and as at 31 December 2018, were assessed by an independent valuer, was calculated using the binomial options pricing model. As at 31 December 2018, there were changes in the fair value of derivative liability compared to the issuance date and the end of reporting period that recognised in profit or loss during the year ended 31 December 2018 (Note 4).

The Convertible Bonds recognised in the consolidated statement of financial position are calculated as follows:

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 1 January 2018	–	–	–
Issuance of Convertible Bonds during the year	29,970	1,510	31,480
Interest charge	1,486	–	1,486
Change in fair value (Note 4)	–	530	530
At 31 December 2018	31,456	2,040	33,496

18. BANK BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Current	**59,906**	44,602

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 2018 was 3.39% (2017: 3.82%).

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

19. LOANS FROM A THIRD PARTY

During the year ended 31 December 2017, 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 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.

During the year ended 31 December 2018, the Company repaid all the aforesaid loans and there are no loans outstanding.

20. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2018 and 2017	
	Number of shares *(thousands)*	*HKD'000*
Authorised Capital:		
Ordinary shares of HKD0.01 each	**2,000,000**	**20,000**

	Issued and fully paid: Share capital		Share premium
	Number of ordinary shares (of HKD0.01 each)	*RMB'000*	*RMB'000*
At 1 January 2017, 31 December 2017 and 1 January 2018	480,000,000	3,801	134,143
Alloted and issued on 29 March 2018 (Note)	11,800,000	100	16,000
At 31 December 2018	491,800,000	3,901	150,143

All shares issued rank pari passu against each other.

Note:

Pursuant to the Sale and Purchase Agreement entered between the Group and the Vendor, 11,800,000 shares at the issue price of HKD1.60 per share were allotted and issued to the Vendor on 29 March 2018 as part of the consideration for the Ever Clever Acquisition as disclosed in Note 11. The fair value of the ordinary shares issued was determined by reference to closing price of HKD1.61 per share quoted on the Stock Exchange at the date of completion of the Ever Clever Acquisition.

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, although the global economy continued the mild growth since 2017, the global economic development was faced with great uncertainties and extraordinary reform caused by the trade war. Despite continuously steady and optimistic development, China's economy is undergoing a transition from the high-speed growth stage to the high-quality development stage, with historic changes occurring to the industrial, demand and factor structure. The Sino-US trade war has been affecting the Group's strategic decisions, so the Group is facing a great challenge from the external environment for the development. Nevertheless, following the development concept of "Innovation, Green and Harmony", the Group has adopted various strategies to cope with and reduce the uncertainties arising from the trade war between China and the United States and changes in the external environment. At the same time, by means of continued adjustment of its sales strategy and strengthened customer management, the Group managed to maintain the growth momentum in CMS business in the past four years. The Group reversed the decline trend of OBM business, recording an increase of about 6.4%. The Group will actively participate in various domestic and global exhibitions to strengthen the promotion of the Group's image, cement the cooperation with strategic customers, and actively expand new markets in a bid to continue to consolidate the global market as well as the Group's OBM business.

On the other hand, during the Reporting Period, the Group engaged in energy business of collection and utilization of sewage source thermal energy in July 2017 through project acquisition. This continued to contribute stable returns to the Group. 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 enhance the monitoring of investment projects and consider investing appropriate 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 RMB405.0 million and RMB23.2 million respectively, representing an increase of approximately 2.4% and an increase of 6.4% respectively over 2017. Basic earnings per share was approximately RMB5 cents (2017: RMB5 cents).

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB367.0 million (2017: RMB360.0 million) representing an increase of approximately 1.9% as compared with last year.

During the Reporting Period, although the world economy continued its moderate growth since 2017 and the global economic development was subject to enormous uncertainties and unusual changes caused by the trade war; at the same time, the Sino-US trade war has always affected the strategic decisions of the Group from beginning to end, and hence the Group's development was currently facing great challenges from the external environment. Nevertheless, the Group adopted a variety of strategies based on the development concept of "innovation, green and harmony" to cope with and reduce the uncertainties brought about by the Sino-US trade war and changes in the external environment. Moreover, the Group's CMS business has maintained its growth momentum for four years in a row by continuously adjusting the sales strategy and customer management. In the coming year, by actively participating in various types of exhibitions at home and around the world, the Group will strengthen the promotion of its own image, enhance the cooperative relationship with strategic customers and actively expand new markets, with a view to continuing to consolidate and strengthen its position in the global market.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB38.0 million (2017: RMB35.7 million), representing a increase of approximately 6.4% as compared with last year.

Despite maintaining a stable and good development trend, the Chinese economy is transforming towards the quality-based development period from the high-speed development period, and its industrial structure, demand structure and factor structure are undergoing historic changes. The Group actively adopted various strategies and successfully reversed the decline trend of OBM business, recording an increase of about 6.4%. In the coming 2019, the Group will strengthen the construction of marketing team, upgrade and update products, enhance the brand image and adjust the product structure, with a view to strengthening the Group's OBM business.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB309.9 million (2017: RMB307.3 million), representing an increase of approximately 0.8% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB95.1 million (2017: RMB88.4 million), representing an increase of approximately 7.6% as compared to that of the prior year. The gross profit margin was approximately 23.5% (2017: 22.3%), the relevant increase of approximately 1.2% was primarily due to the changes of products structure as compared to that of the prior year.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB23.2 million (2017: RMB21.9 million), representing an increase of approximately 5.9% when compared to the prior year. The net profit margin of the Group increased from 5.5% in 2017 to 5.7% in 2018. Such increase was primarily due to the increase of gross profit, other income and other gains.

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 RMB22.7 million (2017: RMB18.6 million), representing an increase of approximately 22.2% as compared to that of the prior year. The increase was primarily due to the increase in 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 RMB46.4 million (2017: RMB41.2 million), representing an increase of approximately 12.6% as compared to that of the prior year. The increase was primarily due to the increase in depreciation and amortisation, professional services fee and operating lease expenses.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB16.6 million (2017: net finance cost RMB4.8 million), representing an increase of approximately RMB11.8 million as compared to that of the prior year. The increase was primarily due to decrease in foreign exchange loss and increase of interest expense from bonds, bank borrowings, note instruments and convertible bonds.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB5.4 million, representing an increase of approximately RMB0.5 million as compared with RMB4.9 million in 2017. Effective income tax rate for the current period was approximately 19.0%, which was higher as compared with approximately 18.3% over 2017. The higher effective income tax rate was primarily due to the increase in expenses not deductible for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Trade Receivables

As at 31 December 2018, trade receivables of approximately RMB16.1 million were past due, representing an increase of approximately 162.1% as compared to the amount of RMB6.1 million as at 31 December 2017. The amount of the provision was RMB103,000 as at 31 December 2018 (2017: RMB323,000). 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 2018 (2017: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the total assets of the Group amounted to approximately RMB796.2 million (2017: RMB640.7 million), and net current assets of approximately RMB204.4 million (2017: RMB167.6 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 89%, which was higher as compared with approximately 63% over 2017. The significant increase was primarily due to the issuance of bonds, note instruments and convertible bonds and the increase of bank borrowings for financing the business acquisition during the year.

BORROWINGS

As at 31 December 2018, bank borrowings of the Group amounted to approximately RMB59.9 million (2017: RMB44.6 million) with full maturity until 2019.

CAPITAL STRUCTURE

During the Reporting Period, pursuant to the Sale and Purchase Agreement entered into between the Company and the Vendor, 11,800,000 ordinary shares of the Company were allotted and issued to the Vendor at the issue price of HKD1.60 per share on 29 March 2018 as part of the consideration for the acquisition of 25% equity interest of Ever Clever.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2018, the Group's operating lease commitment amounted to approximately RMB9.3 million (2017: RMB7.9 million). As at 31 December 2018, the Group had capital commitments of approximately RMB48.5 million in respect of equity interest investments and approximately RMB0.9 million in respect of property, plant and equipment (2017: RMB93.0 million and RMB1.5 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 RMB1.2 million later than one year and no later than five years.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (2017: 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 2018, the Group had employed a total of 465 employees (2017: 490). 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 approximately RMB2.6 million, RMB14.8 million, Nil, and RMB42.3 million in investment in a joint venture, property, plant and equipment, prepayments for investment and financial assets at fair value through other comprehensive income respectively (2017: RMB52.0 million, RMB13.9 million, RMB70.0 million, and Nil 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 2018, the net proceeds from the initial public offering had been applied as follows:

	Actual net proceeds *HKD million*	Amount utilised up to 31 December 2018 *HKD million*	Balance unutilised balance as at 31 December 2018 *HKD 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	5	2
To fund the working capital requirement	6	6	–
Total	59	57	2

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

On 29 November 2017, Prosper One Development Limited, a wholly-owned subsidiary of the Company (the "Purchaser") entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Perfect Century Group Limited (the "Vendor"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase 25% equity interest of the target company, Ever Clever Group Limited ("Ever Clever", which together with its subsidiaries, the "Target Group") at the consideration of RMB160 million (equivalent to approximately HKD188.8 million). The acquisition was completed on 8 January 2018.

Ever Clever is a limited liability company incorporated under laws of the British Virgin Islands ("BVI") and mainly engaged in investment holdings in the PRC. Its significant subsidiary, Huailai Hengji Heat Supply Limited Company ("HGRL"), is mainly engaged in heat supply business in the PRC.

As disclosed in the announcement of the Company dated 29 November 2017, Ever Clever will become an associate of the Company. However, during the audit planning process and having discussed with the auditors of the Company, the Directors of the Company have reassessed such investment of the Target Group and considered that the classification of such investment in the Target Group should be recognized as the financial assets at fair value through other comprehensive income instead of the investment in an associate as disclosed previously. Details are set out in note 11 to the consolidated financial statements of this announcement.

Other than the above, the Group did not have any material acquisition during the Reporting Period.

OTHER INFORMATION

(i) Profit Guarantee in respect of the acquisition of 50% sale shares and sale loan in Illustrious Success Limited

On 4 July 2017, the Company has entered into the Agreement with Wealth Linkage and the guarantors, namely Lou Hongbo (樓洪波), Liu Yan (劉燕), Yao Yanyan (姚艷艷) and Wang Xuanyi (王宣懿) (collectively, the "Guarantors"), pursuant to which Wealth Linkage 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 at the consideration of RMB52,000,000 (equivalent to approximately HKD59,898,860). The acquisition was completed on 7 July 2017. Further details of the acquisition are set out in the Company's announcements dated 4 July 2017 and 5 July 2017.

The audited net profit after tax on a consolidated basis for the year ended 31 December 2018 of the Illustrious Success Group was approximately RMB10,634,000 according to the its consolidated financial statements. The Directors of the Company are of the opinion that Wealth Linkage was unable to meet the requirement of Profit Guarantee pursuant to the Agreement and the relevant shortfall of the Profit Guarantee was approximately RMB1,366,000. Details of Profit Guarantee are set out in note 4 to the consolidated financial statements of this announcement.

Pursuant to the Agreement, the Guarantors have jointly and severally agreed to guarantee the due performance and observance of the terms and obligations by Wealth Linkage in such manner and on such terms and conditions as provided in the Agreement. Accordingly, the Guarantors would be jointly and severally liable for paying the compensation to the Company in accordance with the formula provided in the Agreement.

The Directors of the Company are currently in discussion and negotiation with Wealth Linkage and the Guarantors about the settlement arrangement of the compensation. The Directors of the Company will seek legal advice from the Group's legal advisors for recovery of the compensation when necessary.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of the material developments in the above matters.

(ii) Update on Profit Guarantee in respect of the acquisition of 25% Equity Interest of Ever Clever Group

Reference is made to the announcements of the Company dated 29 November 2017 and 5 December 2017 in relation to, amongst other things, the acquisition of 25% equity interest of Ever Clever Group Limited. Further reference is also made to the announcements of the Company dated 23 August 2018 and 4 September 2018 in relation to the update on the profit guarantee of such acquisition.

Up to the date of this announcement, the Vendor still unable to provide the relevant audited financial statements of HGRL. The Company is taking every step to address this issue. The Company has instructed the legal representative to issue demand letters to Vendor and the relevant guarantors requesting the provision of the relevant audited financial statements of HGRL. It will maintain an open communication channel with Vendor and will be continuing with the communication on obtaining the relevant financial statements of HGRL.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of any material developments in the above matters.

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 2018.

(i) 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 HKD100 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.

During the referral period, the 2017 Bonds in an aggregate principal amount of HKD59 million has been successfully subscribed by several independent individual investors.

Further details of the 2017 Bonds are set out in the Company's announcement dated 20 July 2017.

(ii) On 12 February 2018, the Company and Mr. Yu (the "Bond 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 (the "2018 Bonds"). On 29 May 2018, the Company and the Bond Guarantor gave a formal notice to the Placing Agent to early terminate the said placing agreement with effect from 28 June 2018.

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

During the referral period, the 2018 Bonds in an aggregate principal amount of HKD18.5 million has been successfully subscribed by several independent individual investors.

(iii) On 28 May 2018, the Company and Mr. Yu entered into a subscription agreement with Cheer Hope Holdings Limited (the "Investor"), pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the note in principal sum of up to HKD120 million (the "Note").

On 31 May 2018, the Note in an aggregate principal amount of HKD120 million has been successfully subscribed by the Investor.

Further details of the Note are set out in the Company's announcement dated 28 May 2018.

Save as disclosed above, the Company has not conducted any other fund raising activity for the 12 months immediately before 31 December 2018 and the date of this announcement.

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. In addition, the Group will also pay attention to other investment opportunities in the market,

PROSPECTS

Although the world economy is still shrouded in the shadow of the Sino-US trade war, there are still huge uncertainties and changes in global economic development. Therefore, opportunities and challenges coexist. Based on the development concept of "innovation, green and harmony", the Group pays close attention to the development and changes of the industry and adjusts its strategies in a timely manner to cope with and reduce the uncertainties brought about by the Sino-US trade war and changes in the external environment. At the same time, by continuously adjusting the sales strategy and customer management and actively participating in various types of exhibitions at home and around the world, the Group will strengthen the promotion of its own image, enhance the cooperative relationship with strategic customers and actively expand new markets, with a view to continually consolidate and strengthen the Group's business development.

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.

In addition, the Group will continue to review its energy business, allocate resources appropriately and strengthen the monitoring on investment projects as well as commit to improve the competitiveness of its energy business. At the same time, the Group will also pay attention to other opportunities in the market and seek for new profit growth points.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 31 December 2018 till the date of this announcement.

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, 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 2018. 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 2018 and this announcement.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited 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 BDO Limited on the preliminary 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 two meetings held to review and make recommendation on the remuneration packages of individual executive Directors and senior management and Directors' 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 two 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 2018.

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 Monday, 20 May 2019 to Thursday, 23 May 2019, 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 Thursday, 23 May 2019, 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 Friday, 17 May 2019.

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 2018 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 2019

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.