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)

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of China Ludao Technology Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2018. For the reasons explained in the paragraph headed "Review of Unaudited Annual Results" in this announcement, the auditing process for the annual results of the Group for the year ended 31 December 2019 has not been completed.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Revenue	4	**412,578**	405,047
Cost of sales		**(299,062)**	(309,907)
Gross profit		**113,516**	95,140
Other income	4	**5,117**	4,275
Other gains – net	4	**2,377**	9,823
Selling expenses		**(25,024)**	(22,744)
Administrative expenses		**(47,026)**	(46,356)
Operating profit		**48,960**	40,138
Finance income		**2,383**	2,369
Finance costs		**(22,437)**	(18,950)
Finance costs – net		**(20,054)**	(16,581)
Share of results of joint ventures		**2,653**	5,126
Share of results of associates		**(225)**	–
Profit before income tax		**31,334**	28,683
Income tax expense	6	**(7,582)**	(5,444)
Profit for the year		**23,752**	23,239
Other comprehensive (expense)/income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(2,844)**	(4,818)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(81,729)**	(3,495)
Other comprehensive (expense)/income for the year, net of tax		**(84,573)**	(8,313)
Total comprehensive (expense)/income for the year attributable to the owners of the Company		**(60,821)**	14,926
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	8	**0.05**	0.05

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
ASSETS			
Non-current assets			
Investments in joint ventures	9	**63,184**	62,418
Investments in associates	10	**73,689**	–
Land use rights	12	**–**	5,062
Property, plant and equipment	11	**95,487**	101,074
Right-of-use assets	12	**12,345**	–
Investment property		**12,600**	11,700
Intangible assets		**331**	266
Deferred income tax assets		**312**	331
Financial asset at fair value through other comprehensive income	13	**66,931**	148,660
Financial asset at fair value through profit or loss	13	**–**	2,442
Trade and other receivables	15	**511**	–
Prepayments for property, plant and equipment		**–**	2,247
		325,390	334,200
Current assets			
Inventories	14	**38,679**	44,034
Trade and other receivables	15	**197,130**	221,309
Amount due from a joint venture		**–**	500
Financial asset at fair value through profit or loss	13	**9,132**	6,206
Cash and cash equivalents		**48,775**	69,538
Short-term bank deposits		**103,319**	103,099
Pledged bank deposits		**23,795**	17,324
		420,830	462,010
Total assets		**746,220**	796,210
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	21	**3,901**	3,901
Share premium	21	**150,143**	150,143
Other reserves		**(23,674)**	55,660
Retained earnings		**196,755**	178,242
Total equity		**327,125**	387,946

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

		As at 31 December	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Bonds	*17*	**–**	15,102
Note	*18*	**–**	102,420
Convertible bonds	*19*	**33,426**	31,456
Deferred government grants		**609**	739
Lease liabilities	*12*	**3,946**	–
Deferred income tax liabilities		**1,054**	949
		39,035	150,666
Current liabilities			
Trade and other payables	*16*	**135,520**	134,761
Contract liabilities		**23,127**	9,583
Current income tax liabilities		**14**	1,208
Financial liabilities at fair value through profit or loss	*19*	**2,472**	2,040
Bank borrowings	*20*	**93,310**	59,906
Bonds	*17*	**16,266**	50,100
Note	*18*	**106,170**	–
Lease liabilities	*12*	**3,181**	–
		380,060	257,598
Total liabilities		**419,095**	408,264
Total equity and liabilities		**746,220**	796,210

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 47.12% 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 27 March 2020.

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. 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 2018 except for the changes mentioned below.

(a) Adoption of new/revised HKRSs – effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and 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 HKFRS 3, HKFRS 16, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

Consolidated statement of financial position as at 1 January 2019

	RMB'000
Non-current assets	
Increase in right-of-use assets	12,454
Decrease in payments for leasehold land held for own use under operating lease	(5,062)
Current liabilities	
Increase in lease liabilities	1,941
Non-current liabilities	
Increase in lease liabilities	5,194

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitments as of 31 December 2018	9,282
Less: short term leases for which lease terms end within 31 December 2019	(1,572)
Less: future interest expenses	(575)
Total lease liabilities as of 1 January 2019	7,135

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.77%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group has leased out its investment property. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 April 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; and (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

(b) New/revised HKFRs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's 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.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

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

[2] Effective for annual periods beginning on or after 1 January 2021

[3] The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The Group has not applied any new/revised HKFRSs that are not yet effective for the latest 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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**145,556**	107,811
United States of America	**170,438**	171,265
Europe	**1,398**	7,068
Japan	**9,898**	33,440
Chile	**70,663**	64,884
Others	**14,625**	20,579
	412,578	405,047

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 2019 and 2018 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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Customer A	**120,143**	105,574
Customer B	**69,872**	62,490
Customer C	**n/a**	23,818
Customer D	**31,186**	33,159

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2019

4. REVENUE, OTHER INCOME AND OTHER GAINS – NET

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Revenue		
Sales of goods	**412,578**	405,047
Other income		
Government grants	**2,984**	659
Technical service fee	**336**	2,388
Rental income	**354**	314
Others	**1,443**	914
	5,117	4,275
Other gains – net		
Foreign exchange gain	**1,293**	61
Fair value gain on investment property	**900**	3,800
Change in fair value of financial liabilities at fair value through profit or loss	**(432)**	(530)
Change in fair value of financial asset at fair value through profit or loss	**484**	791
Gain on profit guarantee (Note)	**–**	5,706
Others	**132**	(5)
	2,377	9,823

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.

On 17 January 2020, Wealth Linkage, the guarantors and the Company have agreed that the amount of the monetary compensation payable by Wealth Linkage to the Company as a result of the non-fulfilment of the Profit Guarantee in the amount of RMB5,919,000 shall be paid in two equal instalments in December 2019 and December 2020. In December 2019, the first instalment in the amount of RMB2,960,000 was duly paid by the Wealth Linkage to the Company. In March 2020, the second installment in the amount of RMB2,959,000 was early settled by Wealth Linkage to the Company.

5. EXPENSES BY NATURE

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Depreciation and amortisation	**12,383**	10,120
Employee benefit expenses, excluding amount included in share option expense and research and development costs	**37,416**	34,116
Raw materials used	**264,543**	295,820
Changes in inventories of finished goods and work in progress	**7,315**	(10,008)
Water and electricity expenditures	**4,050**	3,480
Transportation and travelling expenses	**18,892**	19,382
Telecommunication expenses	**532**	535
Advertising expenses	**560**	414
Other tax expenses	**2,876**	2,931
Research and development costs		
– Employee benefit expenses	**7,624**	4,477
– Materials and others, excluding depreciation and amortisation	**2,677**	5,986
Auditor's remuneration – Audit services	**1,318**	1,086
Entertainment expenses	**1,497**	1,770
Operating lease expenses	**999**	4,091
Professional services fees	**2,392**	2,942
Inventories written off	**441**	–
Provision of expected credit losses ("ECLs")	**1,263**	–
Other expenses	**4,334**	1,865
	371,112	379,007

6. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current income tax	**7,458**	4,851
Deferred income tax	**124**	593
	7,582	5,444

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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit before income tax	**31,334**	28,683
Less: share of results of joint ventures	**(2,653)**	(5,126)
share of results of associates	**225**	–
	28,906	23,557
Tax calculated at the tax rate of 15% (2018: 15%)	**4,336**	3,534
Additional research and development deductible expenses	**(1,751)**	(1,283)
Effects of income not taxable and expenses not deductible for tax purposes and others	**4,997**	3,193
	7,582	5,444

7. DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2019 (2018: 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.

	2019	2018
	(Unaudited)	(Audited)
Profit attributable to owners of the Company *(RMB'000)*	**23,752**	23,239
Weighted average number of ordinary shares in issue *(thousands of shares)*	**491,800**	488,987
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 2019 and 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 2019, the Group injected capital of RMB4,467,000 (2018: RMB2,550,000) to Sinopharm Junyue Aerosol which was reclassified from a joint venture to an associate of the Group due to the amendments of the articles of association and change of the board composition of Sinopharm Junyue Aerosol.

10 INVESTMENTS IN ASSOCIATES

(i) During the year ended 31 December 2019, Sinopharm Junyue Aerosol was reclassified from a joint venture to an associate and it did not start its business.

(ii) During the year ended 31 December 2019, the Group injected capital of RMB67,500,000 in Zhejiang Sinopharm Jingyue Aerosol Co., Ltd and had 44.2% equity interests as at 31 December 2019.

Zhejiang Sinopharm Jingyue Aerosol Co., Ltd is a company limited by shares incorporated in the PRC and mainly engaged in research and development on aerosol and make up products, provide consultancy service on aerosol and make up products' production and manufacturing aerosol and related products in the PRC.

11. 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 2018 (Audited)						
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 (Audited)						
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 (Audited)						
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
Year ended 31 December 2019 (Unaudited)						
Opening net book amount	56,948	22,303	17,741	3,941	141	101,074
Additions	371	2,308	973	798	443	4,893
Disposal	(1,809)	(3,754)	(61)	(1,361)	–	(6,985)
Transfer	2,844	(2,354)	–	–	(490)	–
Eliminated on disposal	1,809	2,921	52	1,225	–	6,007
Depreciation	(4,672)	(2,074)	(2,183)	(573)	–	(9,502)
Closing net book amount	55,491	19,350	16,522	4,030	94	95,487
At 31 December 2019 (Unaudited)						
Cost	78,497	38,339	25,312	6,673	94	148,915
Accumulated depreciation	(23,006)	(18,989)	(8,790)	(2,643)	–	(53,428)
Net book amount	55,491	19,350	16,522	4,030	94	95,487

Depreciation expenses have been charged in:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cost of sales	**3,332**	3,271
Administrative expenses	**6,163**	6,619
Selling expenses	**7**	11
Total	**9,502**	9,901

As at 31 December 2019, the Group's buildings with the carrying amount of RMB11,407,000 (2018: RMB11,839,000) were pledged to secure notes payable (Note 16(b)).

12. Leases

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 2(a)(i).

Nature of leasing activities (The Group as a lessee)

The Group leases a number of properties in the China and Hong Kong from which it operates. Some of the Group leases contracts provide the amount of payments to increase each year by inflation. In some jurisdictions property leases the periodic rent is fixed over the lease term.

(a) Land use right (before 1 January 2019)

	RMB,000
Carrying amount at 1 January 2018	5,186
Amortisation recognised in profit or loss during the year	(124)
Carrying amount at 31 December 2018	5,062

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Land use right	**Office premises**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2019	5,062	7,392	12,454
Addition	–	2,654	2,654
Exchange realignment	–	67	67
At 31 December 2019	5,062	10,113	15,175
Accumulated depreciation			
At 31 December 2018	–	–	–
Impact on adoption of HKFRS 16	–	–	–
At 1 January 2019	–	–	–
Depreciation	(124)	(2,686)	(2,810)
Exchange realignment	–	(20)	(20)
At 31 December 2019	(124)	(2,706)	(2,830)
Carrying Value			
At 31 December 2019	4,938	7,407	12,345
At 31 December 2018	–	–	–

(c) Lease liabilities

Future lease payments are due as follows:

	2019
	RMB'000
Carrying amount at 1 January	**7,135**
New leases	**2,423**
Interest recognised during the year	**320**
Payments	**(2,795)**
Exchange difference	**44**
	7,127

Analysed into:

	2019	2018
	RMB'000	*RMB'000*
		(Note)
Current liabilities	**3,181**	–
Non-current liabilities	**3,946**	–
	7,127	–

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. See note 2(a) for further details about transition.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019
	RMB,000
Depreciation charge of right-of-use assets	**2,810**
Interest expense on lease liabilities	**320**
Expense relating to short-term leases	**999**
	4,129

Nature of leasing activities (The Group as a lessor)

The lease term is 38 months (2018: 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:

	2019	2018
	RMB'000	*RMB'000*
Not later than one year	**375**	354
Later than one year and not later than five years	**820**	1,170
	1,195	1,524

13. 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 an investment holding company and its operating subsidiary, Huailai Hengji Heat Supply Limited Company ("HGRL"), 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.

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	**66,931**	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. During the year ended 31 December 2019, the decrease in fair value of the financial asset at fair value through other comprehensive income of approximately RMB81,729,000 (2018: RMB3,495,000) was recognised in other reserves. There was a significant decrease in fair value because the business operations of HGRL have been temporarily taken over by the Huailai county government for the reason of alleged non-compliance with certain administrative measures for public utility franchise.

(iii) Financial assets at fair value through profit or loss

	2019	2018
	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	**9,132**	6,206
	9,132	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 HGRL, 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.

14. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**22,221**	24,027
Work in progress	**252**	134
Finished goods	**16,206**	19,873
	38,679	44,034

The cost of inventories included in cost of sales during the year ended 31 December 2019 amounted to approximately RMB271,858,000 (2018: RMB285,812,000).

During the year ended 31 December 2019, the Group did not make or reverse any provision for inventories (2018: Nil).

15. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Non-current		
Deposits	**511**	–
Current		
Trade receivables, net *(a)*	**125,340**	131,600
Prepayments and deposits	**63,687**	78,159
Notes receivable	**–**	500
Other receivables, net	**8,103**	11,050
	197,130	221,309
	197,641	221,309

(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:

	2019	2018
	RMB'000	*RMB'000*
Up to 3 months	**62,080**	75,528
3 to 6 months	**27,821**	40,013
6 to 12 months	**33,407**	12,532
Over 12 months	**3,304**	3,630
	126,612	131,703
Impairment provision	**(1,272)**	(103)
	125,340	131,600

The Group's sales are mainly made to several major customers and there is a concentration of credit risk. Sales of goods to the top five customers constituted 58% (2018: 59%) of the Group's revenue for the year. They accounted for 78% (2018: 66%) of the gross trade receivable balances as at 31 December 2019.

16. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables (a)	**42,128**	30,353
Notes payable (b)	**84,350**	86,578
Other taxes payable	**–**	3,388
Accrued expenses	**5,330**	9,655
Other payables	**3,712**	4,787
	135,520	134,761

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Up to 3 months	**37,978**	28,217
3 to 6 months	**2,270**	803
6 to 12 months	**1,480**	127
Over 12 months	**400**	1,206
	42,128	30,353

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.

17. BONDS

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current	**–**	15,102
Current	**16,266**	50,100
	16,266	65,202

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.

During the year ended 31 December 2019, the entire 2017 Bonds with principal amount of HKD59,000,000 was duly settled at the maturity date.

18. NOTE

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current	**106,170**	–
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.

19. 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 8-9% 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 and 2019, were assessed by an independent valuer, was calculated using the binomial options pricing model. There were changes in the fair value of derivative liability recognised in profit or loss during the years ended 31 December 2018 and 2019 (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 (Audited)	–	–	–
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 (Audited) and 1 January 2019	31,456	2,040	33,496
Interest charge	1,970	–	1,970
Change in fair value (Note 4)	–	432	432
At 31 December 2019 (Unaudited)	33,426	2,472	35,898

20. BANK BORROWINGS

	2019 ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Current	**93,310**	59,906

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 2019 was 4.83% (2018: 3.39%).

21. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2019 (Unaudited) and 31 December 2018 (Audited)	
	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 2018 (Audited)	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 (Audited), 1 January 2019 and 31 December 2019 (Unaudited)	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 13. 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, the global economy declined obviously, the global international trade showed negative growth, and the Sino-US trade conflict shifted from an escalating trend to an easing trend. At the same time, China continued to improve the business environment, and has implemented large-scale tax cuts and fee reduction policies, adding new impetus to economic growth. Nevertheless, it was not easy for the Group in 2019. Through years of steady development and continuous innovation capability, the Group has adjusted its strategy and made active response on the basis of strengthening the strategic customer cooperation relationship. The CMS business and OBM business maintained a growth momentum and recording an increase of 1.4% and 6.8% respectively.

In addition, the Group's investment in the clean energy and heating business newly introduced in 2017 to the Group, and the Board of Directors and the management of the Group will continually follow up and timely consider the development of such investment project. Meanwhile, the Group will also pay attention to other potential investment opportunities in the market so as to enhance the competitiveness and synergy of the Group.

For the Reporting Period, the revenue and net profit of the Group were approximately RMB412.6 million and RMB23.8 million respectively, representing an increase of approximately 1.9% and an increase of 2.2% respectively over 2018. Basic earnings per share was approximately RMB5 cents (2018: RMB5 cents).

Despite the rise in revenue, the Group's total comprehensive expense for the year attributable to the owners of the Company was approximately RMB60.8 million for the Reporting Period, compared to the total comprehensive income was approximately RMB14.9 million for the prior year. The significant increase is primarily attributable to the decrease in fair value of equity instruments at fair value through other comprehensive income because the business operations of HGRL have been temporarily taken over by the Huailai county government for the reason of alleged non-compliance with certain administrative measures for public utility franchise, which is non-cash in nature and has no adverse impact on the business and operation of the Group. The Board considers that overall operational and financial position of the Group as whole still remain good.

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB372.0 million (2018: RMB367.0 million) representing an increase of approximately 1.4% as compared with last year.

During the Reporting Period, the global economy declined obviously, the global international trade showed negative growth, and the Sino-US trade conflict shifted from an escalating trend to an easing trend. Faced with the complex situation of obviously rising risks and challenges at home and abroad, the Group has been under unprecedented pressure in business. Nevertheless, through years of steady development and continuous innovation capability, the Group has adjusted its strategy and made active response on the basis of strengthening the strategic customer cooperation relationship. The CMS business of the Company has slightly increment as compared with last year. In 2020, due to the outbreak of coronavirus pneumonia in 2019 and its continuous large-scale spread around the world, international trade will be affected unprecedentedly. The epidemic situation is a challenge as well as an opportunity. The Group will pay close attention to the development of the epidemic situation, actively assume the corporate social responsibility, increase the production of epidemic prevention products (such as disinfection alcohol and water-free hand sanitizer), and contribute the corporate strength to the prevention and control of the epidemic. At the same time, the Group will monitor the development of the epidemic in real time, strengthen cooperation with customers, and actively deal with and resolve the adverse effects of the epidemic, so as to continue to consolidate and strengthen the CMS business of the Group.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB40.6 million (2018: RMB38.0 million), representing an increase of approximately 6.8% as compared with last year.

Although China's GDP growth rate fell from 6.6% in 2018 to 6.1% in 2019 with great pressure of the economic downturn, China continued to improve the business environment and has implemented large-scale tax cuts and fee reduction policies, adding new impetus to economic growth. In the coming 2020, despite the adverse impact of the epidemic on China's economy, China has controlled the spread of the epidemic in a timely manner, which has basically been controlled. The Group will study consumption trends and consumer preferences, and conduct research and development of high-quality product in line with market demand in order to continuously cater to the market demand and further enhance the Group's OBM business.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB299.1 million (2018: RMB309.9 million), representing a decrease of approximately 3.5% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB113.5 million (2018: RMB95.1 million), representing an increase of approximately 19.3% as compared to that of the prior year. The gross profit margin was approximately 27.5% (2018: 23.5%), the relevant increase of approximately 4% was primarily due to effective cost control on production, changes of products structure as compared to that of the prior year and benefit from the tax reduction policy in PRC.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB23.8 million (2018: RMB23.2 million), representing an increase of approximately 2.2% when compared to the prior year. The net profit margin of the Group remain steady at 5.8% in 2019 as compared with 5.7% in 2018. Such result was primarily due to the continue cost control of the Group.

Other comprehensive expense for the year

The Group's other comprehensive expense for the Reporting Period was approximately RMB84.6 million (2018: RMB8.3 million), representing an increase of approximately 919.3% when compared to the prior year. The increase was mainly attributable to decrease in fair value of equity instruments at fair value through other comprehensive income.

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 RMB25.0 million (2018: RMB22.7 million), representing an increase of approximately 10.0% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries and bonus and other expenses 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 RMB47.0 million (2018: RMB46.4 million), representing an increase of approximately 1.4% as compared to that of the prior year. The increase was primarily due to the increase in depreciation and amortisation, staff salaries and research and development costs.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB20.1 million (2018: net finance cost RMB16.6 million), representing an increase of approximately RMB3.5 million as compared to that of the prior year. The increase was primarily due to increase of interest expense from bank borrowings and note instruments.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB7.6 million, representing an increase of approximately RMB2.1 million as compared with RMB5.4 million in 2018. Effective income tax rate for the current period was approximately 24.2%, which was higher as compared with approximately 19.0% over 2018. 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 2019, trade receivables of approximately RMB36.7 million were past due, representing an increase of approximately 127.1% as compared to the amount of RMB16.1 million as at 31 December 2018. The amount of the impairment provision was RMB1,272,000 as at 31 December 2019 (2018: RMB103,000).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2019 (2018: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the total assets of the Group amounted to approximately RMB746.2 million (2018: RMB796.2 million), and net current assets of approximately RMB40.8 million (2018: RMB204.4 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 102%, which was higher as compared with approximately 89% over 2018. The increase was primarily due to the increase of bank borrowings and decrease of equity during the year.

BORROWINGS

As at 31 December 2019, bank borrowings of the Group amounted to approximately RMB93.3 million (2018: RMB59.9 million) with full maturity until 2020.

CAPITAL STRUCTURE

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

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2019, the Group's operating lease commitment amounted to approximately Nil (2018: RMB9.3 million). As at 31 December 2019, the Group had capital commitments of approximately RMB132.5 million in respect of equity interest investments and approximately RMB0.2 million in respect of property, plant and equipment (2018: 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 (2018: RMB0.3 million) and approximately RMB0.8 million later than one year and no later than five years (2018: RMB1.2 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: 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 2019, the Group had employed a total of 469 employees (2018: 465). 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 RMB4.5 million, RMB67.5 million, RMB2.2 million, and nil in investment in a joint venture, investment in an associate, property, plant and equipment and financial assets at fair value through other comprehensive income respectively (2018: RMB2.6 million, nil, RMB14.8 million, RMB42.3 million respectively). Other than the above, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the year ended 31 December 2019, the net proceeds from the initial public offering had been applied as follows:

	Actual net proceeds	Amount utilised up to 31 December 2019	Balance unutilised balance as at 31 December 2019
	HKD million	*HKD million*	*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	6	1
To fund the working capital requirement	6	6	–
Total	59	58	1

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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

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 an agreement (the "Illustrious 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 (together with its subsidiaries, the "Target Group") at the consideration of RMB52,000,000 (equivalent to approximately HKD59,898,860). The acquisition was completed on 7 July 2017.

Pursuant to the Illustrious Agreement, Wealth Linkage, the vendor, undertakes to the Company that the Target Group shall achieve the audited net profit after tax on a consolidated basis of (i) RMB10,000,000 for the year ended 31 December 2017 (the "2017 Profit Guarantee") and (ii) RMB12,000,000 for the year ended 31 December 2018 (the "2018 Profit Guarantee") compiled by an accounting firm acceptable to the Company.

The 2017 Profit Guarantee had been fulfilled. Based on 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 Illustrious Agreement and the relevant shortfall of the 2018 Profit Guarantee was approximately RMB1,366,000. Details of 2018 Profit Guarantee are set out in note 4 to the consolidated financial statements of this announcement.

Pursuant to the Illustrious 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 Illustrious 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 Illustrious Agreement.

The Company, Wealth Linkage and the Guarantors have agreed that the amount of the monetary compensation payable by Wealth Linkage to the Company as a result of the shortfall of the 2018 Profit Guarantee in the amount of RMB5,919,000 shall be paid in two equal instalments in December 2019 and December 2020. In December 2019, the first instalment in the amount of RMB2,960,000 was duly paid by Wealth Linkage to the Company. In March 2020, the second installment in the amount of RMB2,959,000 was early settled by Wealth Linkage to the Company.

Please refer to the announcements of the Company dated 4 July 2017, 25 October 2019 and 17 January 2020 for further details in respect of the acquisition and previous updates of profit guarantee.

(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 (together with its subsidiaries, the "EC Group"). Further reference is also made to the announcements of the Company dated 23 August 2018, 4 September 2018, 25 October 2019 and 17 January 2020 in relation to the update on the profit guarantee of such acquisition.

The Company has made attempts to communicate and enquire with the relevant individuals from the Vendor and HGRL to request for the audited financial statements of HGRL on several occasions from time to time in 2019 but such attempts did not come to any fruitful results. There has been no material development since the publication of the announcement dated 17 January 2020.

As HGRL, the principal operating group company of the EC Group, is a company established in the PRC, the Board is advised to take a more comprehensive view of the merits of making a claim against the Vendor and/or HGRL in each different relevant jurisdiction. Accordingly, the Board would also seek legal advice from the PRC legal advisers to take any legal action against the Vendor and/or HGRL directly in the PRC for the provision of the audited financial statements of HGRL for the year ended 31 March 2018 and 31 March 2019.

As disclosed in the announcement dated 17 January 2020, the Board expected to obtain legal advice from the PRC legal advisers by the end of February 2020 and subject to the PRC legal advice, take the best course of action against the Vendor and/or HGRL in the most appropriate jurisdiction by the end of March 2020. However, due to the outbreak of COVID-19 since January 2020 in the PRC, most of the business activities in the PRC, including those of law firms, were suspended. Further, court services in the PRC have also been affected. The Company had faced difficulties in getting the legal advice from its PRC legal advisers due to closure of offices in the PRC. During the audit work of the auditors of the Company for the year ended 31 December 2019, it has come to the attention of the Board that the business operations of HGRL have been temporarily taken over by the Huailai county government for the reason of alleged non-compliance with certain administrative measures for public utility franchise. The Board considers that such arrangement would not have a significant impact on the plan of the Group to make a claim against the Vendor and/or HGRL in the PRC, subject to the PRC legal advice to be sought. Since COVID-19 has largely stabilized in the PRC, the business activities began to resume gradually in March 2020, the Board expects to obtain legal advice from the PRC legal advisers by the end of April 2020 subject to the development of COVID-19, and subject to the PRC legal advice, take the best course of action against the Vendor and/or HGRL in the most appropriate jurisdiction by the end of May 2020.

FUND RAISING ACTIVITIES

The Company has not conducted any fund raising activity for the 12 months immediately before 31 December 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 projects for the research and development, manufacture and sale of medical and edible aerosol products through its joint venture and associate entity in the PRC. In addition, the Group will also pay attention to other investment opportunities in the market.

PROSPECTS

In 2020, due to the outbreak of coronavirus pneumonia epidemic in 2019 and its continuous large-scale spread around the world, international trade will be affected unprecedentedly. The epidemic is a challenge as well as an opportunity. The Group will pay close attention to the development of the epidemic, actively assume the corporate social responsibility, increase the production of epidemic prevention products (such as disinfection alcohol and water-free hand sanitizer), and contribute the corporate strength to the prevention and control of the epidemic. At the same time, the Group will monitor the development of the epidemic in real time, strengthen cooperation with customers, and actively deal with and resolve the adverse effects of the epidemic, so as to continue to consolidate and strengthen the CMS business of the Group. Also, despite the adverse impact of the epidemic on China's economy, China has controlled the spread of the epidemic in a timely manner, which has basically been controlled. The Group will study consumption trends and consumer preferences, and conduct research and development of high-quality products in line with market demands in order to continuously cater to the market demands and further enhance the Group's OBM business. The Board of Directors and the management of the Group will closely monitor changes in the international situation and adjust their strategies in a timely manner in order to achieve better results.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

Save for the disclosed in the paragraph headed "OTHER INFORMATION", there are no material subsequent events undertaken by the Group after 31 December 2019 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 2019. 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.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the outbreak of COVID-19. The unaudited annual results contained herein have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

AUDITOR

The Company appointed BDO Limited as its auditor for the year ended 31 December 2019. The Company will submit a resolution in the coming annual general meeting to re-appoint BDO Limited as the auditor of the Company.

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 Committee's 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 2019.

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 shareholders.

PRELIMINARY ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The auditing process for the annual results of the Company for the year ended 31 December 2019 has not been completed due to the outbreak of COVID-19. As a result, the ability to conduct an audit of the Group's financial statement has been affected, mainly due to the travel restrictions and quarantine measures imposed by the relevant authorities, in particular, the quarantine requirement stipulated under the Compulsory Quarantine of Certain Persons Arriving at Hong Kong Regulation (Cap 599C of the Laws of Hong Kong) ("Compulsory Quarantine Regulation"). Based on current situation, staff of the auditors of the Company will only be able to travel to the Group's office in the PRC in a feasible and reasonable manner to conduct audit field work after the expiry of the Compulsory Quarantine Regulation (i.e. whereupon the staff of the auditors of the Company will not be put under quarantine after returning from the PRC to Hong Kong). The Company currently expects that more time will be required to complete the audit work in the PRC and hence there will be a delay in the publication of audited results of the Group for the year ended 31 December 2019 and the despatch of the Company's annual report for the year ended 31 December 2019.

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2019 have not been agreed by the Group's auditors, to the amounts set out in the Group's unaudited consolidated financial statements for the year ended 31 December 2019. Based on preliminary agreement with the auditors of the Company, it is expected that barring unforeseen circumstances, the audit of the annual results for the year ended 31 December 2019 will be completed on or before 15 May 2020 on the assumption that the auditor is able to commence the audit works in the PRC on or before early May 2020. The Company expects that the annual report of the Company for the year ended 31 December 2019 will be published on or before 15 May 2020.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, and (ii) the proposed date on which the forthcoming annual general meeting will be held. In addition, the Company will issue further announcement(s) as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group for the year ended 31 December 2019 have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 27 March 2020

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.