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China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of China Ludao Technology Company Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2018. These unaudited interim results have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Board on 29 August 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	<i>Note</i>	Six months ended 30 June	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	6	218,297	206,835
Cost of sales	7	(158,453)	(164,522)
Gross profit		59,844	42,313
Other income and other gains	6	5,136	3,858
Selling expenses	7	(11,199)	(8,004)
Administrative expenses	7	(24,857)	(20,483)
Operating profit		28,924	17,684
Finance income	8	1,407	1,500
Finance costs	8	(11,822)	(6,689)
Finance costs – net		(10,415)	(5,189)
Share of results of a joint venture		(260)	2,895
Profit before income tax		18,249	15,390
Income tax expense	9	(5,078)	(2,794)
Profit for the period		13,171	12,596

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
Note	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Currency translation differences	(1,136)	(588)
Items that will not be reclassified to profit or loss:		
Changes in fair value of equity instruments		
at fair value through other comprehensive income	<u>1,340</u>	<u>–</u>
Other comprehensive income for the period, net of tax	<u>204</u>	<u>(588)</u>
Total comprehensive income for the period attributable to the owners of the Company	<u>13,375</u>	<u>12,008</u>
Earnings per share for profit attributable to owners of the Company		
– basic and diluted (RMB per share)	10 <u>0.03</u>	<u>0.03</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019	31 December 2018
	Note	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Investments in joint ventures		62,153	62,418
Right-of-use assets		11,999	–
Land use rights		–	5,062
Property, plant and equipment		98,913	101,074
Investment property		11,700	11,700
Intangible assets		311	266
Deferred income tax assets		331	331
Financial asset at fair value through other comprehensive income		150,000	148,660
Financial asset at fair value through profit or loss		2,664	2,442
Prepayments for property, plant and equipment		–	2,247
		338,071	334,200
Current assets			
Inventories		41,781	44,034
Trade and other receivables	11	260,692	221,309
Amount due from a joint venture		500	500
Financial asset at fair value through profit or loss		6,652	6,206
Cash and cash equivalents		61,050	69,538
Short-term bank deposits		103,139	103,099
Pledged bank deposits		20,180	17,324
		493,994	462,010
Total assets		832,065	796,210
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	12	3,901	3,901
Share premium		150,143	150,143
Other reserves		55,864	55,660
Retained earnings		191,413	178,242
Total equity		401,321	387,946

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

		30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Bonds	14	–	15,102
Note	15	–	102,420
Convertible bonds	16	32,397	31,456
Lease liabilities		3,151	–
Deferred government grants		739	739
Deferred income tax liabilities		949	949
		<u>37,236</u>	<u>150,666</u>
Current liabilities			
Trade and other payables	13	139,100	134,761
Contract liabilities		7,792	9,583
Current income tax liabilities		3,188	1,208
Financial liabilities at fair value through profit or loss	16	763	2,040
Lease liabilities		2,724	–
Bank borrowings		69,997	59,906
Bonds	14	67,255	50,100
Note	15	102,689	–
		<u>393,508</u>	<u>257,598</u>
Total liabilities		<u><u>430,744</u></u>	<u><u>408,264</u></u>
Total equity and liabilities		<u><u>832,065</u></u>	<u><u>796,210</u></u>
Net current assets		<u><u>100,486</u></u>	<u><u>204,412</u></u>
Total assets less current liabilities		<u><u>438,557</u></u>	<u><u>538,612</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

–	HKFRS 16	Leases
–	HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
–	Amendments to HKFRS 9	Prepayment Features with Negative Compensation
–	Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
–	Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
–	Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Apart from HKFRS 16, none of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019. The impact of the adoption of HKFRS 16 Leases has been summarised below.

HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3. The Group has elected to adopt the modified retrospective approach for HKFRS 16 Leases with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 on the Group's unaudited condensed consolidated financial statements are described below.

The Group as lessee On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.35%.

The Group recognises right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. There is no impact on the opening balance of equity at 1 January 2019.

The Group as lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor are not different from those under HKAS 17.

The following table summarises the impact of transition to HKFRS 16 as at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018 RMB'000	Impact on adoption of HKFRS 16 RMB'000	Carrying amount as under HKFRS 16 as at 1 January 2019 RMB'000
Right-of-use assets	–	12,959	12,959
Land use rights	5,062	(5,062)	–
Lease liabilities	–	(7,897)	(7,897)

Differences between operating lease commitment as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	RMB'000
Operating lease commitment disclosed as at 31 December 2018	9,282
Discounted operating leases commitments as at 1 January 2019	8,730
Less: Short-term leases and other leases with the remaining lease term ending on or before 31 December 2019	(833)
Lease liabilities recognized as at 1 January 2019	7,897
Analysed as:	
Current	2,417
Non-current	5,480

3. CHANGE IN ACCOUNTING POLICIES

Leases

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 “Provision, Contingent Liabilities and Contingent Assets”. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the unaudited condensed consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property, plant and equipment” policy as stated in the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “Administrative expenses” in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
 - the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.
- (b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted**

The Group did not early adopt any new or revised standards, amendments and interpretations that have been issued but are not effective for the financial year beginning 1 January 2019. Management is currently assessing the financial impact of these revisions to the Group’s financial position and performance.

4 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

5 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 CMS basis to overseas and PRC market and on OBM basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors network. Result 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 considered that there is only one reportable operating segment.

Geographical information

The following tables present information on revenue and certain assets of the Group by geographical segment.

Revenue from external customers

	Six months ended 30 June	
	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
United States of America	77,982	72,743
Mainland China	78,378	58,575
Europe	6,561	9,647
Others	55,376	65,870
	<u>218,297</u>	<u>206,835</u>

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

Non-current assets

Non-current assets consist of land use rights, property, plant and equipment, investment property and intangible assets which are all located in the PRC as at 30 June 2019 and 31 December 2018.

Information about major customers

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	66,994	50,198
Customer B	28,470	26,095
Customer C	16,672	23,171
Customer D	n/a	23,343
	<u>112,136</u>	<u>122,807</u>

n/a Revenue from the customer was less than 5% of the Group's revenue for the six months period ended 30 June 2019.

6 REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	<u>218,297</u>	<u>206,835</u>
Other income and other gains		
Government grants	2,284	172
Technical service fee	292	2,954
Change in fair value of financial liabilities at fair value through profit or loss	1,277	—
Others	<u>1,283</u>	<u>732</u>
	<u>5,136</u>	<u>3,858</u>

7 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation and amortisation	5,875	4,156
Employee benefit expenses, excluding amount including in research and development costs	19,480	17,117
Raw materials used	150,560	155,411
Changes in inventories of finished goods and work in progress	(5,867)	(2,372)
Water and electricity expenditures	2,159	1,594
Transportation and travelling expenses	8,436	6,055
Telecommunication expenses	226	233
Advertising costs	183	297
Other tax expenses	1,124	1,167
Research and development costs		
– Employee benefit expenses	4,373	1,969
– Materials and others, excluding depreciation and amortisation	3,606	1,517
Entertainment expenses	538	781
Operating lease expenses	928	1,922
Professional services fee	480	753
Other expenses	2,408	2,409
Total	194,509	193,009

8 FINANCE COSTS – NET

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	<u>1,407</u>	<u>1,500</u>
Interest expenses		
– Bonds	(3,801)	(3,213)
– Note	(5,563)	(886)
– Bank borrowings	(1,424)	(1,041)
– Other loans	–	(943)
– Convertible bonds	(941)	(606)
– Interest expense on lease liabilities	<u>(93)</u>	<u>–</u>
	<u>(11,822)</u>	<u>(6,689)</u>
Finance costs – net	<u>(10,415)</u>	<u>(5,189)</u>

9 INCOME TAX EXPENSE

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

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

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2019.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Company Limited (“Ludao PRC”), an indirectly wholly-owned subsidiary of the Company, was qualified as a High and New Technology Enterprise, and accordingly, it is entitled to a preferential rate of 15% for the three years from 1 January 2016 to 31 December 2018. The qualification of High and New Technology Enterprise of Ludao PRC will be due in November 2019 and Ludao PRC is in the process of applying of such qualification at present.

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	5,078	2,794
Deferred income tax	<u>–</u>	<u>–</u>
	<u>5,078</u>	<u>2,794</u>

10 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for profit attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share <i>(RMB'000)</i>	<u>13,171</u>	<u>12,596</u>
<i>Add: interest savings on convertible bonds (RMB'000) (Note)</i>	<u>N/A</u>	<u>606</u>
Profit for the period attributable to owners of the Company for the purposes of diluted earnings per share <i>(RMB'000)</i>	<u>13,171</u>	<u>13,202</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands of shares)	<u>491,800</u>	<u>486,128</u>
Effect of dilutive potential ordinary shares:		
– Convertible bonds (thousands of shares) <i>(Note)</i>	<u>N/A</u>	<u>23,600</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands of shares)	<u>491,800</u>	<u>509,728</u>

Note:

There is no dilutive effect on the convertible bonds as they are anti-dilutive.

11 TRADE AND OTHER RECEIVABLES

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Trade receivables, net (a)	162,546	131,600
Prepayments and deposits	86,138	78,159
Notes receivable	523	500
Other receivables	11,485	11,050
	<u>260,692</u>	<u>221,309</u>

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2019 and 31 December 2018 respectively.

(a) Trade receivables

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

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Up to 3 months	88,633	75,528
3 to 6 months	40,070	40,013
6 to 12 months	23,747	12,532
Over 12 months	10,199	3,630
	<u>162,649</u>	<u>131,703</u>
Impairment provision	<u>(103)</u>	<u>(103)</u>
	<u>162,546</u>	<u>131,600</u>

The Group's sales are mainly made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 57% (31 December 2018: 59%) of the Group's revenue for the period. They accounted for approximately 69% (31 December 2018: 66%) of the gross trade receivable balances as at 30 June 2019.

12 SHARE CAPITAL

	30 June 2019 (Unaudited) and 31 December 2018 (Audited)	
	Number of shares	
	<i>(thousands)</i>	<i>HK\$'000</i>
Authorised Capital:		
Ordinary shares of HK\$0.01 each	2,000,000	20,000
	Number of ordinary shares	
	<i>(of HK\$0.01 each)</i>	<i>RMB'000</i>
Issued and fully paid:		
At 1 January 2018 (Audited)	480,000,000	3,801
Allotted and issued on 29 March 2018 (Note)	11,800,000	100
At 30 June 2018 (Unaudited), 31 December 2018 (Audited) and 30 June 2019 (Unaudited)	491,800,000	3,901
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 ordinary shares of the Company 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 20. The fair value of the ordinary shares issued was determined by reference to the closing price of HKD1.61 per share quoted on the Stock Exchange at the date of completion of the Ever Clever Acquisition (i.e. 8 January 2018).

13 TRADE AND OTHER PAYABLES

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Trade payables (a)	40,815	30,353
Notes payable (b)	87,970	86,578
Other tax payables	65	3,388
Accrued expenses	6,833	9,655
Other payables	3,417	4,787
	<u>139,100</u>	<u>134,761</u>

The fair values of trade and other payables approximated to their carrying values as at 30 June 2019 and 31 December 2018 respectively.

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

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Up to 3 months	36,573	28,217
3 to 6 months	2,606	803
6 to 12 months	217	127
Over 12 months	1,419	1,206
	<u>40,815</u>	<u>30,353</u>

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

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

14 BONDS

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Non-current	–	15,102
Current	<u>67,255</u>	<u>50,100</u>
	<u>67,255</u>	<u>65,202</u>

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.

The 2017 Bonds with aggregate par value of HKD59,000,000 have been fully settled upon the date of maturity in early August 2019.

15 NOTE

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Non-current	–	102,420
Current	<u>102,689</u>	<u>–</u>
	<u><u>102,689</u></u>	<u><u>102,420</u></u>

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 secured and guaranteed by Mr. Yu Yuerong, a Director of the Company and is secured by a share charge over 25% equity interest in Ever Clever Group Limited (“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.

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

Pursuant to the sale and purchase agreement dated 29 November 2017 (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 Perfect Century Group Limited (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 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 8-9% per annum.

According to the profit guarantee given by the Vendor in favour of the Company 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 fair value of the liability component of the Convertible Bonds was initially recognised at approximately of RMB29,970,000 by using discounted cash flow model. The fair value estimate was based assumed discount rates (i.e. effective interest rates) of 8-9% and the Director's expectation on the amount of the Convertible Bonds to be redeemed or cancelled (if any).

The convertible option should be separated from the liability component and accounted for as a derivative liability (i.e. financial liabilities at fair value through profit or loss) 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, as at 31 December 2018 and 30 June 2019, were assessed by an independent valuer, was calculated using the binomial options pricing model. During the six months ended 30 June 2019, the change in the fair value of derivative component was recognised in profit or loss.

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

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
At 1 January 2018 (Audited)	–	–	–
Issuance of the Convertible Bonds during the year	29,970	1,510	31,480
Interest charge	1,486	–	1,486
Change in fair value	–	530	530
At 31 December 2018 (Audited)	31,456	2,040	33,496
Interest charge	941	–	941
Change in fair value	–	(1,277)	(1,277)
At 30 June 2019 (Unaudited)	<u>32,397</u>	<u>763</u>	<u>33,160</u>

17 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2019 (2018: nil).

18 CONTINGENT LIABILITIES

As at 30 June 2019, the Group and the Company had no significant contingent liabilities (31 December 2018: nil).

19 COMMITMENTS

(a) Capital commitments

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

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Property, plant and equipment	338	867
Equity interest investment – others	48,450	48,450
	48,788	49,317

(b) Operating lease rentals receivable

The lease term is 5 years, and the lease agreement is renewable at the end of the lease period at market rate.

The Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Not later than one year	361	354
Later than one year and not later than five years	926	1,170
	<u>1,287</u>	<u>1,524</u>

20 EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 30 June 2019 till the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AT A GLANCE

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 negotiation between China and the US experienced ups and downs, yet still yielded no results. Meanwhile, the global economy as a whole showed a slowdown, causing fluctuations in the market. However, the Chinese economy remained its stable and progressive development momentum with a series of tax and fee reduction policies introduced by the Chinese government for improving business environment and stimulating market viability. Facing this challenging and complex external environment, on top of remaining stable development of its CMS business at overseas, the Group actively inserted efforts in expanding CMS business at home, contributing to a minor development momentum of the CMS business in a changing environment influenced by the complex China-US trade war. Meanwhile, the OBM business of the Group remained double-digit growth. With the development philosophy of “innovation, green, harmony” and a sense of crisis, the Group will make active response to and try to minimize the uncertainties brought by the China-US trade war and the changes in external environment by grasping long-term development trend and reinforcing its own strengths.

On the other hand, during the Reporting Period, the Group continued to engage in energy business of collection and utilization of sewage source thermal energy in July 2017 through project acquisition. Although the performance of this period was not encouraging, the Board and management of the Group still consider the China’s clean energy business will have good prospects in future and 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 six months ended 30 June 2019, the turnover of the Group was approximately RMB218.3 million, representing an increase of approximately 5.6% as compared with that of in the corresponding period of 2018 (2018: RMB206.8 million). Accordingly, our Group recorded a net profit of approximately RMB13.2 million as compared with a net profit of approximately RMB12.6 million for the corresponding period in 2018. The earnings per share of the Group was RMB0.03 during the Reporting Period which remained at similar level as compared with the earnings per share of RMB0.03 for the corresponding period of last year.

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.

Financial Review

Turnover

CMS

For the six months ended 30 June 2019, the turnover of the Group's CMS business was approximately RMB192.1 million (2018: RMB186.3 million), representing an increase of approximately 3.1% as compared with that of in the corresponding period of 2018.

During the Reporting Period, the negotiation between China and the US experienced ups and downs, yet still yielded no results. Meanwhile, the global economy as a whole showed a slowdown, causing fluctuations in the market. Facing this challenging and complex external environment, on top of remaining stable development of its CMS business at overseas, the Group actively inserted efforts in expanding CMS business at home, which helped the CMS business of the Group remain a rare and valuable growth rate of 3.1% in a changing environment influenced by the complex China-US trade war. With the development philosophy of “innovation, green, harmony” and a sense of crisis, the Group will continue to make active response to and try to minimize the uncertainties brought by the China-US trade war and the changes in external environment by grasping long-term development trend and reinforcing its own strengths. At the same time, the Group will adjust its product structure, enhance R&D capacities, and remain cost and services advantages based on the changes in the consumption trend in domestic and overseas markets, in order to promote the sustainable development of its CMS business.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2019 was approximately RMB26.2 million (2018: RMB20.5 million), representing an increase of approximately 27.8% as compared with that of in the corresponding period in 2018.

The Chinese economy remained its stable and progressive development momentum with a series of tax and fee reduction policies introduced by the Chinese government for improving business environment and stimulating market viability. During the Reporting Period, the Group actively increased its efforts in building marketing teams, upgrading products and launching new generations, improving brand image, adjusting product structures and adopting various strategies, contributing to a growth rate of approximately 27.8% in its OBM business. For the second half of the year, the Group will continue to explore in depths the domestic market and adjust marketing strategies with an aim to reinforce its OBM business.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2019 was approximately RMB158.5 million (2018: RMB164.5 million), representing a decrease of approximately 3.6% as compared with that of in the corresponding period of 2018.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2019, the Group recorded gross profit of approximately RMB59.8 million (2018: approximately RMB42.3 million) and the gross profit margin was approximately 27.4% (2018: 20.5%). The increase in gross profit margin was mainly benefited from the effort of cost control, changes in product mix and change in value-added tax policy by the PRC government.

Other Income and Other Gains – Net

Other income and other gains of the Group for the six months ended 30 June 2019 was approximately RMB5.1 million (2018: approximately RMB3.9 million), representing an increase of approximately RMB1.2 million as compared with that of in the corresponding period of 2018. Such increase was primarily due to the increase of government grants income during the Reporting Period.

Expenses

Selling Expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2019, selling expenses was approximately RMB11.2 million (2018: approximately RMB8.0 million), representing an increase of approximately 40.0% as compared with that of in the corresponding period of 2018. The increase was primarily due to the increase in transportation and travelling expenses and staff salaries.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2019, administrative expenses was approximately RMB24.9 million (2018: approximately RMB20.5 million), representing an increase of approximately 21.5% as compared with that of in the corresponding period of 2018. The increase in administrative expenses was primarily due to an increase in research and development costs.

Finance Costs – net

For the six months ended 30 June 2019, the Group recorded net finance cost of approximately RMB10.4 million (2018: approximately RMB5.2 million). The increase in finance costs was primarily due to the increase in interest expenses from note, bonds, bank borrowings and convertible bonds.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2019 was approximately RMB5.1 million, representing an increase of approximately RMB2.3 million as compared with approximately RMB2.8 million for the corresponding period of 2018, which was mainly due to the increase in profit before income tax and increase in expenses not deductible for tax purpose.

Profit for the period

The Group recorded profit for the period for the six months ended 30 June 2019 of approximately RMB13.2 million (2018: approximately RMB12.6 million), representing an increase of approximately RMB0.6 million as compared with that of in the corresponding period of 2018. Such increase was primarily due to the net impact of (i) increase in gross profit; and (ii) increase in other income and other gains.

Highlights of Statement of Financial Position

Prepayments & Deposits

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

	As at	
	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Prepayment to suppliers of raw materials	48,691	39,333
Deposits for price-locking agreements	28,000	28,000
Other prepayments & deposits	9,447	10,826
	86,138	78,159

Liquidity and Financial Resources

As at 30 June 2019, the total assets of the Group amounted to approximately RMB832.1 million (31 December 2018: approximately RMB796.2 million), and the net current assets of approximately RMB100.5 million (31 December 2018: approximately RMB204.4 million) and the Group's cash and bank deposits totalled approximately RMB184.4 million (31 December 2018: approximately RMB190.0 million). The current ratio of the Group decreased from 1.8 as at 31 December 2018 to 1.3 as at 30 June 2019.

The equity attributable to shareholders of the Company as at 30 June 2019 amounted to approximately RMB401.3 million (31 December 2018: approximately RMB387.9 million). The gearing ratio (based on the total debt over the total equity) of the Group slightly increased from 89% as at 31 December 2018 to 90% as at 30 June 2019.

* For translation and identification purposes only

Borrowings and the Pledge of the Group's Assets

As at 30 June 2019, note of RMB102.7 million (31 December 2018: RMB102.4 million) was secured by the 2,500 shares in Ever Clever Group Limited (“Ever Clever”) by the Group. Bank borrowings of RMB70.0 million (31 December 2018: RMB59.9 million) and notes payable of RMB88.0 million (31 December 2018: RMB86.6 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB48.5 million (31 December 2018: RMB45.9 million). Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

Save as disclosed herein, there was no other charge on the Group's assets.

Financing

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

Contractual Obligations

As at 30 June 2019, the Group had capital commitments of approximately RMB48.5 million in respect of equity interest investment and approximately RMB0.3 million in respect of property, plant and equipment (31 December 2018: approximately RMB48.5 million and RMB0.9 million respectively).

The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.4 million within one year and approximately RMB0.9 million later than one year and no later than five years (31 December 2018: approximately RMB0.3 million and RMB1.2 million respectively).

Contingent Liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: nil).

Exchange Rate Exposure

During the six months ended 30 June 2019, the Group mainly operated in the PRC with most transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in currencies other than RMB, the Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2019 (2018: nil).

Employees and Emoluments Policy

As at 30 June 2019, the Group had employed a total of 513 employees in the PRC and Hong Kong (31 December 2018: 465). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. The emoluments of Directors have been determined with reference to the skills, knowledge, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.

Significant Investment Held

During the Reporting Period, the Group invested approximately nil, RMB1.5 million, RMB0.1 million and nil in investment in joint ventures, property, plant and equipment, intangible assets and financial assets at far value through other comprehensive income respectively (2018: RMB2.6 million, RMB8.7 million, nil and RMB42.3 million respectively). Other than the above, the Group did not have any significant investments during the Reporting Period.

Material Acquisition

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 entered into a sale and purchase agreement with Wealth Linkage Development Limited (“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 Limited (together with its subsidiaries, the “Illustrious Success Group”) 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 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 (as defined in the announcement of the Company dated 4 July 2017) was approximately RMB1,366,000. Details of profit guarantee were set out in note 6 to the consolidated financial statements of the annual report for the year ended 31 December 2018.

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 continued to discuss and negotiate with Wealth Linkage and the Guarantors about the settlement arrangement of the compensation. However, as at the date of this announcement, the Company has not reached a settlement arrangement with the Wealth Linkage and the Guarantors. The Company is seeking legal advice for recovery of the compensation.

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

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. 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, Perfect Century Group Limited (“the Vendor”) is still unable to provide the relevant audited financial statements of 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company*) (“HGRL”). 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. The Company will maintain an open communication channel with Vendor and will be continuing with the communication on obtaining the relevant financial statements of HGRL. The Company is committed to making every effort in obtaining the relevant audited financial statements of HGRL and protect the interests of our shareholders.

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.

Use of Net Proceeds from Initial Public Offering

During the six months ended 30 June 2019, the net proceeds from the Company's initial public offer had been applied as follows:

	Actual net proceeds <i>HK\$ million</i>	Amount utilised up to 30 June 2019 <i>HK\$ million</i>	Unutilised balance as at 30 June 2019 <i>HK\$ million</i>
To increase production capacity by financing the first phase of constructing new production facility	32	32	–
To expand the domestic distribution channel	14	14	–
To promote our own brand names by increasing marketing and advertising efforts	7	5	2
To fund the working capital requirement	<u>6</u>	<u>6</u>	<u>–</u>
Total	<u><u>59</u></u>	<u><u>57</u></u>	<u><u>2</u></u>

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

Fund Raising Activity

The Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2019 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, through internal resources, 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 investments opportunities in the market.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which has been adopted for the purpose of making recommendations to the Board on the appointment, re-appointment and removal of the external independent auditor, and question any of its resignation or dismissal. It is also responsible for reviewing and providing supervision on the financial reporting process, risk management and internal controls procedures of the Group. The Audit Committee currently comprises of three independent non-executive Directors, namely Mr. Chan Yin Tsung (being the chairman of the Audit Committee), Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed internal controls and risk management review and process and financial reporting matters. The Audit Committee has also reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, in the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules except CG Code provision A.2.1.

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu, the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Yu has considerable experience and established market reputation in the industry, and the importance of Mr. Yu in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct of the Group regarding Directors’ securities transactions for the six months ended 30 June 2019. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the required standard set out in the Model Code during the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.ludao.cn>). The interim report of the Company for the six months ended 30 June 2019 will be dispatched to shareholders of the Company and published on the websites of the Hong Kong Stock Exchange and the Company in due course.

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

Hong Kong, 29 August 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.