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China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of China Ludao Technology Company Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2023 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2022. These unaudited interim results have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Board on 30 August 2023.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	5	406,358	221,566
Cost of sales	6	(340,684)	(186,963)
Gross profit		65,674	34,603
Other income and other gains	5	15,215	27,707
Selling expenses	6	(12,202)	(6,386)
Administrative expenses	6	(27,274)	(25,494)
Operating profit		41,413	30,430
Finance income	7	214	178
Finance costs	7	(7,715)	(5,623)
Finance costs – net		(7,501)	(5,445)
Share of results of a joint venture		116	1,503
Profit before income tax		34,028	26,488
Income tax expense	8	(3,775)	(4,665)
Profit for the period		30,253	21,823
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Currency translation differences		48,507	2,199
Other comprehensive income for the period, net of tax		48,507	2,199
Total comprehensive income for the period		78,760	24,022
Profit for the period attributable to:			
Owners of the Company		30,253	21,823
Non-controlling interests		–	–
		30,253	21,823
Total comprehensive income for the period attributable to:			
Owners of the Company		78,760	24,022
Non-controlling interests		–	–
		78,760	24,022
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	9	0.06	0.04

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	571,000	515,737
Prepayments for property, plant and equipment		117,958	117,958
Right-of-use assets	<i>10</i>	70,596	68,651
Investment property		13,300	12,100
Intangible assets		865	636
Investment in a joint venture		54,616	54,500
Financial asset at fair value through profit or loss		2,000	2,000
Deferred tax assets		1,856	1,856
Trade and other receivables	<i>11</i>	61	60
		<hr/> 832,252	<hr/> 773,498
Current assets			
Inventories		80,109	49,920
Trade and other receivables	<i>11</i>	271,672	243,617
Income tax recoverable		–	3,264
Pledged bank deposits		15,146	29,138
Cash and cash equivalents		35,673	50,786
		<hr/> 402,600	<hr/> 376,725
Total assets		<hr/> 1,234,852	<hr/> 1,150,223
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	<i>12</i>	3,901	3,901
Share premium		150,143	150,143
Other reserves		(8,930)	(60,424)
Retained earnings		306,284	279,018
		<hr/> 451,398	<hr/> 372,638
Non-controlling interests		<hr/> 1,744	<hr/> 1,744
Total equity		<hr/> 453,142	<hr/> 374,382

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at 30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Bank and other borrowings		454,231	403,170
Convertible bonds	<i>15</i>	80,232	79,084
Lease liabilities		7,618	7,616
Deferred tax liabilities		8,541	8,541
Deferred government grants		10,223	10,223
		<hr/> 560,845	<hr/> 508,634
Current liabilities			
Trade and other payables	<i>13</i>	44,781	103,752
Contract liabilities		14,855	14,816
Income tax payable		1,787	–
Bank and other borrowings		152,016	104,890
Note	<i>14</i>	–	36,328
Lease liabilities		7,426	7,421
		<hr/> 220,865	<hr/> 267,207
Total liabilities		<hr/> 781,710	<hr/> 775,841
Total equity and liabilities		<hr/> 1,234,852	<hr/> 1,150,223

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those annual financial statements.

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

New and amended standards adopted by the Group

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

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group’s interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group’s annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group’s policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Since the Group has applied the amendment on the treatment of temporary differences arising from lease from beginning, the amendments did not have any impact on the financial position or performance of the Group.
- (d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments and the mandatory temporary exception retrospectively. The Group is currently assessing its exposure to Pillar Two income taxes.

3 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

4 SEGMENT INFORMATION

The executive directors ("EDs") are chief operating decision makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products. The Group sells its products on CMS basis to overseas and PRC market and on OBM basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors network. 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 considered that there is only one reportable operating segment.

Geographical information

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

Revenue from external customers

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland China	281,849	157,255
United States of America	55,675	35,847
Chile	51,504	20,367
Japan	5,917	3,149
Others	11,413	4,948
	<u>406,358</u>	<u>221,566</u>

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

Non-current assets

Non-current assets consist of right-of-use assets, property, plant and equipment, investment property, intangible assets and investment in a joint venture which are mainly located in the PRC as at 30 June 2023 and 31 December 2022.

Information about major customers

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	50,221	20,048
Customer B	45,273	n/a
Customer C	27,527	n/a
Customer D	n/a	41,390
Customer E	n/a	15,464
Customer F	n/a	14,682
Customer G	n/a	13,178
	<u>123,021</u>	<u>104,762</u>

n/a Revenue from the customer was less than 5% of the Group's revenue for the six months period ended 30 June 2023 and 30 June 2022.

5 REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	<u>406,358</u>	<u>221,566</u>
Other income and other gains		
Technical service fee	2,925	–
Government grants	–	16,779
Foreign exchange gain	12,124	10,617
Others	<u>166</u>	<u>311</u>
	<u>15,215</u>	<u>27,707</u>

6 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation and amortisation	6,991	6,951
Employee benefit expenses, excluding amount including in research and development costs	24,194	15,318
Raw materials used	310,711	178,281
Changes in inventories of finished goods and work in progress	3,293	(4,367)
Water and electricity expenditures	4,017	1,895
Transportation and travelling expenses	5,890	2,466
Telecommunication expenses	54	112
Advertising costs	890	277
Other tax expenses	1,341	1,280
Research and development costs		
– Employee benefit expenses	3,115	4,129
– Materials and others, excluding depreciation and amortisation	5,728	3,721
Entertainment expenses	774	450
Auditor's remuneration		
– Audit service	1,396	843
Professional services fee	5,580	3,111
Short term lease expenses	962	–
Other expenses	<u>5,224</u>	<u>4,376</u>
Total	<u>380,160</u>	<u>218,843</u>

7 FINANCE COSTS – NET

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	<u>214</u>	<u>178</u>
Interest expenses		
– Note	(1,638)	(1,691)
– Bank and other borrowings	(3,523)	(1,550)
– Convertible bonds	(2,411)	(2,269)
– Interest expense on lease liabilities	<u>(143)</u>	<u>(113)</u>
	<u>(7,715)</u>	<u>(5,623)</u>
Finance costs – net	<u>(7,501)</u>	<u>(5,445)</u>

8 INCOME TAX EXPENSE

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

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

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2023.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Company Limited (“Ludao PRC”), an indirectly wholly-owned subsidiary of the Company, was qualified as a High and New Technology Enterprise, and accordingly, it is entitled to a preferential rate of 15% for the three years from 24 December 2022 to 23 December 2025.

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	3,775	4,680
Deferred income tax	<u>–</u>	<u>(15)</u>
	<u>3,775</u>	<u>4,665</u>

9 EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share (RMB'000)	<u>30,253</u>	<u>21,823</u>
Add: interest savings on convertible bonds (RMB'000) (<i>Note</i>)	<u>N/A</u>	<u>N/A</u>
Profit for the period attributable to owners of the Company for the purposes of diluted earnings per share (RMB'000)	<u><u>30,253</u></u>	<u><u>21,823</u></u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands of shares)	<u>491,800</u>	<u>491,800</u>
Effect of dilutive potential ordinary shares:		
– Convertible bonds (thousands of shares) (<i>Note</i>)	<u>N/A</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands of shares)	<u><u>491,800</u></u>	<u><u>491,800</u></u>

Note:

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

10 RIGHT-OF-USE ASSETS / PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2023, the Group had not entered into any new significant lease agreement.

(b) Property, plant and equipment

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Net book amount as at 1 January (Audited)	515,737	278,944
Addition	60,102	247,709
Disposal	(4)	(10)
Written off	–	(11)
Depreciation provided during the period/year	(4,835)	(10,895)
	<hr/>	<hr/>
Net book amount as at 30 June (Unaudited)/ 31 December (Audited)	<u>571,000</u>	<u>515,737</u>

As at 30 June 2023, the net book value of construction in progress of approximately RMB481,195,000 (31 December 2022: RMB422,320,000) 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. The entire construction in progress project were pledged to secure bank borrowings.

As at 30 June 2023, the Group's buildings with the carrying amount of RMB10,138,000 (31 December 2022: RMB10,112,000) were pledged to secure notes payable and bank borrowings.

As at 30 June 2023, the Group's plant and machinery with an aggregate net carrying amount of RMB6,345,000 (31 December 2022: RMB6,958,000) were held under sale and leaseback liabilities.

11 TRADE AND OTHER RECEIVABLES

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Non-current		
Deposits	<u>61</u>	<u>60</u>
Current		
Trade receivables, net (a)	134,600	120,568
Other receivables	124,249	25,041
Prepayment and deposits	<u>12,823</u>	<u>98,008</u>
	<hr/>	<hr/>
	271,672	243,617
	<hr/>	<hr/>
	<u>271,733</u>	<u>243,677</u>

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2023 and 31 December 2022 respectively.

(a) Trade receivables

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Up to 3 months	118,745	58,871
3 to 6 months	17,987	14,193
6 to 12 months	6,270	31,808
Over 12 months	2,199	26,297
	<u>145,201</u>	<u>131,169</u>
Loss allowance for impairment	<u>(10,601)</u>	<u>(10,601)</u>
	<u>134,600</u>	<u>120,568</u>

The Group's sales are mainly made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 38% (31 December 2022: 40%) of the Group's revenue for the period. They accounted for approximately 50% (31 December 2022: 20%) of the gross trade receivable balances as at 30 June 2023.

12 SHARE CAPITAL

	30 June 2023 (Unaudited) and 31 December 2022 (Audited)	
	Number of shares (thousands)	<i>HK\$'000</i>
Authorised Capital:		
Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>20,000</u>
	Number of ordinary shares (of HK\$0.01 each)	<i>RMB'000</i>
Issued and fully paid:		
At 1 January 2022, 30 June 2022 (Unaudited), 31 December 2022 (Audited) and 30 June 2023 (Unaudited)	<u>491,800,000</u>	<u>3,901</u>

All shares issued rank pari passu against each other.

13 TRADE AND OTHER PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables (a)	41,212	68,821
Notes payable (b)	–	17,173
Deposit received from customers	–	2,966
Other tax payables	508	2,597
Accrued salaries and wages	941	2,850
Accrued interest	263	487
Accrued expenses and others	1,857	8,858
	<u>44,781</u>	<u>103,752</u>

The fair values of trade and other payables approximated to their carrying values as at 30 June 2023 and 31 December 2022 respectively.

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Up to 3 months	39,813	42,844
3 to 6 months	1,399	9,028
6 to 12 months	–	14,312
Over 12 months	–	2,637
	<u>41,212</u>	<u>68,821</u>

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

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

14 NOTE

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Current	—	<u>36,328</u>

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

During the year ended 31 December 2020, the Company, Prosper One Development Limited, a wholly-owned subsidiary of the Company, Mr. Yu Yuerong, a director of the Company, and the note purchaser, independent parties from each other (the “Parties”), entered into a supplemental deed (“First Supplemental Deed”) in relation to the extension of maturity date of the Note from 30 May 2020 to 30 May 2021. The Company 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 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.

During the year ended 31 December 2021, the Company, Prosper One, Mr. Yu and the Note Purchaser entered into a second supplemental deed (“Second 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. 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.

During the year ended 31 December 2022, the Parties entered into a third supplemental deed (“Third Supplemental Deed”) in relation to the extension of maturity date of the Note from 15 March 2022 to 15 March 2023. The Company 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. The Company also has undertaken to redeem another portion of the Note in the principal amount of HKD8,000,000 (equivalent to approximately RMB6,842,000) not later than 15 September 2022. Upon redemption of the said portion, a principal amount of HK\$40,000,000 (equivalent to approximately RMB36,328,000) of the Note, together with any interest and administrative fees that may accrue, will remain due and payable on or before 15 March 2023.

On 13 March 2023, the Company settled the remaining portion of the Note in the principal amount of HKD40,000,000 (equivalent to approximately RMB36,328,000) and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note.

15 CONVERTIBLE BONDS

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 condensed consolidated statement of financial position are calculated as follows:

	Convertible Bonds due 2024		
	Liability component	Equity component	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2022 (Audited)	69,925	7,176	77,101
Interest expense	7,257	–	7,257
Repayment	(4,684)	–	(4,684)
Foreign exchange movements	6,586	–	6,586
	<hr/>	<hr/>	<hr/>
At 31 December 2022 (Audited)	79,084	7,176	86,260
	<hr/>	<hr/>	<hr/>
Interest expense	2,411	–	2,411
Foreign exchange movements	(1,263)	–	(1,263)
	<hr/>	<hr/>	<hr/>
At 30 June 2023 (Unaudited)	<u>80,232</u>	<u>7,176</u>	<u>87,408</u>

16 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2023 (2022: nil).

17 CONTINGENT LIABILITIES

As at 30 June 2023, the Group and the Company had no significant contingent liabilities (31 December 2022: nil).

18 COMMITMENTS

Capital commitments

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Property, plant and equipment	<u>62,548</u>	<u>153,589</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AT A GLANCE

As one of the few top leading manufacturers of the aerosol products in the PRC, our Group is principally engaged in the research and development, manufacture and sale of aerosol and related products. We sell our products on contract manufacturing service (“CMS”) basis to overseas markets and on original brand manufacturing (“OBM”) basis in the PRC market. Meanwhile, the Group also expands the market in Mainland China on CMS basis gradually. Our products can be divided into four major categories, namely (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides.

Our OBM business offers products under our own brand names of “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”), mainly through a network of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC 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 since second half of last year.

During the Reporting Period, the Group has recovered from the impact of the pandemic and experienced a wave of growth in sales revenue, which reflects that the Group has returned to the upward trend. The international situation and competition, despite the high prices of raw materials at present, are facing severe challenges. However, the Group’s previous decision-making is clear from the current perspective, and the Group will continue to strengthen the strategic cooperation relationship with customers and adjust strategies to actively explore the domestic market, proactively research and develop high value-added products based on its solid foundation and its innovation capacities, so as to increase the bargaining room for the Group’s products. The CMS and OBM businesses of the Group both increased by approximately 50.1% and approximately 53.6% respectively as compared to the first half of 2022. In the second half of the year, the Group will continue to explore different platforms and channels to strengthen the development of the domestic market and to improve turnover of our products and continue to focus on research and development, manufacturing and sales of medical and edible aerosol products to increase market shares on this sector. In addition, during the Reporting Period, the Group continued to explore the wholesale business of personal care related products to broaden the Group’s business sources and increase revenue.

For the six months ended 30 June 2023, the revenue and net profit of the Group were approximately RMB406.4 million and RMB30.3 million respectively, representing an increase of approximately 83.4% and 38.6% as compared with that of in the corresponding period of 2022. The earnings per share for profit attributable to owners of the Company was RMB0.06 during the Reporting Period which represents an increase of RMB0.02 as compared with the earnings per share of RMB0.04 for the corresponding period of last year.

Financial Review

Turnover

CMS

For the six months ended 30 June 2023, the turnover of the Group's CMS business was approximately RMB286.9 million (2022: approximately RMB191.2 million), representing an increase of approximately 50.1% as compared with that of in the corresponding period of 2022.

During the Reporting Period, the Group has recovered from the impact of the pandemic and experienced a wave of growth in sales revenue, which reflects that the Group has returned to the upward trend. The international situation and competition, despite the relatively high prices of raw materials at present, are facing severe challenges. However, the Group's previous decision-making is clear from the current perspective, and the Group will continue to strengthen the strategic cooperation relationship with customers and adjust strategies to actively explore the domestic market, proactively research and develop high value-added products based on its solid foundation and its innovation capacities, so as to increase the bargaining room for the Group's products. The CMS business of the Group increased over the previous period. In the second half of the year, the Group will continue to consolidate its existing market shares of CMS business and explore market shares in other countries in order to strive for growth of CMS business.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2023 was approximately RMB46.7 million (2022: approximately RMB30.4 million), representing an increase of approximately 53.6% as compared with that of in the corresponding period in 2022.

During the Reporting Period, the Group has recovered from the impact of the pandemic and returned to the upward trend. Although the prices of raw materials are currently at a relatively high level, the Group will continue to develop new sales channels, actively explore the domestic market, proactively research and develop high value-added products, so as to increase the bargaining room for the Group's products. The OBM business of the Group grew by approximately 53.6% as a result of better domestic consumption. In the second half of the year, the Group will continue to focus on research and development of products and explore different platform and channel to improve turnover of products.

Wholesale business

During the Reporting Period, the Group continued to explore 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 was approximately RMB72.8 million. No such turnover recorded in the corresponding period in 2022 as the Group commence such wholesale business in second half of 2022.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2023 was approximately RMB340.7 million (2022: approximately RMB187.0 million), representing an increase of approximately 82.2% as compared with that of in the corresponding period of 2022. The increase was in line with the increment of sales volume.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2023, the Group recorded gross profit of approximately RMB65.7 million (2022: approximately RMB34.6 million) and the gross profit margin was approximately 16.2% (2022: approximately 15.6%). The increase in gross profit margin was mainly due to gradual decrease in raw material price during the Reporting Period.

Other Income and Other Gains – Net

Other income and other gains of the Group for the six months ended 30 June 2023 was approximately RMB15.2 million (2022: approximately RMB27.7 million), representing a decrease of approximately RMB12.5 million as compared with that of in the corresponding period of 2022. Such decrease was primarily due to the decrease of government grants income was recorded during the Reporting Period.

Expenses

Selling Expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2023, selling expenses was approximately RMB12.2 million (2022: approximately RMB6.4 million), representing an increase of approximately 91.1% as compared with that of in the corresponding period of 2022. The increase was in line with the increment of sales volume.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2023, administrative expenses was approximately RMB27.3 million (2022: approximately RMB25.5 million), representing an increase of approximately 7.0% as compared with that of in the corresponding period of 2022. The increase in administrative expenses was primarily due to an increase in staff salaries and benefit expenses and travelling and transportation expenses.

Finance Costs – net

For the six months ended 30 June 2023, the Group recorded net finance cost of approximately RMB7.5 million (2022: approximately RMB5.4 million), representing an increase of approximately 37.8% as compared with that of in the corresponding period of 2022. The increase in net finance costs was primarily due to the increase in interest expenses from bank and other borrowings during the Reporting Period.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2023 was approximately RMB3.8 million, representing a decrease of approximately RMB0.9 million as compared with approximately RMB4.7 million for the corresponding period of 2022, which was mainly due to the decrease in the proportion of non-deductible expenses recorded during the Reporting Period.

Profit for the period

The Group recorded profit for the six months ended 30 June 2023 of approximately RMB30.3 million (2022: approximately RMB21.8 million), representing an increase of approximately RMB8.5 million as compared with that of in the corresponding period of 2022. Such increase was primarily due to the effect of increase in sales volume and gradual decrease in raw material price during the Reporting Period.

Highlights of Statement of Financial Position

Property, Plant and Equipment

The Group's property, plant and equipment was approximately RMB571.0 million as at 30 June 2023 compared to approximately RMB515.7 million as at 31 December 2022. Such increase was due to the Group had acquired property, plant and equipment of approximately RMB60.1 million during the Reporting Period. The capital expenditures were financed by the internal resources and the bank borrowings of the Group.

Prepayments for Property, Plant and Equipment

As at 30 June 2023, the Group's prepayments for property, plant and equipment was approximately RMB118.0 million (31 December 2022: approximately RMB118.0 million). No further advanced payment was made in construction in progress related to the development of production plant in the PRC during the Reporting Period.

Inventories

As at 30 June 2023, the inventories increased by 60.5% to approximately RMB80.1 million (31 December 2022: approximately RMB49.9 million). The increment mainly due to inventory building up in order to fulfill the sales volume improvement in coming sales schedule.

Trade Receivables

As at 30 June 2023, trade receivables of approximately RMB8.5 million were past due, representing a decrease of approximately 71.1% as compared to the amount of RMB29.4 million as at 31 December 2022. The amount of the impairment provision was approximately RMB10.6 million (31 December 2022: RMB10.6 million).

Liquidity and Financial Resources

As at 30 June 2023, the total assets of the Group amounted to approximately RMB1,234.9 million (31 December 2022: approximately RMB1,150.2 million), and the net current assets of approximately RMB181.7 million (31 December 2022: net current assets of approximately RMB109.5 million) and the Group's cash and bank deposits totalled approximately RMB50.8 million (31 December 2022: approximately RMB79.9 million). The current ratio of the Group increased from 1.41 as at 31 December 2022 to 1.82 as at 30 June 2023.

The equity attributable to shareholders of the Company as at 30 June 2023 amounted to approximately RMB451.4 million (31 December 2022: approximately RMB372.6 million). The gearing ratio (based on the total debt over the total equity) of the Group decreased from 171% as at 31 December 2022 to 151% as at 30 June 2023 due to the increase in total equity.

Borrowings and the Pledge of the Group's Assets

As at 31 December 2022, Note of RMB36.3 million was secured by the 2,500 shares in Ever Clever Group Limited ("Ever Clever") by the Group. As at 30 June 2023, no such shares was pledged as the Note was fully repaid and the shares pledged was duly released. As at 30 June 2023, bank and other borrowings of approximately RMB606.2 million (31 December 2022: approximately RMB508.1 million) and notes payable of RMB nil (31 December 2022: approximately RMB17.2 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB540.5 million (31 December 2022: RMB492.8 million). Bank and other borrowings were mainly used for working capital management and/or financing the Group's purchases.

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

Financing

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

Contractual Obligations

As at 30 June 2023, the Group had capital commitments of approximately RMB62.5 million in respect of property, plant and equipment (31 December 2022: approximately RMB153.6 million).

Contingent Liabilities

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: nil).

Exchange Rate Exposure

During the six months ended 30 June 2023, the Group mainly operated in the PRC with most transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in currencies other than RMB, the Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2023 (2022: nil).

Employees and Emoluments Policy

As at 30 June 2023, the Group had employed a total of 414 employees in the PRC and Hong Kong (31 December 2022: 383). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. The emoluments of Directors have been determined with reference to the skills, knowledge, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.

Significant Investment Held

During the Reporting Period, the Group invested in nil and approximately RMB60.1 million in financial asset at fair value through profit or loss and property, plant and equipment (31 December 2022: approximately RMB1 million and RMB89.4 million respectively).

Other than the above, the Group did not have any significant investments as at 30 June 2023.

Material Acquisition and Disposal

The Group did not have any material acquisition and disposal of subsidiaries, associates or joint venture during the Reporting Period.

OTHER INFORMATION

Update on Profit Guarantee in respect of the acquisition of 25% Equity Interest of Ever Clever

Reference is made to the announcements of the Company dated 29 November 2017 and 5 December 2017 in relation to, amongst other things, the acquisition of 25% equity interest 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, 17 January 2020, 20 August 2022, 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 the 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 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 since 2019 but such attempts did not come to any fruitful results. There has been no material development since the publication of the announcement dated 17 January 2020.

As HGRL, the principal operating group company of the EC Group, is a company established in the PRC, the Board is advised to take a more comprehensive view of the merits of making a claim against the 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 ACTIVITY

The Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2023 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. In addition, the Group will also identify other investment opportunities in the market.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there was no other important events affecting the performance of the Group that have occurred since 1 July 2023 and up to the date hereof.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed internal controls and risk management review and process and financial reporting matters. The Audit Committee has also reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023.

CORPORATE GOVERNANCE FUNCTIONS

The Board delegated the corporate governance functions to a professional firm as an independent compliance adviser. The compliance adviser is responsible for the corporate governance duties as follows: (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the Corporate Governance Code (the "CG Code") and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, in the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code as set out in Appendix 14 to the Listing Rules except CG Code provision as below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct of the Group regarding Directors' securities transactions for the six months ended 30 June 2023. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the required standard set out in the Model Code during the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.ludaocn.com>). The interim report of the Company for the six months ended 30 June 2023 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 Luda Technology Company Limited
Yu Yuerong
Chairman & executive Director

Hong Kong, 30 August 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.