China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of China Ludao Technology Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

		Year ended 31 December	
	Notes	**2021**	2020
		RMB'000	*RMB'000*
Revenue	*4*	**476,397**	566,291
Cost of sales	*5*	**(347,809)**	(385,271)
Gross profit		**128,588**	181,020
Other income	*4*	**4,810**	5,925
Other gains/(losses) – net	*4*	**25,963**	(13,331)
Selling expenses	*5*	**(25,471)**	(27,289)
Administrative expenses	*5*	**(64,969)**	(69,475)
Impairment loss on trade receivables, other receivables and deposits		**(3,879)**	(2,130)
Impairment loss on investment in a joint venture		**(5,389)**	–
Operating profit		**59,653**	74,720
Finance income		**581**	1,939
Finance costs		**(18,686)**	(19,904)
Finance costs – net		**(18,105)**	(17,965)
Share of results of a joint venture		**(1,500)**	(2,013)
Share of results of associates		**–**	(1,632)
Profit before income tax		**40,048**	53,110
Income tax expense	*6*	**(4,818)**	(12,678)
Profit for the year		**35,230**	40,432
Other comprehensive income/(expenses)			
Items that may be reclassified to profit or loss:			
Currency translation differences		**10,588**	16,539
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**–**	(66,931)
Other comprehensive income/(expenses) for the year, net of tax		**10,588**	(50,392)
Total comprehensive income/(expenses) for the year		**45,818**	(9,960)

	Notes	Year ended 31 December **2021** ***RMB'000***	 2020 *RMB'000*
Profit for the year attributable to:			
Owners of the Company		**35,495**	40,517
Non-controlling interests		**(265)**	(85)
		35,230	40,432
Total comprehensive income/(expenses) for the year attributable to:			
Owners of the Company		**46,083**	(9,875)
Non-controlling interests		**(265)**	(85)
		45,818	(9,960)
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	*8*	**0.07**	0.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

		As at 31 December	
	Notes	**2021**	2020
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**278,944**	281,071
Prepayments for property, plant and equipment	*20*	**188,275**	66,660
Right-of-use assets	*11*	**49,362**	51,722
Investment property		**12,000**	11,900
Intangible assets		**183**	257
Investment in a joint venture	*9*	**54,500**	61,278
Financial asset at fair value through other comprehensive income ("FVOCI")	*12*	**–**	–
Deferred income tax assets		**54**	73
Trade and other receivables	*14*	**83**	–
		583,401	472,961
Current assets			
Inventories	*13*	**56,863**	68,832
Trade and other receivables	*14*	**234,962**	209,689
Financial assets at fair value through profit or loss ("FVTPL")	*12*	**–**	208
Pledged bank deposits		**34,271**	54,197
Cash and cash equivalents		**24,259**	53,708
		350,355	386,634
Total assets		**933,756**	859,595
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*19*	**3,901**	3,901
Share premium	*19*	**150,143**	150,143
Other reserves		**(37,216)**	(66,766)
Retained earnings		**260,928**	229,972
		377,756	317,250
Non-controlling interests		**2,014**	9,526
Total equity		**379,770**	326,776

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	*17*	**69,925**	–
Lease liabilities	*11*	**1,678**	3,582
Deferred income tax liabilities		**8,310**	8,332
Deferred government grants		**352**	481
		80,265	12,395
Current liabilities			
Trade and other payables	*15*	**163,301**	213,898
Contract liabilities		**21,623**	26,506
Current income tax liabilities		**–**	613
Bank borrowings	*18*	**234,579**	156,665
Note	*16*	**49,876**	84,019
Convertible bonds	*17*	**–**	34,296
Financial liabilities at FVTPL	*17*	**–**	–
Lease liabilities	*11*	**4,342**	4,427
		473,721	520,424
Total liabilities		**553,986**	532,819
Total equity and liabilities		**933,756**	859,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Ludao Technology Company Limited (the "Company") was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company's registered office is Windward 3, Regatta Office Park, 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. Ludao China Investments Holdings Limited ("Ludao Investments") is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), has 48.97% interest in the Company.

Pursuant to a 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 30 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Statement of compliance

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 "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2.2 Basis of measurement and going concern assumption

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 as explained in the accounting policies set out below.

As at 31 December 2021, the Group recorded net current liabilities of approximately RMB123,366,000 and placed reliance on short-term financing. These situations indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, in view of the circumstances, the Directors have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

(a) The management of the Group has been endeavouring to improve the Group's operating cash flows through implementing various cost control measures;

(b) The Group has unutilised banking facilities and credit loan facilities from a licensed money lender in Hong Kong as at 31 December 2021; and

(c) The Group has negotiated with the note holder and extended the maturity date of the note from 15 March 2022 to 15 March 2023.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the date of approval of these consolidated financial statements taking into account the above-mentioned plans and measures, having considered the Group's bank balances as at 31 December 2021 and the Group's continuous net cash inflows from future operations and/or other sources, the Directors of the Company were of the opinion that the Group has sufficient cash resources to satisfy future working capital and other financing requirements as and when they fall due in the next twelve months from the date of approval of these consolidated financial statements. Accordingly, the consolidated financial statement has been prepared on the basis that the Group will continue as a going concern.

2.3 Adoption of HKFRSs

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 2020 except for the changes mentioned below.

(a) Adoption of new/revised HKFRSs – effective 1 January 2021

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

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

- Amendments to HKFRS 16, Covid-19-Related Rent Concessions

None of these amended HKFRSs have any significant impact on the Group's accounting policies.

(b) New/revised HKFRSs 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.

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19 – Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3]
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Disclosure of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, plant and equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

[1] Effective for annual periods beginning on or after 1 April 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] Effective for annual periods beginning on or after a date to be determined

The Group has not applied any new/revised HKFRSs that are not yet effective for the current accounting period.

3 SEGMENT INFORMATION

The executive directors of the company ("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 basis mainly to overseas markets and on original brand manufacturing 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 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 external customers

	2021	2020
	RMB'000	*RMB'000*
Mainland China	**194,952**	224,482
United States of America	**88,083**	185,939
Europe	**–**	837
Japan	**7,295**	6,879
Chile	**176,281**	131,631
Others	**9,786**	16,523
	476,397	566,291

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.

The right-of-use assets, property, plant and equipment, intangible assets and investment property which are classified as non-current assets as at 31 December 2021 and 2020 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:

	2021	2020
	RMB'000	*RMB'000*
Customer A	**175,009**	130,138
Customer B	**67,916**	138,835
Customer C	**24,818**	n/a
Customer D	**23,707**	n/a
Customer E	**n/a**	42,666
Customer F	**n/a**	41,825

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2021 or 2020.

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

	2021	2020
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**476,397**	566,291
Other income		
Government grants *(Note)*	**1,247**	4,395
Technical service fee	**2,642**	195
Rental income	**364**	348
Others	**557**	987
	4,810	5,925
Other gains/(losses) – net		
Foreign exchange loss	**(8,370)**	(13,255)
Gain on early termination of lease *(Note 11)*	**62**	–
Fair value gain/(loss) on investment property	**100**	(700)
Change in fair value of financial liabilities at FVTPL *(Note 17)*	**–**	2,472
Change in fair value of financial assets at FVTPL	**(5)**	(9,124)
Gain on bargaining purchase	**–**	15,098
Loss on step acquisition	**–**	(9,179)
(Loss)/gain on non-substantial modification of note *(Note 16)*	**(154)**	1,193
Gain on cancellation of convertible bonds *(Note 17(a))*	**34,329**	–
Others	**1**	164
	25,963	(13,331)

Note: The Group received unconditional discretionary grants from the relevant PRC government authorities in support of enterprises operating in specified industries.

Revenue and other income from contracts with customers – disaggregated revenue information:

	2021	2020
	RMB'000	*RMB'000*
Revenue and other income under HKFRS 15		
Type of contracts		
Sales of goods on contract manufacturing service ("CMS") basis *(Note i)*	**430,243**	502,716
Sales of goods on original brand manufacturing ("OBM") basis *(Note ii)*	**46,154**	63,575
Technical service	**2,642**	195
	479,039	566,486
Timing of revenue recognition		
Recognised on point in time basis		
– Sales of goods	**476,397**	566,291
Recognised on over time basis		
– Technical service fee	**2,642**	195
	479,039	566,486

Notes:

(i) The sales of CMS products relate to products which were manufactured by the Group and sold under the customers' brand names.

(ii) The sales of OBM products relate to products which were designed, developed and manufactured by the Group and sold under the Group's own or licensed brand names.

5 EXPENSES BY NATURE

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

	2021	2020
	RMB'000	*RMB'000*
Depreciation and amortisation	**17,707**	13,319
Employee benefit expenses, excluding amount included in research and development costs	**42,760**	45,527
Raw materials used	**307,478**	335,244
Changes in inventories of finished goods and work in progress	**11,969**	17,706
Water and electricity expenditures	**3,023**	4,115
Transportation and travelling expenses	**17,548**	18,725
Telecommunication expenses	**410**	509
Advertising expenses	**532**	587
Other tax expenses	**3,713**	2,666
Research and development costs *(Note)*		
– Employee benefit expenses	**10,443**	8,310
– Materials and others, excluding depreciation and amortisation	**9,475**	21,266
Auditor's remuneration		
– Audit services	**1,240**	1,445
Entertainment expenses	**1,265**	1,342
Short-term lease expense *(Note 11)*	**292**	196
Low value lease expense *(Note 11)*	**155**	213
Professional services fees	**3,261**	2,721
Inventories written off	**169**	491
Other expenses	**6,809**	7,653
	438,249	482,035

Note: Research and development costs are included in administrative expenses in the consolidated statement of comprehensive income.

6 INCOME TAX EXPENSE

	2021	2020
	RMB'000	*RMB'000*
Current income tax:		
– PRC Corporate income tax	**4,821**	10,729
Deferred income tax:		
– PRC Corporate income tax	**(33)**	112
– PRC Land appreciation tax ("LAT")	**30**	1,837
	(3)	1,949
	4,818	12,678

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:

	2021	2020
	RMB'000	*RMB'000*
Profit before income tax	**40,048**	53,110
Add: share of results of a joint venture	**1,500**	2,013
Add: share of results of associates	**–**	1,632
	41,548	56,755
Tax calculated at the tax rate of 15% (2020: 15%)	**6,232**	8,513
Effect of different tax rates of other subsidiaries	**(1,873)**	(1,812)
Additional deductions for research and development expenses	**(3,086)**	(2,519)
LAT deductible for calculation of income tax purpose	**(5)**	(276)
Effects of income not taxable and expenses not deductible for tax purposes and others	**3,550**	8,772
	4,818	12,678

7 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2021 (2020: 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.

	2021	2020
Profit attributable to owners of the Company *(RMB'000)*	**35,495**	40,517
Weighted average number of ordinary shares in issue	**491,800,000**	491,800,000
Basic and diluted earnings per share *(RMB per share)*	**0.07**	0.08

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 2021 and 2020, diluted earnings per share is the same as basic earnings per share. There is no dilutive effect of the outstanding convertible bonds for the years ended 31 December 2021 and 2020, as they are anti-dilutive.

9 INVESTMENT IN A JOINT VENTURE

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

Illustrious Success is a company incorporated in BVI with limited liability and is engaged in investment holding. Its significant subsidiary, 朝陽廣華新能源技術有限公司 (Chaoyang Guanghua New Energy and Technology Limited*), is mainly engaged in supplying heat generated from thermal energy and sewage water in the PRC.

The proportion of ownership interest in Illustrious Success is the same as the proportion of voting rights held.

In view of the continued operating loss of Illustrious Group, based on the impairment assessment as at 31 December 2021, the recoverable amount of the investment in a joint venture was lower than its carrying amount. Impairment loss on the investment in a joint venture of approximately RMB5,389,000 has been recognised in profit or loss in the consolidated statement of comprehensive income for the year ended 31 December 2021 to reduce the carrying amount of the investment in a joint venture to its recoverable amount of approximately RMB54,500,000.

As at 31 December 2020, the recoverable amount of the investment in a joint venture was higher than its carrying amount, no impairment was recognised during the year ended 31 December 2020.

* *The English name is for identification purpose only*

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2020						
Cost	75,653	41,183	25,312	6,673	94	148,915
Accumulated depreciation	(22,193)	(19,802)	(8,790)	(2,643)	–	(53,428)
Net book amount	53,460	21,381	16,522	4,030	94	95,487
Year ended 31 December 2020						
Opening net book amount	53,460	21,381	16,522	4,030	94	95,487
Additions	942	2,582	132	53	27,581	31,290
Additions through step acquisition from associates to subsidiaries	1,692	5,046	693	995	155,200	163,626
Disposal – cost	–	(62)	(27)	(14)	–	(103)
Transfer	–	139	–	–	(139)	–
Accumulated depreciation eliminated on disposal	–	56	25	13	–	94
Depreciation *(Note 5)*	(3,087)	(3,284)	(2,131)	(821)	–	(9,323)
Closing net book amount	53,007	25,858	15,214	4,256	182,736	281,071
At 31 December 2020						
Cost	78,287	48,888	26,110	7,707	182,736	343,728
Accumulated depreciation	(25,280)	(23,030)	(10,896)	(3,451)	–	(62,657)
Net book amount	53,007	25,858	15,214	4,256	182,736	281,071
Year ended 31 December 2021						
Opening net book amount	53,007	25,858	15,214	4,256	182,736	281,071
Additions	1,490	1,509	2,016	1,912	2,357	9,284
Disposal – cost	(933)	(336)	(68)	(396)	–	(1,733)
Transfer	222	97	–	–	(319)	–
Accumulated depreciation eliminated on disposal	913	290	39	326	–	1,568
Depreciation *(Note 5)*	(3,812)	(3,733)	(2,567)	(1,134)	–	(11,246)
Closing net book amount	50,887	23,685	14,634	4,964	184,774	278,944
At 31 December 2021						
Cost	79,066	50,158	28,058	9,223	184,774	351,279
Accumulated depreciation	(28,179)	(26,473)	(13,424)	(4,259)	–	(72,335)
Net book amount	50,887	23,685	14,634	4,964	184,774	278,944

Depreciation expenses have been charged in:

	2021	2020
	RMB'000	*RMB'000*
Cost of sales	**3,982**	3,896
Administrative expenses	**7,248**	5,418
Selling expenses	**16**	9
Total	**11,246**	9,323

As at 31 December 2021, the Group's buildings with the carrying amount of RMB10,544,000 (2020: RMB10,975,000) were pledged to secure notes payable (Note 15(b)).

11 LEASES

The Group as a lessee

Lump sum payments were made upfront to a acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases.

In addition, the Group leases a number of properties in Mainland China and Hong Kong from which it operates. Leases of properties generally have lease terms between 2 and 5 years.

As as 31 December 2021, the Group's land use rights with the carrying amount of RMB42,228,000 (2020: RMB43,148,000) were pledged to secure notes payable (Note 15(b)) and bank borrowings (Note 18).

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land use rights	**Office premises, plant and director's quarter**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2020	4,938	7,407	12,345
Additions	–	360	360
Additions through step acquisition from associates to subsidiaries	39,000	3,998	42,998
Depreciation *(Note 5)*	(790)	(3,132)	(3,922)
Foreign exchange movements	–	(59)	(59)
At 31 December 2020 and 1 January 2021	43,148	8,574	51,722
Additions	–	4,929	4,929
Early termination of leases	–	(880)	(880)
Depreciation *(Note 5)*	(920)	(5,467)	(6,387)
Foreign exchange movements	–	(22)	(22)
At 31 December 2021	42,228	7,134	49,362

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

	2021	2020
	RMB'000	*RMB'000*
At 1 January	**8,009**	7,127
Additions	**4,915**	360
Additions through step acquisition from associates to subsidiaries	**–**	3,998
Early termination of lease	**(942)**	–
Interest expense	**582**	318
Lease payments	**(6,524)**	(3,746)
Foreign exchange movements	**(20)**	(48)
At 31 December	**6,020**	8,009

(c) *The present value of future lease payments are analysed as:*

	2021	2020
	RMB'000	*RMB'000*
Current liabilities	**4,342**	4,427
Non-current liabilities	**1,678**	3,582
	6,020	8,009

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

	2021	2020
	RMB'000	*RMB'000*
Depreciation of right-of-use assets	**6,387**	3,922
Interest on lease liabilities	**582**	318
Short-term lease expense *(Note 5)*	**292**	196
Low-value lease expense *(Note 5)*	**155**	213
	7,416	4,649

The Group as a lessor

The lease term is 38 months (2020: 38 months), the Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	2021	2020
	RMB'000	*RMB'000*
Not later than one year	**429**	391
Later than one year and not later than five years	**–**	495
	429	886

12 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL

During the year ended 31 December 2017, the Group entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with 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, HGRL, is principally engaged in heat supply business in the PRC, at the consideration of RMB160,000,000.

The consideration shall be paid by the Group to Perfect Century Group Limited (the "EC 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 1.60 per consideration share by the Company in favour of the EC Vendor; and (iii) issue of convertible bonds in the principal amount of RMB32,000,000 by the Company in favour of the EC Vendor.

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

A. Financial Asset at FVOCI

(i) Classification of financial assets at FVOCI

Financial assets at FVOCI 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 FVOCI

	2021	2020
	RMB'000	*RMB'000*
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	**–**	–

The Group designated the equity investment in Ever Clever as a financial asset at FVOCI upon initial recognition as the investment is not held for trading.

25% equity interest in Ever Clever was initially recognised of Nil (2020: approximately RMB152,155,000 at 8 January 2018. The decrease in fair value of the financial asset at FVOCI of approximately RMB66,931,000) was recognised in other reserves.

As HGRL (the subsidiary of Ever Clever) has been taken over by another entity appointed by the Huailai county government since September 2020, the Directors of the Company considered that the takeover may be sustained and the HGRL's financial position was in doubt. In addition, HGRL had significant overdue payables as at 31 December 2020 and 2021 based on litigation search records. Therefore, net asset value approach was adopted to assess the fair value of 25% equity interest in Ever Clever.

B. Financial Assets at FVTPL

	2021	2020
Current	***RMB'000***	*RMB'000*
Profit guarantee in respect of investment in 25% equity interests of Ever Clever (the "Profit Guarantee") *(Note i)*	**–**	–
Unlisted fund investment *(Note ii)*	**–**	208
	–	208

Notes

(i) Profit Guarantee

During the year ended 31 December 2018, the Group acquired 25% equity interest of Ever Clever, which the EC Vendor irrevocably guaranteed the Group that, for each of the three consecutive twelve-month periods ending on 31 March 2020, the audited net profit after tax of HGRL, a non wholly-owned subsidiary of Ever Clever, in accordance with the HKFRSs 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 the respective actual profit or loss and the Guaranteed Profit to be received by the Group if the Ever Clever failed to meet the Guaranteed Profit. Details of the Profit Guarantee were disclosed in the Company's announcement on 29 November 2017.

The Profit Guarantee contracted with the EC Vendor was recognised as a derivative financial instrument under HKFRS 9.

During the year ended 31 December 2020, the Directors of the Company acted as plaintiff to commence the legal proceedings in the High Court of Hong Kong on 2 November 2020 against the EC Vendor as defendant for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the Sale and Purchase Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfilment of the Profit Guarantee. Based on the unknown willingness and ability of the EC Vendor fulfilling the Profit Guarantee, the Directors of the Company re-assessed the valuation techniques of the fair value of the Profit Guarantee and concluded that given the current situation, EC Vendor was in default of its obligations under the Profit Guarantee arrangement and the default model was adopted (2020: default model). The fair value of the Profit Guarantee as at 31 December 2021 was estimated by applying the income approach at a discount rate of 12% (2020: 12%). The fair value of the Profit Guarantee was derived based on default model due to the substantial default risk of the EC Vendor. The estimated compensation amount under the terms and conditions of the Profit Guarantee, the expected default rate and expected recovery rate were considered in the cash flow forecast.

(ii) Unlisted fund investment

In relation to the unlisted fund investment which are measured at fair value at the end of the reporting period, based on the relevant agreement, the Group can require the relevant investment manager to redeem the units at net asset value. The fair values of these unlisted fund investment, totalling approximately RMB208,000 as at 31 December 2020 is based on the unit's net asset values provided by the relevant investment manager. The Group has determined that the reported net asset values represent fair value of these unlisted fund investment.

During the year ended 31 December 2021, the Group redeemed all units held by the Group at net asset value of approximately RMB203,000 and a fair value loss of approximately RMB5,000 was recognised in profit or loss of the consolidated statement of comprehensive income for the year ended 31 December 2021.

13 INVENTORIES

	2021	2020
	RMB'000	*RMB'000*
Raw materials	**23,375**	26,735
Work in progress	**40**	33
Finished goods	**33,448**	42,064
Inventories – net	**56,863**	68,832

The cost of inventories included in cost of sales during the year ended 31 December 2021 amounted to RMB344,743,000 (2020: RMB382,623,000).

During the year ended 31 December 2021, the Group did not make or reverse any provision for inventories (2020: Nil).

14 TRADE AND OTHER RECEIVABLES

	2021 *RMB'000*	2020 *RMB'000*
Non-current		
Deposits	**83**	–
Current		
Trade receivables, net (a)	**96,800**	101,109
Other receivables, net	**3,486**	7,888
Prepayments	**132,431**	100,164
Deposits, net	**2,245**	528
	234,962	209,689
	235,045	209,689

(a) Trade receivables, net

The credit period granted to customers is generally between 0 to 360 days (2020: 0 to 180 days). The ageing analysis of the trade receivables from the date of sales is as follows:

	2021 *RMB'000*	2020 *RMB'000*
Up to 3 months	**55,126**	70,044
3 to 6 months	**7,008**	28,666
6 to 12 months	**36,009**	1,792
Over 12 months	**2,857**	3,800
	101,000	104,302
Loss allowance for impairment	**(4,200)**	(3,193)
	96,800	101,109

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 65% (2020: 64%) of the Group's revenue for the year. They accounted for 68% (2020: 77%) of the gross trade receivable balances as at 31 December 2021.

As at 31 December 2021, trade receivables with gross carrying amount of RMB10,006,000 (2020: RMB5,592,000) were past due.

15 TRADE AND OTHER PAYABLES

	2021 *RMB'000*	2020 *RMB'000*
Trade payables (a)	**63,318**	78,978
Notes payables (b)	**84,243**	117,848
	147,561	196,826
Other payables:		
Deposit received from customers	**3,196**	2,232
Other taxes payable	**2,028**	–
Accrued salaries and wages	**2,971**	4,311
Accrued interest	**600**	386
Accrued expenses and others	**6,945**	10,143
	163,301	213,898

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

	2021 *RMB'000*	2020 *RMB'000*
Up to 3 months	**38,878**	77,952
3 to 6 months	**15,299**	765
6 to 12 months	**7,230**	261
Over 12 months	**1,911**	–
	63,318	78,978

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

(b) Notes payables represented bank acceptance notes, which were subject to surcharge ranging from 0% to 0.06% (2020: 0% to 0.06%) of the face value of the notes, with maturity dates from 2 January 2022 to 21 June 2022 (2020: from 6 January 2021 to 25 June 2021), and were secured by pledged bank deposits, the land use rights (Note 11) and certain property, plant and equipment (Note 10) of the Group.

16 NOTE

	2021	2020
	RMB'000	*RMB'000*
Current	**49,876**	84,019

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

During the year ended 31 December 2020, the Company, Prosper One Development Limited ("Prosper One"), a wholly-owned subsidiary of the Company, Mr. Yu Yuerong ("Mr. Yu"), a director of the Company, and the note purchaser (the "Note Purchaser"), an independent third party entered into a supplemental deed in relation to the extension of maturity date of the Note from 30 May 2020 to 30 May 2021. The Company has redeemed a portion of the Note in the principal amount of HKD10,000,000 (equivalent to approximately RMB8,887,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 May 2020. The Company has redeemed another portion of the Note in the principal amount of HKD10,000,000 (equivalent to approximately RMB8,887,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 November 2020.

Based on the assessment performed by the Group, the modification was regarded as non-substantial modification. The gain on modification of Note of approximately RMB1,193,000 was recognised in consolidated profit or loss at the date of modification for the year ended 31 December 2020.

During the year ended 31 December 2021, the Company, Prosper One, Mr. Yu and the Note Purchaser entered into a supplemental deed in relation to the further extension of maturity date of the remaining portions of the Note that were yet to be redeemed from 30 May 2021 to 15 March 2022. The Company has redeemed a portion of the Note in the principal amount of HKD20,000,000 (equivalent to approximately RMB16,632,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 May 2021. Based on the supplemental deed dated 28 May 2021, the Company has undertaken to redeem another portion of the Note in the principal amount of HKD20,000,000 (equivalent to approximately RMB16,632,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 November 2021, which was early settled by the Company in October 2021.

Based on the assessment performed by the Group, the modifications were regarded as non-substantial modifications. The net loss on modifications of Note of approximately RMB154,000 was recognised in consolidated profit or loss at the date of modification for the year ended 31 December 2021.

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

17 CONVERTIBLE BONDS/FINANCIAL LIABILITIES AT FVTPL

(a) Pursuant to a sale and purchase agreement dated 29 November 2017 ("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 due 2021") to the EC Vendor as part of the consideration for the acquisition of 25% equity interest in 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 EC Vendor. The Convertible Bonds due 2021 are denominated in RMB, bears zero interest and will be matured on 28 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 due 2021 holders shall have a right to convert the Convertible Bonds due 2021 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 due 2021 is 8-9% per annum.

According to the Profit Guarantee given by the EC Vendor in favour of the Company pursuant to the terms of the Sale and Purchase Agreement, the Convertible Bonds due 2021 holders have the right to convert their Convertible Bonds due 2021 into fully paid ordinary shares of the Company at any time during the conversion period.

The Convertible Bonds due 2021 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 due 2021 was initially recognised at approximately of RMB29,970,000 by using discounted cash flow model. The fair value estimate was based on assumed discount rates (i.e. effective interest rates) of 8-9% and the Director's expectation on the amount of the Convertible Bonds due 2021 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 FVTPL) 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 2019 and 2020, were assessed by an independent valuer, were calculated using the binomial options pricing model. There were changes in the fair value of derivative liability compared to the issuance date and the end of reporting period that recognised in profit or loss during the year ended 31 December 2020 (Note 4).

During the year ended 31 December 2021, the Company has obtained an order from the High Court of the Hong Kong Special Administrative Region, whereby the Company is entitled to cancel the Convertible Bonds due 2021. A gain on cancellation of Convertible Bonds due 2021 of RMB34,329,000 was recognised in profit or loss during the year ended 31 December 2021 (Note 4).

(b) On 4 October 2021, the Company completed the issuance of convertible bonds (the "Convertible Bonds due 2024") in an aggregate principal amount of HK$93,300,000 (equivalent to approximately RMB77,224,000).

The Convertible Bonds due 2024 is denominated in HKD, bear interest at the rate of 5.87% per annum, payable semi-annually in arrears, and will be matured on three years from the issue date. The holders of Convertible Bonds due 2024 shall have a right to convert the Convertible Bonds due 2024 into ordinary shares of the Company at the conversion price of HKD2.00 per share during the conversion period. The conversion price is subject to adjustment in the circumstances described under certain terms and conditions of the subscription agreement. The effective interest rate of the liability component of the Convertible Bonds due 2024 is 9.75% per annum.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds recognised in the consolidated statement of financial position are calculated as follows:

	Convertible Bonds due 2021		**Convertible Bonds due 2024**		
	Liability component	**Derivative component**	**Liability component**	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	33,426	2,472	–	–	35,898
Interest expense	870	–	–	–	870
Change in fair value *(Note 4)*	–	(2,472)	–	–	(2,472)
At 31 December 2020 and 1 January 2021	34,296	–	–	–	34,296
Issuance of convertible bonds	–	–	69,152	7,176	76,328
Interest expense	33	–	1,645	–	1,678
Cancellation of convertible bonds *(Note 4)*	(34,329)	–	–	–	(34,329)
Foreign exchange movements	–	–	(872)	–	(872)
At 31 December 2021	–	–	69,925	7,176	77,101

18 BANK BORROWINGS

	2021	2020
	RMB'000	*RMB'000*
Current	**234,579**	156,665

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 2021 was 3.75% (2020: 3.40%).

19 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2021 and 2020	
	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 2020, 31 December 2020, 1 January 2021 and 31 December 2021	491,800,000	3,901	150,143

All shares issued rank pari passu against each other. There are no changes in the issued capital of the Company at the year ended 31 December 2021 and 2020.

20 PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2021 and 2020, prepayments for construction in progress, and plant and equipment represents advances made under construction contracts and purchases contracts for the development of production plant in the PRC.

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 and timely launched the brand "GINVIK" through its subordinate company Sinopharm Junyue and included in e-commerce as a sale channel accordingly.

During the Reporting Period, the world was still under the influence of the lingering COVID-19 Pandemic. While Chinese economy kept growing momentum driven by a series of measures as taxes and fees reduction imposed by the authority to improve its business environment, 2021 was still a challenging year for the Group. Under the pressures stemming from dramatically raising raw material prices, increasing container freight rates, severe shortage of containers and the continuing weakening of the US dollar against the Renminbi, the Group strengthened the strategic cooperation relationship with customers and adjusted strategies to actively explore domestic market and develop high value-added products based on its solid foundation built over the years and its innovation capacities, so as to increase the bargaining room for the Group's products. Despite such efforts, the CMS and OBM businesses of the Group both decreased by 14.3% and 27.4% respectively as compared with 2020 due to the overall unsatisfied international environment.

For the Reporting Period, the revenue and net profit of the Group were approximately RMB476.4 million and RMB35.2 million respectively, representing a decrease of approximately 15.9% and 12.9% respectively over 2020. Basic earnings per share was approximately RMB7 cents (2020: RMB8 cents).

The Group's total comprehensive income for the year attributable to the owners of the Company was approximately RMB45.8 million for the Reporting Period, compared to the total comprehensive expenses of approximately RMB9.9 million for the prior year. The increase is primarily attributable to the effect of (i) approximately RMB10.6 million other comprehensive income from currency translation differences (2020: other comprehensive income of approximately RMB16.5 million) and (ii) the absence of non-recurring change in fair value of equity instruments at fair value through other comprehensive income amounted to RMB66.9 million for the Reporting Period, which was recognized for the year ended 31 December 2020 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 RMB430.2 million (2020: RMB502.7 million) representing a decrease of approximately 14.3% as compared with last year.

During the Reporting Period, the world was still under the influence of the lingering COVID-19 pandemic. In the face of sharp prices in raw materials, surged freight rates, scarcity of containers and the continuing weakening of the US dollar against the Renminbi, the management and production capacities of the Group were severally challenged. Even though the Group leveraged its solid development foundation built over the years and its continuous enterprise innovation capacities to, on top of strengthening the partnerships with strategic customers, adjust strategies, actively explore domestic market and proactively develop high value-added products, so as to increase the bargaining room of the Group's products. However, as the international environment was not satisfying, the CMS business of the Group decreased over the last year.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB46.2 million (2020: RMB63.6 million), representing a decrease of approximately 27.4% as compared with last year.

The world was still under the influence of the lingering COVID-19 pandemic and global supply chains are materially affected. In the face of sharp prices in raw materials, the impact on the business environment, transport and staff travel, the Group adjusted strategies, actively explored domestic market and proactively developed high value-added products, so as to increase the bargaining room of the Group's products. However, during the year, as the international environment was not satisfying, the OBM business of the Group decreased over the last year.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB347.8 million (2020: RMB385.3 million), representing a decrease of approximately 9.7% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB128.6 million (2020: RMB181.0 million), representing a decrease of approximately 29.0% as compared to that of the prior year. The gross profit margin was approximately 27.0% (2020: 32.0%), such decrease of approximately 5.0% was primarily due to inflation of product raw material price and the weakening of the US dollar against the Renminbi.

Net profit

The Group's net profit for the Reporting Period was approximately RMB35.2 million (2020: RMB40.4 million), representing a decrease of approximately 12.9% when compared to the prior year. The net profit margin of the Group improved from 7.1% in 2020 to 7.4% in 2021. Such result was primarily due to the other gain on cancellation of Convertible Bonds due 2021 was recorded during the Reporting Period.

Other comprehensive income/(expenses) for the year

The Group's other comprehensive income for the Reporting Period was approximately RMB10.6 million (2020: other comprehensive expenses RMB50.4 million), representing an increase of approximately 121.0% when compared to the prior year. The increase was mainly attributable to the effect of the absence in decrease in fair value of equity instruments at fair value through other comprehensive income during the Reporting Period.

Expenses

Selling expenses

Selling 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 RMB25.5 million (2020: RMB27.3 million), representing a decrease of approximately 6.7% as compared to that of the prior year. The decrease was primarily due to the decrease in staff salaries, allowance and bonus and transportation and travelling 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 RMB65.0 million (2020: RMB69.5 million), representing a decrease of approximately 6.5% as compared to that of the prior year. The decrease was primarily due to the decrease in staff salaries and research and development costs.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB18.1 million (2020: net finance costs RMB18.0 million), representing an increase of approximately RMB0.1 million as compared to that of the prior year. The increase was primarily due to decrease in interest income.

Income tax expense

The income tax expense of the Group for the Reporting Period was approximately RMB4.8 million, representing a decrease of approximately RMB7.9 million as compared with RMB12.7 million in 2020. Effective income tax rate for the current period was approximately 12.0%, which was lower as compared with approximately 23.9% over 2020. The lower effective income tax rate was primarily due to the increase in non-taxable income mainly come from the other gain on cancellation of Convertible Bonds due 2021 for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

The Group's property, plant and equipment was approximately RMB278.9 million as at 31 December 2021 compared to approximately RMB281.1 million as at 31 December 2020. Such slightly decrease mainly due to the acquired property, plant and equipment of approximately RMB9.3 million combined with the depreciation provided of approximately of RMB11.2 million during the year ended 31 December 2021. Details and breakdown of the property, plant and equipment were set out in Note 10 to the consolidate financial statements. The capital expenditures were financed by the internal resources, bank borrowings and placement of convertible bonds of the Group.

Prepayments for property, plant and equipment

As at 31 December 2021, the Group's had prepayments for construction in progress and plant and equipment was approximately RMB188.3 million (2020: RMB66.7 million). The increase was due to the advances made under construction contracts and purchases contracted related to development of production plants in the PRC.

Inventories

As at 31 December 2021, the inventories decreased by 17.4% to approximately RMB56.9 million (2020: approximately RMB68.8 million). This was mainly due to the Group decreased production capacity, resulting in an decrease in finished goods at the end of the period.

Trade receivables

As at 31 December 2021, trade receivables of approximately RMB10.0 million were past due, representing an increase of approximately 78.9% as compared to the amount of RMB5.6 million as at 31 December 2020. The amount of the impairment provision was approximately RMB4,200,000 as at 31 December 2021 (2020: RMB3,193,000).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2021 (2020: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the total assets of the Group amounted to approximately RMB933.8 million (2020: RMB859.6 million), and net current liabilities of approximately RMB123.4 million (2020: net current liabilities: RMB133.8 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 115%, which was lower than that of approximately 120% over 2020. The decrease was primarily due to the increase of equity during the year.

BORROWINGS

As at 31 December 2021, bank borrowings of the Group amounted to approximately RMB234.6 million (2020: RMB156.7 million) with full maturity until 2022.

CAPITAL STRUCTURE

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

CONTRACTUAL OBLIGATIONS

As at 31 December 2021, the Group had capital commitments of approximately RMB164.9 million in respect of property, plant and equipment (2020: RMB250.9 million). 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 (2020: RMB0.4 million) and nil later than one year and no later than five years (2020: approximately RMB0.5 million).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any significant contingent liabilities (2020: 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 2021, the Group had employed a total of 430 employees (2020: 511). 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 nil, nil and RMB9.3 million in acquisition of subsidiaries, financial asset at fair value through profit or loss and property, plant and equipment respectively (2020: RMB55.4 million, RMB0.2 million and RMB30.3 million respectively).

Other than the above, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

OTHER INFORMATION

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 in Ever Clever Group Limited (the "Ever Clever"), 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, 20 August 2020, 16 September 2020 and 2 November 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 Perfect Century Group Limited (the "EC Vendor") and 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company*) (the "HGRL") to request for the audited financial statements of HGRL in accordance with the sale and purchase agreement dated 29 November 2017 (the "EC Agreement") on several occasions from time to time in 2019 but such attempts did not come to any fruitful results.

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 EC 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 EC 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, 31 March 2019 and 31 March 2020.

In November 2020, the Group has taken actions to enforce the share charge over 2,500 shares in Ever Clever against the EC Vendor and notified the EC Vendor of the same, subject to completion of the relevant registration and filing requirements. To enforce the EC Agreement, the Company and Prosper One Development Limited (the "Purchaser") acted as plaintiffs to issued a writ of summons in the High Court of Hong Kong against the EC Vendor as defendant for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the EC Agreement, an order requiring the EC Vendor to deliver the audited financial statements of HGRL and a declaration that the Company and the Purchaser are entitled to cancel and avoid the convertible bonds issued by the Company.

As the Group did not receive any replies from the EC Vendor to the writ of summons, the Company and the Purchaser sought to obtain a default judgment against the EC Vendor. On 21 December 2021, the High Court of Hong Kong gave a judgment in favour of the Company and the Purchaser and ordered the EC Vendor to pay damages totaling RMB2,822,500,000 to the Company and the Purchaser. The High Court also ordered the EC Vendor to deliver the audited financial statements of HGRL and declared that the Company and the Purchaser were entitled to cancel and avoid the convertible bonds issued by the Company to the EC Vendor. As at the date of this announcement, no notice of appeal against the default judgment or application for setting-aside the default judgment has been served on the Company or the Purchaser.

FUND RAISING ACTIVITIES

Save as disclosed below, the Company has not conducted any other fund raising activity during the Reporting Period and up to the date of this announcement.

Placing of convertible bonds

On 15 September 2021 (after the trading hours of the Stock Exchange), the Company entered into a placing agreement (the "Placing Agreement") with Essence International Securities (Hong Kong) Limited (the "Placing Agent"). Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to procure, on a best effort basis, not less than six (6) placees who and whose ultimate beneficial owners shall be independent third parties to subscribe, in cash, for a three-year 5.87% coupon unlisted convertible bond(s) in an aggregate principal amount of not less than HK$90,000,000 and not more than HK$120,000,000 (the "Convertible Bonds") to be issued by the Company pursuant to the Placing Agreement (the "Placing").

On 4 October 2021, the conditions precedent of the Placing Agreement have been fulfilled and completion of the Placing Agreement took place on even date. The Convertible Bonds in an aggregate principal amount of HK$93,300,000 have been issued to Essence International Advanced Products and Solutions SPC – Essence Smok Fund SP (the "Placee"). The net proceeds from the Placing of the Convertible Bonds (after deducting placing commission and other relevant costs and expenses) amounted to approximately HK$92.2 million. The Placee is entitled to convert the Convertible Bonds into a maximum number of 46,650,000 ordinary shares of the Company at the conversion price of HK$2.00 per conversion shares, subject to any adjustment events, during the conversion period commencing from the date falling one month immediately prior to the maturity date of the Convertible Bonds up to 4:00 pm. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date.

The net proceeds are intended to be used as to (i) approximately 51.4% for the construction of factories and plants; (ii) approximately 46.4% for the repayment of note and bank borrowings and (iii) approximately 2.2 % for the general working capital of the Group. As at the date of this announcement, the net proceeds have been fully utilized for such purposes.

Further details of the Placing, other principal terms of the Convertible Bonds and the reasons for the Placing are set out in the Company's announcements dated 15 September 2021 and 4 October 2021.

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 subsidiaries in the PRC. The Group will also identify other investment opportunities in the market.

PROSPECTS

In the coming year of 2022, although the international situation remains unstable, prices of raw materials remains volatile and the ocean freight still in recovery phase, the China government continuously improved the business environment and implemented various measures including large-scale taxes and fees reduction policies to stimulate the economic recovery and growth. The Group will continue to launch high quality products that meet market demands in a timely manner to further strengthen the Group's development concept of "Innovation, Green and Harmony" among customers, and strength cooperation with customers, expand the domestic market and develop high value-added products to improve the Group's bargaining power in products and strive to maintain and even expand its market share so as to continue to consolidate and strengthen our CMS and OBM businesses. The Group will also expand its product line by introducing medical and edible aerosol products and cosmetic products researched and developed by its subsidiary, Sinopharm Jinyue Aerosol Group Co. Ltd., and expand sales channels through its subsidiary, an e-commerce company, in order to lay a solid foundation for the sustainable growth in sales revenue in the future. The Chairman and the management of the Group will closely monitor the changes in the international situation and adjust strategies in a timely manner in order to achieve better performance.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 15 March 2022, the Company has redeemed a portion of the Note in the principal amount of HK$12,000,000 and all outstanding interest and administrative fees accrued up to and including 15 March 2022. On even date, pursuant to the terms and conditions of the Note, the Company, Prosper One, the Guarantor and the Investor has also entered into a third supplemental deed on 15 March 2022 (the "Third Supplemental Deed"). Under the Third Supplemental Deed, the maturity date of the Note is extended from 15 March 2022 to 15 March 2023 (the "Extended Maturity Date"). The Company has also undertaken to, inter alia, redeem another portion of the Note in the principal amount of HK$8,000,000 not later than 15 September 2022. Upon redemption of the said portion, a principal amount of HK$40,000,000 of the Note, together with any interest and administrative fees that may accrue, will remain due and payable to the Investor on or before the Extended Maturity Date. Save as disclosed above, all other major terms and conditions of the Note are still in full force and effect.

Further details of the extension of maturity date of Note are set out in the Company's announcements dated 15 March 2022.

Save as disclosed above, there are no material subsequent events undertaken by the Group after 31 December 2021 and up to 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 for the following:

Pursuant to CG Code, it is recommended that, 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 as 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 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

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. 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 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 Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

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

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

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the Reporting Period as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and 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 Director's fee of independent non-executive Directors.

NOMINATION COMMITTEE

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

The terms of reference setting out the Nomination Committee's 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 Reporting Period .

PRE-EMPTIVE RIGHTS

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

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

Hong Kong, 30 March 2022

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yu Yuerong, 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.