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 2020

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 2020 (the "Reporting Period"), together with the unaudited comparative figures for the six months ended 30 June 2019. These unaudited interim results have been reviewed by the Company's audit committee (the "Audit Committee") and approved by the Board on 28 August 2020.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**263,517**	218,297
Cost of sales	*6*	**(183,762)**	(158,453)
Gross profit		**79,755**	59,844
Other income and other gains	*5*	**4,693**	5,136
Selling expenses	*6*	**(10,504)**	(11,199)
Administrative expenses	*6*	**(29,344)**	(24,857)
Operating profit		**44,600**	28,924
Finance income	*7*	**1,503**	1,407
Finance costs	*7*	**(10,001)**	(11,822)
Finance costs – net		**(8,498)**	(10,415)
Share of result of associates		**743**	–
Share of results of a joint venture		**(1,025)**	(260)
Profit before income tax		**35,820**	18,249
Income tax expense	*8*	**(7,080)**	(5,078)
Profit for the period		**28,740**	13,171

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2020

	Note	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(3,900)**	(1,136)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**–**	1,340
Other comprehensive income for the period, net of tax		**(3,900)**	204
Total comprehensive income for the period attributable to the owners of the Company		**24,840**	13,375
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	*9*	**0.06**	0.03

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Investments in joint ventures		**62,159**	63,184
Investments in associates		**141,432**	73,689
Right-of-use assets		**10,567**	12,345
Property, plant and equipment		**92,788**	95,487
Investment property		**12,600**	12,600
Intangible assets		**294**	331
Deferred income tax assets		**312**	312
Financial asset at fair value through other comprehensive income		**66,931**	66,931
Trade and other receivables	*10*	**521**	511
		387,604	325,390
Current assets			
Inventories		**40,744**	38,679
Trade and other receivables	*10*	**232,824**	197,130
Financial asset at fair value through profit or loss		**9,168**	9,132
Cash and cash equivalents		**40,067**	48,775
Short-term bank deposits		**58,941**	103,319
Pledged bank deposits		**22,298**	23,795
		404,042	420,830
Total assets		**791,646**	746,220
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*11*	**3,901**	3,901
Share premium		**150,143**	150,143
Other reserves		**(27,574)**	(23,674)
Retained earnings		**225,495**	196,755
Total equity		**351,965**	327,125

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

	Note	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
LIABILITIES			
Non-current liabilities			
Convertible bonds	*15*	**–**	33,426
Lease liabilities		**1,604**	3,946
Deferred government grants		**609**	609
Deferred income tax liabilities		**1,045**	1,054
		3,258	39,035
Current liabilities			
Trade and other payables	*12*	**138,960**	135,520
Contract liabilities		**9,676**	23,127
Convertible bonds	*15*	**33,956**	–
Current income tax liabilities		**5,980**	14
Financial liabilities at fair value through profit or loss	*15*	**150**	2,472
Lease liabilities		**2,968**	3,181
Bank borrowings		**145,174**	93,310
Bonds	*13*	**–**	16,266
Note	*14*	**99,559**	106,170
		436,423	380,060
Total liabilities		**439,681**	419,095
Total equity and liabilities		**791,646**	746,220
Net current (liabilities) assets		**(32,381)**	40,770
Total assets less current liabilities		**355,223**	366,160

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 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

At 30 June 2020, the Group's current liabilities exceeded its current assets by approximately RMB32.4 million which was mainly attributable to the convertible bond with fair value of approximately RMB34.1 million maturing on 29 March 2021. The convertible bond was classified as non-current liabilities as at 31 December 2019 and reclassified to current liabilities as at 30 June 2020. Having considered the Group intended to cancel the convertible bonds in an aggregate principal amount of RMB32 million (with fair value as at 30 June 2020 of approximately RMB34.1 million) by the end of September 2020 as disclosed in the Company's announcement dated 20 August 2020 and the Group's continuous net cash inflows from operating activities, the Directors of the Company were of the opinion that the Group has adequate funds to continue its operations. Accordingly, the unaudited interim condensed consolidated financial statement has been prepared on the basis that the Group will continue as a going concern.

2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2019, 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:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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 2020. The Group has not applied any new standard or interpretation which is not yet effective for the current accounting period.

3 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

4 SEGMENT INFORMATION

The executive directors ("EDs") are chief operating decision makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products. The Group sells its products on 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
United States of America	**73,318**	77,982
Mainland China	**126,656**	78,378
Europe	**3,925**	6,561
Others	**59,618**	55,376
	263,517	218,297

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

Non-current assets

Non-current assets consist of right-of-use assets, property, plant and equipment, investment property and intangible assets which are mainly located in the PRC as at 30 June 2020 and 31 December 2019.

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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**54,972**	66,994
Customer B	**40,198**	28,470
Customer C	**37,624**	n/a
Customer D	**n/a**	16,672
	132,794	112,136

n/a Revenue from the customer was less than 5% of the Group's revenue for the six months period ended 30 June 2020.

5 REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**263,517**	218,297
Other income and other gains		
Government grants	**1,476**	2,284
Technical service fee	**91**	292
Change in fair value of financial liabilities at fair value through profit or loss	**2,322**	1,277
Others	**804**	1,283
	4,693	5,136

6 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation and amortisation	**6,211**	5,875
Employee benefit expenses, excluding amount including in research and development costs	**21,239**	19,480
Raw materials used	**143,796**	150,560
Changes in inventories of finished goods and work in progress	**25,661**	(5,867)
Water and electricity expenditures	**1,696**	2,159
Transportation and travelling expenses	**6,768**	8,436
Telecommunication expenses	**240**	226
Advertising costs	**263**	183
Other tax expenses	**1,401**	1,124
Research and development costs		
– Employee benefit expenses	**4,487**	4,373
– Materials and others, excluding depreciation and amortisation	**7,597**	3,606
Entertainment expenses	**563**	538
Operating lease expenses	**–**	928
Auditor's remuneration		
– Audit service	**169**	77
Professional services fee	**974**	480
Other expenses	**2,545**	2,331
Total	**223,610**	194,509

7 FINANCE COSTS – NET

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**1,503**	1,407
Interest expenses		
– Bonds	**(637)**	(3,801)
– Note	**(6,246)**	(5,563)
– Bank borrowings	**(2,446)**	(1,424)
– Convertible bonds	**(530)**	(941)
– Interest expense on lease liabilities	**(142)**	(93)
	(10,001)	(11,822)
Finance costs – net	**(8,498)**	(10,415)

8 INCOME TAX EXPENSE

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

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

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2020.

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 2019 to 31 December 2021.

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**7,070**	5,078
Deferred income tax	**10**	–
	7,080	5,078

9 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	
	2020	2019
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share *(RMB'000)*	**28,740**	13,171
Add: interest savings on convertible bonds *(RMB'000) (Note)*	**N/A**	N/A
Profit for the period attributable to owners of the Company for the purposes of diluted earnings per share *(RMB'000)*	**28,740**	13,171
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands of shares)	**491,800**	491,800
Effect of dilutive potential ordinary shares: – Convertible bonds (thousands of shares) *(Note)*	**N/A**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands of shares)	**491,800**	491,800

Note:

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

10 TRADE AND OTHER RECEIVABLES

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Non-current		
Deposits	**521**	511
Current		
Trade receivables, net (a)	**149,257**	125,340
Prepayments and deposits	**78,442**	63,687
Other receivables	**5,125**	8,103
	233,345	197,641

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2020 and 31 December 2019 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 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Up to 3 months	**112,748**	62,080
3 to 6 months	**25,531**	27,821
6 to 12 months	**7,290**	33,407
Over 12 months	**4,960**	3,304
	150,529	126,612
Impairment provision	**(1,272)**	(1,272)
	149,257	125,340

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 58% (31 December 2019: 58%) of the Group's revenue for the period. They accounted for approximately 77% (31 December 2019: 78%) of the gross trade receivable balances as at 30 June 2020.

11 SHARE CAPITAL

	30 June 2020 (Unaudited) and 31 December 2019 (Audited)	
	Number of shares *(thousands)*	*HK$'000*
Authorised Capital:		
Ordinary shares of HK$0.01 each	2,000,000	20,000

	Number of ordinary shares *(of HK$0.01 each)*	*RMB'000*
Issued and fully paid:		
At 1 January 2019, 30 June 2019 (Unaudited), 31 December 2019 (Audited) and 30 June 2020 (Unaudited)	491,800,000	3,901

All shares issued rank pari passu against each other.

12 TRADE AND OTHER PAYABLES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables (a)	**53,905**	42,128
Notes payable (b)	**76,659**	84,350
Other tax payables	**1,145**	–
Accrued expenses	**4,074**	5,330
Other payables	**3,177**	3,712
	138,960	135,520

The fair values of trade and other payables approximated to their carrying values as at 30 June 2020 and 31 December 2019 respectively.

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Up to 3 months	**48,404**	37,978
3 to 6 months	**3,281**	2,270
6 to 12 months	**842**	1,480
Over 12 months	**1,378**	400
	53,905	42,128

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

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

13 BONDS

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current	**–**	16,266

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.

The 2018 Bond, with aggregate par value of HKD18,500,000 have been fully settled upon the date of maturity in May 2020 and before respectively.

14 NOTE

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current	**99,559**	106,170

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 ("the Guarantor") 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.

On 1 June 2020, the Company entered into a supplemental deed with the Note holder and the Guarantor (the "Supplemental Deed"). Pursuant to the Supplemental Deed, the Company having redeemed a portion of the Note in the principal amount of HK$10,000,000, and settled all outstanding interest and administrative Fees on the aggregate outstanding principal amount of the Note accrued up to 30 May 2020, the maturity date of the Note is extended 1 year from 30 May 2020 to 30 May 2021. The Company also agreed to redeem another portion of the Note in the principal amount of HK$10,000,000 not later than 30 November 2020 in accordance with the Supplemental Deed.

15 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.

Pursuant to the terms of the Sale and Purchase Agreement, the Company has the right to cancel the Convertible Bonds in the aggregate principal sum of RMB32,000,000 (equivalent to HK$37,760,000) in the event of a non-fulfillment of the profit guarantee provided by the Vendor.

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 2019 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 2020, 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	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	31,456	2,040	33,496
Interest charge	1,970	–	1,970
Change in fair value	–	432	432
At 31 December 2019 (Audited)	33,426	2,472	35,898
Interest charge	530	–	530
Change in fair value	–	(2,322)	(2,322)
At 30 June 2020 (Unaudited)	33,956	150	34,106

16 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2020 (2019: nil).

17 CONTINGENT LIABILITIES

As at 30 June 2020, the Group and the Company had no significant contingent liabilities (31 December 2019: nil).

18 COMMITMENTS

(a) Capital commitments

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**48,553**	282
Equity interest investment		
– Zhejiang Sinopharm Jinyue Aerosol	**65,500**	132,500
	114,053	132,782

(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 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Not later than one year	**382**	375
Later than one year and not later than five years	**627**	820
	1,009	1,195

19 EVENTS AFTER THE REPORTING PERIOD

Except for the latest update in relation to the investment project of Ever Clever as disclosed in the Company's announcement dated 20 August 2020, there are no material subsequent events undertaken by the Group after 30 June 2020 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 unexpected novel coronavirus (COVID-19) pneumonia epidemic brought unprecedented impact on global economic development, and the Company faced unprecedented great challenges and crises. Due to the rapid spread of the epidemic, every single disinfection product produced would contribute to the force of fighting against the epidemic. The Group made early plans and preparations, and resumed the work and production ahead of time to increase the production and sales of disinfection products. The Group actively dealt with the challenge to convert the crisis into an opportunity with united cohesion. The CMS business and OBM business of the Group continued their favorable growing trend with an increase of 16% and 55%, respectively. Currently, the international epidemic has not yet been fully and effectively controlled, and it continued to spread over the world. The world economy was expected to fall into a severe recession and international trade environment remained grim. The Group will position itself to keep a sense of tribulation and pay attention to the development of the epidemic continuously, as well as maintain close contact and cooperation with customers and suppliers and review development strategies in a timely manner, with an aim to continue to expand CMS business and enhance OBM business at home and abroad. During the Reporting Period, the Group increased its support for developing projects in respect of research and development, manufacturing and sales of medical and edible aerosol products to facilitate projects to be carried out in accordance with the schedule.

In addition, the contribution to the Group from its investment in the clean energy and heating business newly introduced in 2017 has not met the expectation. The Board and the management of the Group will continue to follow up and consider the subsequent development and management of such investment project. Meanwhile, the Group will also identify other potential investment opportunities in the market so as to enhance the competitiveness and synergy of the Group.

For the six months ended 30 June 2020, the revenue and net profit of the Group was approximately RMB263.5 million and RMB28.7 million, respectively, representing an increase of approximately 20.7% and 118.2% as compared with that of in the corresponding period of 2019. The earnings per share of the Group was RMB0.06 during the Reporting Period which represents an increase of RMB0.03 as compared with the earnings per share of RMB0.03 for the corresponding period of last year.

Financial Review

Turnover

CMS

For the six months ended 30 June 2020, the turnover of the Group's CMS business was approximately RMB222.9 million (2019: RMB192.1 million), representing an increase of approximately 16.0% as compared with that of in the corresponding period of 2019.

During the Reporting Period, although the COVID-19 spread around the world, social distancing and quarantine measures had a significant impact on the global economy and people's lives; the epidemic increased the challenges on and risks of enterprises' operation, the CMS business of the Group achieved a good performance under an adverse environment, recording an increase of 16.0%, by early planning and preparation as well as resumption of work and production. Currently, the epidemic worldwide has not yet been fully and effectively controlled but is spreading. It is expected that the world economy would sink into deep recession and international trade situation is quite critical. However, the Group will remain focused on its own advantages, keep a sense of tribulation and continue to monitor the development of the epidemic, maintain close contact and cooperation with customers and suppliers, and review the development strategies in a timely manner so as to continuously explore the CMS business at home and abroad.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2019 was approximately RMB40.6 million (2019: RMB26.2 million), representing an increase of approximately 55.0% as compared with that of in the corresponding period in 2019.

During the Reporting Period, although China's economy faced severe challenges brought by the outbreak of coronavirus and a complex and volatile domestic and international environment, the situation of epidemic prevention and control continued to improve through the implementation of appropriate measures, and the resumption of work and production and business were accelerated. China's economy declined before rising during the first half of the year. In the second quarter of the year, economic growth turned from negative to positive with household consumption recovering rapidly and economic situation improving. During the Reporting Period, by actively promoting the domestic sales of disinfection supplies and other anti-epidemic products, the OBM business of the Group recorded a growth of approximately 55.0%. In the second half of the year, the Group will continue to stay close to the market by optimizing product design and accelerating product iteration, and make full use of the advantages of CMS business to expand the domestic market, with an aim to further enhance the OBM business of the Group.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2020 was approximately RMB183.8 million (2019: RMB158.5 million), representing an increase of approximately 16.0% as compared with that of in the corresponding period of 2019. The increment was in line with the revenue growth.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2020, the Group recorded gross profit of approximately RMB79.8 million (2019: approximately RMB59.8 million) and the gross profit margin was approximately 30.3% (2019: 27.4%). The increase in gross profit margin was mainly benefited from the effort of cost control, changes in product mix, especially the increase in proportion of disinfecting products.

Other Income and Other Gains – Net

Other income and other gains of the Group for the six months ended 30 June 2020 was approximately RMB4.7 million (2019: approximately RMB5.1 million), representing a decrease of approximately RMB0.4 million as compared with that of in the corresponding period of 2019. Such decrease was primarily due to the decrease 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 2020, selling expenses was approximately RMB10.5 million (2019: approximately RMB11.2 million), representing a decrease of approximately 6.2% as compared with that of in the corresponding period of 2019. The decrease was primarily due to the decrease in transportation and travelling expenses.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2020, administrative expenses was approximately RMB29.3 million (2019: approximately RMB24.9 million), representing an increase of approximately 18.1% as compared with that of in the corresponding period of 2019. 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 2020, the Group recorded net finance cost of approximately RMB8.5 million (2019: approximately RMB10.4 million), representing a decrease of approximately 18.4% as compared with that of in the corresponding period of 2019. The decrease in finance costs was primarily due to the decrease in interest expenses from bonds.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2020 was approximately RMB7.1 million, representing an increase of approximately RMB2.0 million as compared with approximately RMB5.1 million for the corresponding period of 2019, 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 2020 of approximately RMB28.7 million (2019: approximately RMB13.2 million), representing an increase of approximately RMB15.5 million as compared with that of in the corresponding period of 2019. Such significant increase was primarily due to the increase in both revenue amount and products profit margin of CMS and OBM business due to the high demand on disinfecting products in both China and overseas markets.

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 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayment to suppliers of raw materials	**27,653**	25,341
Deposits for price-locking agreements	**28,000**	28,000
Other prepayments & deposits	**22,789**	10,346
	78,442	63,687

Liquidity and Financial Resources

As at 30 June 2020, the total assets of the Group amounted to approximately RMB791.6 million (31 December 2019: approximately RMB746.2 million), and the net current liabilities of approximately RMB32.4 million (31 December 2019: net current assets of approximately RMB40.8 million) and the Group's cash and bank deposits totalled approximately RMB121.3 million (31 December 2019: approximately RMB175.9 million). The current ratio of the Group decreased from 1.1 as at 31 December 2019 to 0.9 as at 30 June 2020.

The equity attributable to shareholders of the Company as at 30 June 2020 amounted to approximately RMB352.0 million (31 December 2019: approximately RMB327.1 million). The gearing ratio (based on the total debt over the total equity) of the Group slightly decreased from 102% as at 31 December 2019 to 101% as at 30 June 2020.

Borrowings and the Pledge of the Group's Assets

As at 30 June 2020, note of RMB99.6 million (31 December 2019: RMB106.2 million) was secured by the 2,500 shares in Ever Clever Group Limited ("Ever Clever") by the Group. Bank borrowings of RMB145.2 million (31 December 2019: RMB93.3 million) and notes payable of RMB76.7 million (31 December 2019: RMB84.4 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB51.0 million (31 December 2019: RMB52.7 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 2020, the Group had capital commitments of approximately RMB65.5 million in respect of equity interest investment and approximately RMB48.6 million in respect of property, plant and equipment (31 December 2019: approximately RMB132.5 million and RMB0.3 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 RMB0.6 million later than one year and no later than five years (31 December 2019: approximately RMB0.4 million and RMB0.8 million respectively).

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: nil).

Exchange Rate Exposure

During the six months ended 30 June 2020, 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 2020 (2019: nil).

Employees and Emoluments Policy

As at 30 June 2020, the Group had employed a total of 593 employees in the PRC and Hong Kong (31 December 2019: 469). 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.

Other Investments

During the Reporting Period, the Group invested approximately nil, RMB67.0 million and RMB14.0 million in investments in joint ventures, investments in associates and property, plant and equipment respectively (2019: RMB4.5 million, RMB67.5 million and RMB2.0 million respectively).

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 ("Illustrious Success")

On 4 July 2017, the Company has entered into an agreement (the "Illustrious 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 (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 Target 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.

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

Reference is made to the announcements of the Company dated 29 November 2017 and 5 December 2017 in relation to, amongst other things, the acquisition of 25% equity interest of Ever Clever Group Limited. Further reference is also made to the announcements of the Company dated 23 August 2018, 4 September 2018, 25 October 2019, 17 January 2020 and 20 August 2020 in relation to the update on the profit guarantee of such acquisition (the "EC Profit Guarantee").

Pursuant to the sale and purchase agreement dated 29 November 2017 and entered into between the Group and the Vendor, the Vendor has undertaken and guaranteed to the Group that: (i) the audited net profit after tax of HGRL for each of the three twelve-month periods ending 31 March 2018, 2019 and 2020 shall not be less than RMB55 million, RMB65 million and RMB75 million respectively; and (ii) it shall procure HGRL to complete the audited financial statements within 90 days from the end of each of the twelve-month periods and submit the relevant audited financial statements to the Group.

Up to the date of this announcement, the Vendor has not provided the audited financial statements of HGRL for any of the three financial years. As advised by the legal adviser of the Company, the failure on the part of the Vendor to fulfill its obligations to deliver the audited accounts for all three financial years (the last one being due to be delivered by 30 June 2020) for the purpose determining the fulfilment of the EC Profit Guarantee for an unreasonably long period of time may be sufficient grounds for a deemed non-fulfillment. As such, the Company shall be entitled to claim against the Vendor all losses and damages suffered as a result of the breach of the Vendor's obligations to deliver the audited accounts and fulfill the EC Profit Guarantee for all three financial years.

The Company has sought legal advice from its legal advisers and taking into consideration the non-fulfillment of the EC Profit Guarantee, the lack of response from the Vendor and the current status of HGRL, the Company intends to, without further notice to the Vendor and by the end of September 2020 (i) enforce the share charge executed by the Vendor in favour of the Group in respect of the 2,500 shares of Ever Clever against the Vendor; (ii) cancel the Convertible Bonds in an aggregate principal amount of RMB32 million (equivalent to HK$37.76 million) issued by the Company to the Vendor with a maturity date falling on 29 November 2020; and (iii) make a claim against the Vendor in Hong Kong for, among other matters, breach of the EC Profit Guarantee.

Further announcement(s) will be made by the Company on the progress of enforcing its rights against the Vendor as and when appropriate.

Use of Net Proceeds from Initial Public Offering

During the six months ended 30 June 2020, the net proceeds from the Company's initial public offer had been applied as follows:

	Actual net proceeds	**Amount utilised up to 30 June 2020**	**Unutilised balance as at 30 June 2020**
	HK$ million	*HK$ million*	*HK$ million*
To increase production capacity by financing the first phase of constructing new production facility	32	32	–
To expand the domestic distribution channel	14	14	–
To promote our own brand names by increasing marketing and advertising efforts	7	7	–
To fund the working capital requirement	6	6	–
Total	59	59	0

Fund Raising Activity

The Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2020 and the date of this announcement.

Future Plans for Material Investments or Capital Assets

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, with a view to promoting the projects as planned. At the same time, the Company plans to continue to invest in improving the existing production lines in the future while investing in additional production lines, for the sake of improving the automatic level of equipment and product quality, and strengthening the Company's ability to take orders. 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 2020, 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 2020.

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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 for Securities Transactions by Directors of Listed Issuers (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 2020. 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.ludaocn.com). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

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

28 August 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; and three independent non-executive Directors, namely Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.