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 2022

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 2022 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

		Year ended 31 December	
	Notes	**2022**	2021
		RMB'000	*RMB'000*
Revenue	*4*	**534,701**	476,397
Cost of sales		**(451,326)**	(347,809)
Gross profit		**83,375**	128,588
Other income	*4*	**18,462**	4,810
Other gains – net	*4*	**18,709**	25,963
Selling expenses		**(20,612)**	(25,471)
Administrative and other operating expenses		**(56,020)**	(64,969)
Impairment loss on trade receivables, other receivables and deposits		**(5,062)**	(3,879)
Impairment loss on investment in a joint venture	*9*	**(212)**	(5,389)
Operating profit		**38,640**	59,653
Finance income		**631**	581
Finance costs		**(14,738)**	(18,686)
Finance costs – net		**(14,107)**	(18,105)
Share of results of a joint venture	*9*	**203**	(1,500)
Profit before income tax	*5*	**24,736**	40,048
Income tax expense	*6*	**(2,685)**	(4,818)
Profit for the year		**22,051**	35,230
Other comprehensive (expenses)/income			
Items that will not be reclassified to profit or loss:			
Currency translation differences		**(27,439)**	10,588
Other comprehensive (expenses)/income for the year, net of tax		**(27,439)**	10,588
Total comprehensive (expenses)/income for the year		**(5,388)**	45,818

	Notes	Year ended 31 December 2022 RMB'000	2021 RMB'000
Profit for the year attributable to:			
Owners of the Company		**22,321**	35,495
Non-controlling interests		**(270)**	(265)
		22,051	35,230
Total comprehensive (expenses)/income for the year attributable to:			
Owners of the Company		**(5,118)**	46,083
Non-controlling interests		**(270)**	(265)
		(5,388)	45,818
Earnings per share for profit attributable to owners of the Company			
– basic and diluted *(RMB per share)*	*8*	**0.05**	0.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**As at 31 December** **2022** ***RMB'000***	2021 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**515,737**	278,944
Prepayments for property, plant and equipment	*20*	**117,958**	188,275
Right-of-use assets	*11*	**68,651**	49,362
Investment property		**12,100**	12,000
Intangible assets		**636**	183
Investment in a joint venture	*9*	**54,500**	54,500
Financial asset at fair value through profit or loss ("FVTPL")	*12*	**2,000**	–
Financial asset at fair value through other comprehensive income ("FVOCI")	*12*	**–**	–
Deferred tax assets		**1,856**	54
Trade and other receivables	*14*	**60**	83
		773,498	583,401
Current assets			
Inventories	*13*	**49,920**	56,863
Trade and other receivables	*14*	**243,617**	233,238
Financial asset at fair value through profit or loss ("FVTPL")	*12*	**–**	–
Income tax recoverable		**3,264**	1,724
Pledged bank deposits		**29,138**	34,271
Cash and bank balances		**50,786**	24,259
		376,725	350,355
Total assets		**1,150,223**	933,756
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		**(60,424)**	(37,216)
Retained earnings		**279,018**	260,928
		372,638	377,756
Non-controlling interests		**1,744**	2,014
Total equity		**374,382**	379,770

		As at 31 December	
	Notes	**2022**	2021
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*18*	**403,170**	–
Convertible bonds	*17*	**79,084**	69,925
Lease liabilities	*11*	**7,616**	1,678
Deferred tax liabilities		**8,541**	8,310
Deferred government grants		**10,223**	352
		508,634	80,265
Current liabilities			
Trade and other payables	*15*	**103,752**	163,301
Contract liabilities	*4*	**14,816**	21,623
Bank and other borrowings	*18*	**104,890**	234,579
Note	*16*	**36,328**	49,876
Financial liabilities at FVTPL	*17*	**–**	–
Lease liabilities	*11*	**7,421**	4,342
		267,207	473,721
Total liabilities		**775,841**	553,986
Total equity and liabilities		**1,150,223**	933,756

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 and wholesales of personal care products. Ludao China Investments Holdings Limited ("Ludao Investments"), which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), has 49.14% interest in the Company as at 31 December 2022.

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

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 2023.

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. 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

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.

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 for the year ended 31 December 2022 are consistent with those used in the consolidated financial statements for the year ended 31 December 2021 except for the changes mentioned below.

(a) Adoption of new/revised HKFRSs – effective 1 January 2022

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

- Amendments to HKFRS 3, Reference to the Conceptual Framework
- Amendments to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021
- Amendments to HKAS 16, Property, plant and equipment – Proceeds before Intended Use
- Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to HKFRSs, Annual Improvements to HKFRSs 2018-2020

Other than the amendments to HKFRS 16, none of these amended HKFRSs have any impact on the Group's results and financial position for the current or prior periods. Impact on the applications of the amended HKFRS is summarised below.

Amendments to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021

In April 2021, the HKICPA issued an amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021, which extended the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic and applied to rent concessions for which any reductions in lease payments that were originally due on or before 30 June 2022. This amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted. The amendment is to be applied mandatorily by those entitled that have elected to apply the previous amendment Covid-19-Related Rent Concessions, such as the Group.

(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.

Amendments to HKAS 1	HK Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants)[2]
Amendments to HKAS 1	Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)[2]
Amendments to HKAS 1	Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)[2]
Amendment to HKFRS 16	Leases (Liability in a Sale and Leaseback)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023
[2] Effective for annual periods beginning on or after 1 January 2024

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. The Group has determined the operating segments based on the internal reports that are used by the EDs to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products and wholesales of personal care 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. The Group wholesales the personal care products to business entities basis in PRC market. 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 and operating segment.

Geographical information

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

Revenue from external customers

	2022	2021
	RMB'000	*RMB'000*
Mainland China	**391,910**	194,952
United States of America	**54,915**	88,083
Japan	**11,157**	7,295
Chile	**60,841**	176,281
Others	**15,878**	9,786
	534,701	476,397

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, prepayment for property, plant and equipment, intangible assets, investment property and investment in joint venture which are classified as non-current assets as at 31 December 2022 and 2021 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:

	2022	2021
	RMB'000	*RMB'000*
Customer A	**99,641**	n/a
Customer B	**49,151**	175,009
Customer C	**37,257**	n/a
Customer D	**27,574**	n/a
Customer E	**n/a**	24,818
Customer F	**n/a**	67,916
Customer G	**n/a**	23,707

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2022 or 2021.

4 REVENUE, OTHER INCOME AND OTHER GAINS – NET

	2022	2021
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**534,701**	476,397
Other income		
Government grants *(Note)*	**17,454**	1,247
Technical service fee	**4**	2,642
Rental income	**272**	364
Rent concession *(Note 11)*	**310**	–
Others	**422**	557
	18,462	4,810
Other gains – net		
Foreign exchange gain/(loss)	**16,221**	(8,370)
Gain on early termination of lease *(Note 11)*	**–**	62
Gain on lease modification *(Note 11)*	**24**	–
Fair value gain on investment property	**100**	100
Change in fair value of financial asset at FVTPL *(Note 12)*	**1,000**	(5)
Net gain/(loss) on non-substantial modifications of note *(Note 16)*	**1,364**	(154)
Gain on cancellation of convertible bonds *(Note 17)*	**–**	34,329
Others	**–**	1
	18,709	25,963

Note: The Group received government grants in relation to the support of the Group's operations and the research and development cost in the PRC. There were no unfulfilled conditions in relation to the grants.

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

	2022	2021
	RMB'000	*RMB'000*
Revenue and other income under HKFRS 15		
Type of goods and services		
Sales of goods on contract manufacturing service ("CMS") basis *(Note i)*	**269,606**	430,243
Sales of goods on original brand manufacturing ("OBM") basis *(Note ii)*	**70,095**	46,154
Wholesales	**195,000**	–
Technical service	**4**	2,642
	534,705	479,039
Timing of revenue recognition		
Recognised on point in time basis		
– Sales of goods	**534,701**	476,397
Recognised on over time basis		
– Technical service fee	**4**	2,642
	534,705	479,039

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.

The following table provides information about contract liabilities from contracts with customers.

	As at 31 December 2022	As at 31 December 2021
	RMB'000	*RMB'000*
Contract liabilities	**14,816**	21,623

The contract liabilities are mainly related to the advance consideration of sales of goods received from customers.

Movements in contract liabilities during the year ended 31 December 2022 and 2021:

	RMB'000
Balance at 1 January 2021	26,506
Revenue recognised in the year that was included in the contract liabilities balance at the beginning of year	(24,964)
Reclassification of opening contract liabilities to other payables due to cancellation of sales order during the year	(1,542)
Increase due to cash received, excluding amount recognised as revenue during the year	21,623
Balance at 31 December 2021 and 1 January 2022	21,623
Revenue recognised in the year that was included in the contract liabilities balance at the beginning of year	(21,465)
Reclassification of opening contract liabilities to other payables due to cancellation of sales order during the year	(158)
Increase due to cash received, excluding amount recognised as revenue during the year	14,816
Balance at 31 December 2022	14,816

The Group's contracts usually have duration of one year or less from date of contract inception to date of satisfaction of performance obligation. The Group has applied the practical expedient and therefore does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less.

The Group has taken advantage of the practical expedient to not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less.

5 PROFIT BEFORE INCOME TAX

Profit before income tax expense is arrived at after charging/(crediting):

	2022	2021
	RMB'000	*RMB'000*
Depreciation and amortisation	**16,577**	17,707
Employee benefit expenses, excluding amount included in research and development costs	**31,736**	42,760
Research and development costs *(Note)*		
– Employee benefit expenses	**7,497**	10,443
– Materials and others, excluding depreciation and amortisation	**11,259**	9,475
Auditor's remuneration		
– Audit services	**1,240**	1,240
Rent concession *(Note 11)*	**(310)**	–
Short-term lease expense *(Note 11)*	**1,455**	292
Low value lease expense *(Note 11)*	**96**	155
Variable lease payments not included in the measurement of lease liabilities *(Note 11)*	**443**	131
Gain on fair value of investment property *(Note 4)*	**(100)**	(100)
Change in fair value of financial asset at FVTPL *(Note 4)*	**(1,000)**	5
Inventories written off	**–**	169
Written-off of property, plant and equipment *(Note 10)*	**11**	–
Loss on disposal of property, plant and equipment	**7**	136

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

6 INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current income tax:		
PRC corporate income tax	**4,256**	4,821
Deferred income tax:		
PRC corporate income tax	**(1,601)**	(33)
PRC land appreciation tax ("LAT")	**30**	30
	(1,571)	(3)
	2,685	4,818

The Group was not subject to any income tax in the Cayman Islands.

No provision for profits tax in Hong Kong has been made as the Group has no income assessable profits tax in Hong Kong during the year (2021: Nil).

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Co., Ltd ("Ludao PRC") was accredited as a High and New Technology Enterprise enabling it to enjoy a preferential rate of 15% for the three years from 24 December 2022 to 23 December 2024.

7 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2022 (2021: 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.

	2022	2021
Profit attributable to owners of the Company *(RMB'000)*	**22,321**	35,495
Weighted average number of ordinary shares in issue	**491,800,000**	491,800,000
Basic and diluted earnings per share *(RMB per share)*	**0.05**	0.07

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 2022 and 2021, 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 2022 and 2021, as they are anti-dilutive.

9 INVESTMENT IN A JOINT VENTURE

	2022	2021
	RMB'000	*RMB'000*
As at 1 January	**54,500**	61,278
Share of results	**203**	(1,500)
Impairment loss on investment in a joint venture	**(212)**	(5,389)
Exchange adjustment	**9**	111
As at 31 December	**54,500**	54,500

As at 31 December 2022, the Group had interest in the joint venture which is accounted for using equity method in the consolidated financial statements.

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 2021						
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	(20)	(46)	(29)	(70)	–	(165)
Transfer	222	97	–	–	(319)	–
Depreciation	(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
Year ended 31 December 2022						
Opening net book amount	50,887	23,685	14,634	4,964	184,774	278,944
Additions	468	142	1,991	7,553	237,555	247,709
Disposal	–	–	–	(10)	–	(10)
Written-off	–	–	(11)	–	–	(11)
Transfer	–	–	9	–	(9)	–
Depreciation	(3,546)	(3,616)	(2,743)	(990)	–	(10,895)
Closing net book amount	47,809	20,211	13,880	11,517	422,320	515,737
At 31 December 2022						
Cost	79,534	50,300	29,941	16,704	422,320	598,799
Accumulated depreciation	(31,725)	(30,089)	(16,061)	(5,187)	–	(83,062)
Net book amount	47,809	20,211	13,880	11,517	422,320	515,737

The net book value of construction in progress of approximately RMB422,320,000 (2021: RMB184,774,000) related to buildings, plant and machinery and office furniture and equipment under construction in Taizhou, the PRC, which will be depreciated once the construction work is completed and available for use.

As at 31 December 2022, the Group's buildings with the carrying amount of RMB10,112,000 (2021: RMB10,544,000) were pledged to secure notes payable (Note 15(b)) and bank borrowings (Note 18).

As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of RMB6,958,000 (2021: Nil) were held under sale and leaseback liabilities as set out in Note 18.

11 LEASES

The Group as a lessee

(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 *RMB'000*	Office premises, plant and machinery and director's quarter *RMB'000*	Total *RMB'000*
At 1 January 2021	43,148	8,574	51,722
Additions	–	4,929	4,929
Early termination of lease	–	(880)	(880)
Depreciation	(920)	(5,467)	(6,387)
Foreign exchange movements	–	(22)	(22)
At 31 December 2021 and 1 January 2022	42,228	7,134	49,362
Additions	–	25,336	25,336
Lease modification	–	(497)	(497)
Depreciation	(920)	(4,688)	(5,608)
Foreign exchange movements	–	58	58
At 31 December 2022	41,308	27,343	68,651

(b) Lease liabilities

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

	2022 ***RMB'000***	2021 *RMB'000*
At 1 January	**6,020**	8,009
Additions	**25,336**	4,915
Early termination of lease	**–**	(942)
Lease modification	**(521)**	–
Rent concession	**(310)**	–
Interest expense	**1,047**	582
Lease payments	**(16,593)**	(6,524)
Foreign exchange movements	**58**	(20)
At 31 December	**15,037**	6,020

The present value of future lease payments are analysed as:

	2022	2021
	RMB'000	*RMB'000*
Current liabilities	**7,421**	4,342
Non-current liabilities	**7,616**	1,678
	15,037	6,020

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

	2022	2021
	RMB'000	*RMB'000*
Depreciation of right-of-use assets	**5,608**	6,387
Interest on lease liabilities	**1,047**	582
Short-term lease expense *(Note 5)*	**1,455**	292
Low-value lease expense *(Note 5)*	**96**	155
Variable lease payments not included in the measurement of lease liabilities *(Note 5)*	**443**	131
Gain on early termination of lease *(Note 4)*	**–**	62
Gain on lease modification *(Note 4)*	**(24)**	–
Rent concession *(Note 4)*	**(310)**	–
	8,315	7,609

The Group as a lessor

The lease term is 38 months (2021: 38 months), the Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	2022	2021
	RMB'000	*RMB'000*
Not later than one year	**–**	272
Later than one year and not later than five years	**–**	–
	–	272

12 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL

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 in Ever Clever Group Limited ("Ever Clever")

	2022	2021
	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 approximately RMB152,155,000 at 8 January 2018. During the year ended 31 December 2022, there was no change in fair value of the financial asset at FVOCI (2021: no change in fair value of the financial asset at FVOCI).

As 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company) (the "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 2021 and 2022 based on litigation search records. Therefore, net asset value approach was adopted to assess the fair value of 25% equity interest in Ever Clever.

Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	**Significant of unobservable inputs**	**Range/Amount**		**Sensitivity of fair value to the input**
			2022	2021	
Unlisted equity securities – Ever Clever	Net asset value approach	Distress discount (including consideration of lack of marketability)	**66.35%**	66.35%	5% increase/(decrease) in distress discount would result in (decrease)/increase in fair value by Nil (2021: Nil)
		Minority discount	**21.60%**	21.60%	5% increase/(decrease) in minority discount would result in (decrease)/increase in fair value by Nil (2021: Nil)

B. Financial Assets at FVTPL

	2022	2021
	RMB'000	*RMB'000*
Non-current		
Equity investment *(Note ii)*	**2,000**	–
Current		
Profit guarantee in respect of investment in 25% equity interests of Ever Clever (the "Profit Guarantee") *(Note i)*	**–**	–

Notes:

(i) During the year ended 31 December 2018, the Group acquired 25% equity interest of Ever Clever, which Perfect Century Group Limited (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 dated 29 November 2017 ("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 for the year ended 31 December 2022 and 2021. The fair value of the Profit Guarantee as at 31 December 2022 was estimated by applying the income approach at a discount rate of 12% (2021: 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. Change in the fair value of the Profit Guarantee of Nil (2021: Nil) was recognised in profit or loss in the consolidated statement of comprehensive income (Note 4).

Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	Significant of unobservable inputs	Range/Amount		Sensitivity of fair value to the input
			2022	2021	
Profit Guarantee	Default model	Expected default rate	**100%**	100%	10% increase/(decrease) in expected default rate would result in (decrease)/increase in fair value by Nil (2020: Nil)
		Expected recovery rate	**0%**	0%	10% increase in expected recovery rate would result in increase in fair value by RMB282,750,000 (2021: RMB282,750,000)

(ii) Equity investment

The balance as at 31 December 2022 represented unlisted equity investment in 10% equity interest of a private company incorporated in PRC.

Change in the fair value of the financial asset at FVTPL of RMB1,000,000 (2021: Nil) was recognised in profit or loss in the consolidated statement of comprehensive income (Note 4).

In determining fair value, specific valuation techniques (market approach) are used. Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	Significant of unobservable inputs	Amount	Relationship of Unobservable inputs to fair value	Sensitivity of fair value to the input
Equity investment	Market model	*EV/S ratio	0.29x	The higher EV/S ratio, the higher the fair value.	5% increase/decrease in EV/S ratio would result in increase/ decrease in fair value by RMB115,000
		Discount for lack of marketability (“DLOM”)	15.8%	The higher DLOM, the lower the fair value.	5% increase/decrease in DLOM would result in decrease/increase in fair value by RMB20,000

13 INVENTORIES

	2022	2021
	RMB'000	*RMB'000*
Raw materials	**22,615**	23,375
Work in progress	**113**	40
Finished goods	**27,192**	33,448
	49,920	56,863

The cost of inventories included in cost of sales during the year ended 31 December 2022 amounted to RMB450,198,000 (2021: RMB344,743,000).

During the year ended 31 December 2022, the Group did not make or reverse any provision for inventories (2021: written off of RMB169,000).

14 TRADE AND OTHER RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Non-current		
Deposits	**60**	83
Current		
Trade receivables, net (a)	**120,568**	96,800
Other receivables, net (b)	**25,041**	3,486
Prepayments (c)	**95,057**	130,707
Deposits, net (d)	**2,951**	2,245
	243,617	233,238
	243,677	233,321

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	2022	2021
	RMB'000	*RMB'000*
RMB	**173,285**	170,144
USD	**70,321**	63,069
HKD	**71**	108
	243,677	233,321

The fair values of trade and other receivables approximate to their carrying values as at the end of the reporting period.

(a) Trade receivables, net

The credit period granted to customers is generally between 0 to 360 days (2021: 0 to 360 days). The ageing analysis of the trade receivables from the date of sales is as follows:

	2022	2021
	RMB'000	*RMB'000*
Up to 3 months	**58,871**	55,126
3 to 6 months	**14,193**	7,008
6 to 12 months	**31,808**	36,009
Over 12 months	**26,297**	2,857
	131,169	101,000
Loss allowance for impairment	**(10,601)**	(4,200)
	120,568	96,800

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 40% (2021: 65%) of the Group's revenue for the year. They accounted for 20% (2021: 68%) of the gross trade receivable balances as at 31 December 2022.

As at 31 December 2022, trade receivables with gross carrying amount of RMB29,423,000 (2021: RMB10,006,000) were past due.

The Group and the Company recognised impairment loss based on the accounting policy.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, from the date of sales, as of the end of reporting period.

	2022	2021
	RMB'000	*RMB'000*
Up to 3 months	**57,621**	53,986
3 to 6 months	**13,897**	6,979
6 to 12 months	**31,139**	35,350
Over 12 months	**17,911**	485
	120,568	96,800

The maximum exposure to credit risk at the reporting date is the carrying values of each class of receivables mentioned above. The Group does not hold any material collateral as security for these receivables.

As at 31 December 2022, loss allowances of approximately RMB10,601,000 were made against the gross amount of trade receivables (2021: RMB4,200,000).

The movements in loss allowance for impairment of trade receivables were as follows:

	RMB'000
At 1 January 2021	3,193
Impairment losses recognised	1,007
At 31 December 2021 and 1 January 2022	4,200
Impairment losses recognised	6,401
At 31 December 2022	10,601

(b) Other receivables, net

	2022	2021
	RMB'000	*RMB'000*
Government grants receivable	**21,974**	1,915
Amount due from third parties *(Note)*	**2,111**	414
Others	**956**	1,157
	25,041	3,486

Note: The amount due from third parties are unsecured, interest-free and repayable on demand.

The movements in loss allowance for impairment of other receivables were as follows:

	RMB'000
At 1 January 2021	214
Impairment losses recognised	2,816
Exchange adjustment	(48)
At 31 December 2021 and 1 January 2022	2,982
Reversal of impairment losses recognised	(1,352)
Exchange adjustment	194
At 31 December 2022	1,824

(c) Prepayments

Prepayments are mainly advance payments to suppliers for raw materials.

(d) Deposits, net

The movements in loss allowance for impairment of deposits were as follows:

	RMB'000
At 1 January 2021	14
Impairment losses recognised	56
Exchange adjustment	–
At 31 December 2021 and 1 January 2022	70
Impairment losses recognised	13
Exchange adjustment	–
At 31 December 2022	83

15 TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables (a)	**68,821**	63,318
Notes payable (b)	**17,173**	84,243
	85,994	147,561
Other payables:		
Deposit received from customers	**2,966**	3,196
Other taxes payable	**2,597**	2,028
Accrued salaries and wages	**2,850**	2,971
Accrued interest	**487**	600
Accrued expenses and others	**8,858**	6,945
	103,752	163,301

The carrying amounts of the trade and other payables are denominated in the following currencies:

	2022	2021
	RMB'000	*RMB'000*
RMB	**102,713**	162,329
HKD	**797**	338
USD	**242**	634
	103,752	163,301

The fair values of trade and other payables approximated to their carrying values as at the year end dates.

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

	2022 RMB'000	2021 RMB'000
Up to 3 months	**42,844**	38,878
3 to 6 months	**9,028**	15,299
6 to 12 months	**14,312**	7,230
Over 12 months	**2,637**	1,911
	68,821	63,318

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 % (2021: 0% to 0.06%) of the face value of the notes, with maturity dates from 22 January 2023 to 9 June 2023 (2021: from 2 January 2022 to 21 June 2022), 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

	2022 RMB'000	2021 RMB'000
Current	**36,328**	49,876

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 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 (Note 4).

During the year ended 31 December 2022, 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 15 March 2022 to 15 March 2023. The Company has redeemed a portion of the Note in the principal amount of HKD12,000,000 (equivalent to approximately RMB10,262,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 15 March 2022. Based on the supplemental deed dated 25 March 2022, the Company has undertaken to redeem another portion of the Note in the principal amount of HKD8,000,000 (equivalent to approximately RMB6,842,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 15 September 2022, which was settled by the Company on 14 September 2022.

Based on the assessment performed by the Group, the modifications were regarded as non-substantial modifications. The net gain on modifications of Note of approximately RMB1,364,000 was recognised in consolidated profit or loss at the date of modification for the year ended 31 December 2022 (Note 4).

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 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 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 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 is 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).

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 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 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 and 1 January 2022	–	–	69,925	7,176	77,101
Interest expense	–	–	7,257	–	7,257
Repayment	–	–	(4,684)	–	(4,684)
Foreign exchange movements	–	–	6,586	–	6,586
At 31 December 2022	–	–	79,084	7,176	86,260

The Group's Convertible Bonds due 2024 were valued by an independent valuer by using binomial option pricing model with the following key assumptions at the issuance date of the Convertible Bonds due 2024:

	2021
Stock price of the Company	HKD1.25
Volatility	39.0%
Risk-free interest rate	0.41%
Bond discount rate	9.75%

18 BANK AND OTHER BORROWINGS

	2022	2021
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – secured	**386,450**	–
Sales and leaseback liabilities	**16,720**	–
	403,170	–
Current		
Bank borrowings – secured	**86,232**	195,161
Bank borrowings – unsecured	**9,158**	39,418
Sales and leaseback liabilities	**9,500**	–
	104,890	234,579

Bank borrowings of approximately RMB472,682,000 (2021: approximately RMB195,161,000) are secured by the Group's land use rights (Note 11), property, plant and equipment (Note 10), investment property and pledged bank deposits. The remaining balance of approximately RMB9,158,000 (2021: approximately RMB39,418,000) is unsecured.

As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of RMB6,958,000 (2021: Nil) were held under sale and leaseback liabilities as set out in Note 10.

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 2022 was 4.31% (2021: 3.92%).

At the end of the reporting period, the Group's bank borrowings are scheduled to repay as follows:

	2022	2021
	RMB'000	*RMB'000*
On demand or within one year	**95,390**	234,579
More than one year, but not exceeding two years	**150,900**	–
More than two years, but not exceeding five years	**92,650**	–
More than five years	**142,900**	–
	481,840	234,579

At the end of the reporting period, the Group's sale and leaseback liabilities are scheduled to repay as follows:

	2022	2021
	RMB'000	*RMB'000*
On demand or within one year	**9,500**	–
More than one year, but not exceeding two years	**10,150**	–
More than two years, but not exceeding five years	**6,570**	–
	26,220	–

The exposure of the Group's interest-bearing bank borrowings are as follows:

	2022	2021
	RMB'000	*RMB'000*
Fixed-rate bank borrowings	**269,158**	94,446
Floating-rate bank borrowings	**238,902**	140,133
	508,060	234,579

The carrying amounts of bank borrowings are denominated in the following currencies:

	2022	2021
	RMB'000	*RMB'000*
USD	**64,131**	99,279
RMB	**443,929**	135,300
	508,060	234,579

The carrying amounts of bank borrowings approximate to their fair values and the impact of discounting is not material.

19 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2022 and 2021	
	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 2021, 31 December 2021, 1 January 2022 and 31 December 2022	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 2022 and 2021.

20 PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2022 and 2021, 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.

We also commenced the wholesales business to sell personal care products in the PRC during the Reporting Period.

During the Reporting Period, the Group still adhered to the development concept of "innovative, green and harmonious", adjusted strategies and responded actively. On the basis of strengthening the cooperative relationship with strategic customers, the Group actively expanded the domestic market, actively developed high value-added products, improved the bargaining space of the Group's products, and increased investment in e-commerce companies in a timely manner to increase the sales channels of e-commerce. With the initial success of e-commerce channels, OBM business of the Group increased to a certain extent in 2022, representing an increase of 51.9%, while CMS business was still in the consolidation stage, and the business for the year decreased by 37.3%. In addition, in the second half of the year, the Group also tried to commence the wholesale business of personal care products to broaden the Group's business sources and increase revenue.

For the Reporting Period, the revenue and net profit of the Group were approximately RMB534.7 million and RMB22.1 million respectively, representing an increase and a decrease of approximately 12.2% and 37.2% respectively over 2021. Basic earnings per share was approximately RMB5 cents (2021: RMB7 cents).

The Group's total comprehensive expenses for the year attributable to the owners of the Company was approximately RMB5.4 million for the Reporting Period, compared to the total comprehensive income of approximately RMB45.8 million for the prior year. The decrease is primarily attributable to the effect of approximately RMB27.4 million other comprehensive expenses from currency translation differences (2021: other comprehensive income of approximately RMB10.6 million). 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 RMB269.6 million (2021: RMB430.2 million) representing a decrease of approximately 37.3% as compared with last year.

During the Reporting Period, the pandemic recurred in some regions in China, and some supply chain links were blocked. The changes in the pandemic prevention and control measures in various regions had a great impact on the domestic supply chain and import and export transportation. The surge in international bulk commodity prices and the high shipping container and logistics costs have brought significant pressure on the Group's supply side and sales side, and the profits of sales orders have been eroded. Although the Group adjusted its strategy on the basis of strengthening the cooperation relationship with strategic customers, actively expanded the domestic market, actively developed high value-added products, and increased the bargaining space of the Group's products through its solid development foundation and continuous innovation capability over the years, the CMS business of the Group decreased as compared with last year due to the less ideal international environment.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB70.1 million (2021: RMB46.2 million), representing an increase of approximately 51.7% as compared with last year.

The Group adhered to the development concept of "innovative, green and harmonious", adjusted strategies, actively expanded the domestic market, actively developed high value-added products, and improved the bargaining space of the Group's products. At the same time, the Group actively expanded different sales channels, including e-commerce sales platforms, and achieved an increase in OBM business in 2022 as compared with last year.

Wholesale business

During the Reporting Period, the Group tried to commence the wholesale business of personal care products in the PRC. Through the industry experience and market network of the individual care products of the Group in the PRC, the Group expanded its business sources and increased its revenue. Revenue from wholesale business in 2022 was approximately RMB195 million (2021: Nil).

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB451.3 million (2021: RMB347.8 million), representing an increase of approximately 29.8% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB83.4 million (2021: RMB128.6 million), representing a decrease of approximately 35.1% as compared to that of the prior year. The gross profit margin was approximately 15.6% (2021: 27.0%), such decrease of approximately 11.4% was primarily due to continuously inflation of product raw material price, the weakening of the US dollar against the Renminbi and also diluted by the slight gross profit margin ratio from the wholesales business.

Net profit

The Group's net profit for the Reporting Period was approximately RMB22.1 million (2021: RMB35.2 million), representing a decrease of approximately 37.2% when compared to the prior year. The net profit margin of the Group decreased from 7.4% in 2021 to 4.1% in 2022. Such result was primarily due to reduction in gross profit margin ratio during the Reporting Period.

Other comprehensive (expenses)/income for the year

The Group's other comprehensive expenses for the Reporting Period was approximately RMB27.4 million (2021: other comprehensive income RMB10.6 million), representing a decrease of approximately 358.5% when compared to the prior year. The decrease was mainly attributable to the effect of the currency translation differences.

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 RMB20.6 million (2021: RMB25.5 million), representing a decrease of approximately 19.2% 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 RMB56.0 million (2021: RMB65.0 million), representing a decrease of approximately 13.8% as compared to that of the prior year. The decrease was primarily due to the decrease in staff salaries and depreciation and amortisation.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB14.1 million (2021: net finance costs RMB18.1 million), representing a decrease of approximately RMB4.0 million as compared to that of the prior year. The decrease was primarily due to decrease in interest expense on Note and certain amount of interest expense being capitalised in construction-in-progress.

Income tax expense

The income tax expense of the Group for the Reporting Period was approximately RMB2.7 million, representing a decrease of approximately RMB2.1 million as compared with RMB4.8 million in 2021. Effective income tax rate for the current period was approximately 10.9%, which was lower as compared with approximately 12.0% over 2021. The lower effective income tax rate was primarily due to the effect of different tax rates of other subsidiaries for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

The Group's property, plant and equipment was approximately RMB515.7 million as at 31 December 2022 compared to approximately RMB278.9 million as at 31 December 2021. Such increase mainly due to the addition of property, plant and equipment of approximately RMB247.7 million combined with the depreciation provided of approximately of RMB10.9 million during the year ended 31 December 2022. 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 and bank borrowings of the Group.

Prepayments for property, plant and equipment

As at 31 December 2022, the Group's prepayments for construction in progress and plant and equipment was approximately RMB118.0 million (2021: RMB188.3 million). The decrease was due to certain advances made under construction contracts and purchases contracted related to development of production plants in the PRC in previous years was transferred to property, plant and equipment during the year.

Inventories

As at 31 December 2022, the inventories decreased by 12.3% to approximately RMB49.9 million (2021: approximately RMB56.9 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 2022, trade receivables of approximately RMB29.4 million were past due, representing an increase of approximately 194.0% as compared to the amount of RMB10.0 million as at 31 December 2021. The amount of the impairment provision was approximately RMB10,601,000 as at 31 December 2022 (2021: RMB4,200,000).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2022 (2021: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the total assets of the Group amounted to approximately RMB1,150.2 million (2021: RMB933.8 million), and net current assets of approximately RMB109.5 million (2021: net current liabilities: RMB123.4 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 171%, which was higher than that of approximately 115% over 2021. The increase was primarily due to the increase in bank and other borrowings during the year.

BORROWINGS

As at 31 December 2022, bank and other borrowings of the Group amounted to approximately RMB104.9 million (2021: RMB234.6 million) with full maturity until 2023.

CAPITAL STRUCTURE

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

CONTRACTUAL OBLIGATIONS

As at 31 December 2022, the Group had capital commitments of approximately RMB153.6 million in respect of property, plant and equipment (2021: RMB164.9 million). The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of nil within one year (2021: RMB0.3 million) and nil later than one year and no later than five years (2021: nil).

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities (2021: 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 2022, the Group had employed a total of 383 employees (2021: 430). 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 RMB1 million and RMB89.4 million in financial asset at fair value through profit or loss and property, plant and equipment respectively (2021: nil and RMB9.3 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 EC Group (as defined below)

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 RMB2,827,500,000 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. The Board is in the process to discuss the enforcement possibility with legal team.

FUND RAISING ACTIVITIES

The Company has not conducted any other fund raising activity during the Reporting Period and up to the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company planned to continue upgrading the existing production line in the future for the sake of improving the automatic level and production quality. In addition, the Group will continue to invest and develop projects for the research and development, manufacture and sale of medical and edible aerosol products through its subsidiaries in the PRC. Also, the Group will continue to expand and explore sales network and platform in order to achieve business growth. The Group will also identify other investment opportunities in the market.

PROSPECTS

In the coming 2023, as the peak of the pandemic gradually subsides, the full liberalization of domestic pandemic prevention and control policies will be conducive to ensuring the production and transportation links of China's exports. It is expected that the Group's production stability and the smoothness of port logistics and transportation will be more strongly guaranteed in the future, which can avoid the recurrence of a sharp decline in exports due to a greater impact on the domestic export supply chain and transportation arising from the domestic pandemic and the strengthening and upgrading of pandemic prevention and control measures in 2022. It is expected to have a boosting effect on exports in 2023. China has successively introduced a series of policies to stabilize foreign trade and stabilize the economy to promote the stability and quality of China's foreign trade, and the effectiveness of the policies will gradually appear. The Group will take advantage of this series of favorable policies to actively develop high value-added products, improve the bargaining space of the Group's products, and strive to maintain and expand the market share, so as to continue to consolidate and strengthen the CMS business and OBM business of the Group. At the same time, the Group will expand its product lines through the research and development of products such as pharmaceutical, edible aerosol products and cosmetics of Sinopharm Jinyue Aerosol Group Co., Ltd. Through its e-commerce company and attempt to expand different sales channels, the Group will lay a solid foundation for the sustainable growth of sales revenue in the future. The management of the Group will closely monitor the changes in the international situation and adjust its strategies in a timely manner in order to achieve better performance.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 13 March 2023, the Company has settled the remaining portion of the Note in the principal amount of HKD40,000,000 (equivalent to approximately RMB35,731,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note. Details of the Note were set out in note 16.

Save as disclosed above, there are no material subsequent events undertaken by the Group after 31 December 2022 and up to the date of this Directors' Report.

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 separated 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 and consequently no opinion or assurance conclusion 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 three 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 three 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 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yu Yuerong, Mr. Wang Xiaobing and Ms. Pan Yili; and three independent non-executive Directors, namely Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.