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 2023

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 2023 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

		Year ended 31 December	
	Notes	**2023**	2022
		RMB'000	*RMB'000*
Revenue	*4*	**705,753**	534,701
Cost of sales		**(572,642)**	(451,326)
Gross profit		**133,111**	83,375
Other income	*4*	**12,991**	18,462
Other gains – net	*4*	**3,739**	18,709
Selling expenses		**(27,810)**	(20,612)
Administrative and other operating expenses		**(58,267)**	(56,020)
Reversal of impairment loss/(impairment loss) on trade receivables, other receivables and deposits		**291**	(5,062)
Impairment loss on investment in a joint venture	*9*	**(5,133)**	(212)
Operating profit		**58,922**	38,640
Finance income		**456**	631
Finance costs		**(11,012)**	(14,738)
Finance costs – net		**(10,556)**	(14,107)
Share of results of a joint venture	*9*	**132**	203
Profit before income tax	*5*	**48,498**	24,736
Income tax expense	*6*	**(4,940)**	(2,685)
Profit for the year		**43,558**	22,051
Other comprehensive expenses			
Items that will not be reclassified to profit or loss:			
Currency translation differences		**(4,474)**	(27,439)
Other comprehensive expenses for the year, net of tax		**(4,474)**	(27,439)
Total comprehensive income/(expenses) for the year		**39,084**	(5,388)

		Year ended 31 December	
	Notes	**2023**	2022
		RMB'000	*RMB'000*
Profit for the year attributable to:			
Owners of the Company		**43,580**	22,321
Non-controlling interests		**(22)**	(270)
		43,558	22,051
Total comprehensive income/(expenses) for the year attributable to:			
Owners of the Company		**39,106**	(5,118)
Non-controlling interests		**(22)**	(270)
		39,084	(5,388)
Earnings per share for profit attributable to owners of the Company			
– basic and diluted *(RMB per share)*	*8*	**0.09**	0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	**As at 31 December** **2023** ***RMB'000***	2022 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**635,496**	515,737
Prepayments for property, plant and equipment	*20*	**134,888**	117,958
Right-of-use assets	*11*	**64,243**	68,651
Investment property		**–**	12,100
Intangible assets		**1,604**	636
Investment in a joint venture	*9*	**49,500**	54,500
Financial asset at fair value through profit or loss ("FVTPL")	*12*	**2,000**	2,000
Financial asset at fair value through other comprehensive income ("FVOCI")	*12*	**–**	–
Deferred tax assets		**2,028**	1,856
Trade and other receivables	*14*	**–**	60
		889,759	773,498
Current assets			
Inventories	*13*	**48,635**	49,920
Trade and other receivables	*14*	**363,311**	243,617
Financial asset at FVTPL	*12*	**–**	–
Income tax recoverable		**292**	3,264
Pledged bank deposits		**55,435**	29,138
Cash and bank balances		**31,579**	50,786
		499,252	376,725
Total assets		**1,389,011**	1,150,223
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		**(61,114)**	(60,424)
Retained earnings		**316,254**	279,018
		409,184	372,638
Non-controlling interests		**382**	1,744
Total equity		**409,566**	374,382

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*18*	**311,114**	403,170
Convertible bonds	*17*	**–**	79,084
Lease liabilities	*11*	**1,388**	7,616
Deferred tax liabilities		**8,348**	8,541
Deferred government grants		**9,808**	10,223
		330,658	508,634
Current liabilities			
Trade and other payables	*15*	**231,968**	103,752
Contract liabilities	*4*	**16,352**	14,816
Bank and other borrowings	*18*	**310,859**	104,890
Convertible bonds	*17*	**83,235**	–
Note	*16*	**–**	36,328
Lease liabilities	*11*	**6,373**	7,421
		648,787	267,207
Total liabilities		**979,445**	775,841
Total equity and liabilities		**1,389,011**	1,150,223

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 and production related materials. Ludao China Investments Holdings Limited ("Ludao Investments"), which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), has 50.96% interest in the Company as at 31 December 2023.

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 25 March 2024.

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 and going concern assumption

The consolidated financial statements have been prepared under the historical cost convention, except for investment property and certain financial instruments, which are measured at fair value as explained in the accounting policies set out below.

As at 31 December 2023, the Group recorded net current liabilities of approximately RMB149,535,000 and placed reliance on short-term financing. These situations indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, in view of the circumstances, the Directors have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

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

(b) the Group has unutilised banking facilities as at 31 December 2023; and

(c) subsequent to 31 December 2023, the Group has obtained additional bank facilities.

The Directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the date of approval of these consolidated financial statements taking into account the above-mentioned plans and measures, having considered the Group's bank balances as at 31 December 2023 and the Group's continuous net cash inflows from future operations and/or other sources, the Directors were of the opinion that the Group has sufficient cash resources to satisfy future working capital and other financing requirements as and when they fall due in the next twelve months from the date of approval of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on the basis that the Group will continue as a going concern.

2.3 Adoption of HKFRSs

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The accounting policies and method of computation used in the preparation of the consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31 December 2022 except for the changes mentioned below.

(a) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two model Rules

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended HKFRSs are discussed below:

HKFRS 17 – Insurance contracts

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of HKFRS 17.

Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to HKAS 8 – Definition of accounting estimates

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to HKAS 12 – Deferred tax related to assets and liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

Amendments to HKAS 12 – International tax reform – Pillar Two model rules

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("OECD") (income tax arising from such tax laws is hereafter referred to as "Pillar Two income taxes"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. After assessment, the amendments do not have a material impact on these financial statements.

(b) New and amendments to HKFRSs in 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. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after 1 January 2025

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 and production related materials. 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 and production related materials to business entities based in the 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

	2023	2022
	RMB'000	*RMB'000*
Mainland China	**390,193**	391,910
United States of America	**151,558**	54,915
Japan	**12,704**	11,157
Chile	**136,728**	60,841
Others	**14,570**	15,878
	705,753	534,701

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 2023 and 2022 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:

	2023	2022
	RMB'000	*RMB'000*
Customer A	**114,000**	49,151
Customer B	**72,826**	n/a
Customer C	**58,781**	n/a
Customer D	**45,349**	n/a
Customer E	**45,273**	n/a
Customer F	**n/a**	99,641
Customer G	**n/a**	37,257
Customer H	**n/a**	27,574

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2023 or 2022.

4 REVENUE, OTHER INCOME AND OTHER GAINS – NET

	2023	2022
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**705,753**	534,701
Other income		
Government grants *(Note)*	**8,827**	17,454
Technical service fee	**3,302**	4
Rental income	**–**	272
Rent concession *(Note 11)*	**–**	310
Others	**862**	422
	12,991	18,462
Other gains – net		
Foreign exchange gain	**3,829**	16,221
Loss on early termination of lease *(Note 11)*	**(90)**	–
Gain on lease modification *(Note 11)*	**–**	24
Fair value gain on investment property	**–**	100
Change in fair value of financial asset at FVTPL *(Note 12)*	**–**	1,000
Net gain on non-substantial modifications of note *(Note 16)*	**–**	1,364
	3,739	18,709

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:

	2023	2022
	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)*	**420,645**	269,606
Sales of goods on original brand manufacturing ("OBM") basis *(Note ii)*	**75,240**	70,095
Wholesales	**209,868**	195,000
Technical service	**3,302**	4
	709,055	534,705
Timing of revenue recognition		
Recognised on point in time basis		
– Sales of goods	**705,753**	534,701
Recognised on over time basis		
– Technical service fee	**3,302**	4
	709,055	534,705

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 2023	As at 31 December 2022
	RMB'000	*RMB'000*
Contract liabilities	**16,352**	14,816

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 2023 and 2022:

	RMB'000
Balance at 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 and 1 January 2023	14,816
Revenue recognised in the year that was included in the contract liabilities balance at the beginning of year	(14,452)
Increase due to cash received, excluding amount recognised as revenue during the year	15,988
Balance at 31 December 2023	16,352

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):

	2023 *RMB'000*	2022 *RMB'000*
Depreciation and amortisation	**16,084**	16,577
Employee benefit expenses, excluding amount included in research and development costs	**36,923**	31,736
Research and development costs *(Note)*		
– Employee benefit expenses	**6,839**	7,497
– Materials and others, excluding depreciation and amortisation	**12,971**	11,259
Auditor's remuneration		
– Audit services	**980**	1,240
Rent concession *(Note 11)*	**–**	(310)
Short-term lease expense *(Note 11)*	**1,481**	1,455
Low value lease expense *(Note 11)*	**71**	96
Variable lease payments not included in the measurement of lease liabilities *(Note 11)*	**2,208**	443
Gain on fair value of investment property *(Note 4)*	**–**	(100)
Change in fair value of financial asset at FVTPL *(Note 12)*	**–**	(1,000)
Inventories written off	**149**	–
Written-off of property, plant and equipment *(Note 10)*	**–**	11
Loss on disposal of property, plant and equipment	**45**	7

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

6 INCOME TAX EXPENSE

	2023 *RMB'000*	2022 *RMB'000*
Current income tax:		
PRC corporate income tax	**5,305**	4,256
Deferred income tax:		
PRC corporate income tax	**(311)**	(1,601)
PRC land appreciation tax ("LAT")	**(54)**	30
	(365)	(1,571)
	4,940	2,685

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 for profits tax in Hong Kong during the year (2022: 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 2025.

7 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2023 (2022: 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.

	2023	2022
Profit attributable to owners of the Company *(RMB'000)*	**43,580**	22,321
Weighted average number of ordinary shares in issue	**491,800,000**	491,800,000
Basic and diluted earnings per share *(RMB per share)*	**0.09**	0.05

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the year ended 31 December 2023 and 2022, 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 2023 and 2022, as they are anti-dilutive.

9 INVESTMENT IN A JOINT VENTURE

	2023	2022
	RMB'000	*RMB'000*
As at 1 January	**54,500**	54,500
Share of results	**132**	203
Impairment loss on investment in a joint venture	**(5,133)**	(212)
Exchange adjustment	**1**	9
As at 31 December	**49,500**	54,500

As at 31 December 2023, 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	Plant and machinery	Office furniture and equipment	Motor vehicles	Renovation	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022							
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
Year ended 31 December 2023							
Opening net book amount	47,809	20,211	13,880	11,517	–	422,320	515,737
Additions	392	1,355	643	198	1,200	115,263	119,051
Disposal	–	(55)	–	(17)	–	–	(72)
Transfer	498	–	–	–	–	(498)	–
Transfer from investment property	12,100	–	–	–	–	–	12,100
Depreciation	(3,340)	(3,327)	(3,213)	(1,200)	(240)	–	(11,320)
Closing net book amount	57,459	18,184	11,310	10,498	960	537,085	635,496
At 31 December 2023							
Cost	92,524	51,428	30,584	16,726	1,200	537,085	729,547
Accumulated depreciation	(35,065)	(33,244)	(19,274)	(6,228)	(240)	–	(94,051)
Net book amount	57,459	18,184	11,310	10,498	960	537,085	635,496

The net book value of construction in progress of approximately RMB537,085,000 (2022: RMB422,320,000) related to buildings, plant and machinery and office furniture and equipment under construction in Taizhou, the PRC, will be depreciated once the construction work is completed and available for use.

As at 31 December 2023, the Group's buildings with the carrying amount of RMB21,469,000 were pledged to secure bank borrowings (Note 18).

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

As at 31 December 2023, the Group's plant and machinery with an aggregate net carrying amount of RMB5,745,000 (2022: RMB6,958,000) 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 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 and 1 January 2023	41,308	27,343	68,651
Additions	–	687	687
Early termination of leases	–	(431)	(431)
Depreciation	(920)	(3,749)	(4,669)
Foreign exchange movements	–	5	5
At 31 December 2023	40,388	23,855	64,243

(b) Lease liabilities

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

	2023	2022
	RMB'000	*RMB'000*
At 1 January	**15,037**	6,020
Additions	**687**	25,336
Early termination of lease	**(341)**	–
Lease modification	**–**	(521)
Rent concession	**–**	(310)
Interest expense	**899**	1,047
Lease payments	**(8,526)**	(16,593)
Foreign exchange movements	**5**	58
At 31 December	**7,761**	15,037

Future lease payments are due as follows:

	Future lease payments 31 December 2023	**Interest 31 December 2023**	**Present value 31 December 2023**
	RMB'000	***RMB'000***	***RMB'000***
Not later than one year	**6,701**	**(328)**	**6,373**
Later than one year and not later than two years	**742**	**(79)**	**663**
Later than two years and not later than five years	**742**	**(17)**	**725**
	8,185	**(424)**	**7,761**

	Future lease payments 31 December 2022	Interest 31 December 2022	Present value 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*
Not later than one year	8,312	(891)	7,421
Later than one year and not later than two years	6,558	(330)	6,228
Later than two years and not later than five years	1,483	(95)	1,388
	16,353	(1,316)	15,037

The present value of future lease payments are analysed as:

	2023 *RMB'000*	2022 *RMB'000*
Current liabilities	**6,373**	7,421
Non-current liabilities	**1,388**	7,616
	7,761	15,037

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

	2023 *RMB'000*	2022 *RMB'000*
Depreciation of right-of-use assets	**4,669**	5,608
Interest on lease liabilities	**899**	1,047
Short-term lease expense *(Note 5)*	**1,481**	1,455
Low-value lease expense *(Note 5)*	**71**	96
Variable lease payments not included in the measurement of lease liabilities *(Note 5)*	**2,208**	443
Loss on early termination of lease *(Note 4)*	**90**	–
Gain on lease modification *(Note 4)*	**–**	(24)
Rent concession *(Note 4)*	**–**	(310)
	9,418	8,315

The Group as a lessor

As at 31 December 2023, the Group did not enter into any lease agreement as a lessor.

As at 31 December 2022, the Group entered into lease agreements as a lessor with respect of its leased investment property. The lease term is 38 months, the Group had no future aggregate minimum lease rental receivables under non-cancellable operating leases.

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")

	2023	2022
	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 2023, there was no change in fair value of the financial asset at FVOCI (2022: 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 2022 and 2023 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**
			2023	2022	
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 (2022: Nil)
		Minority discount	**21.60%**	21.60%	5% increase/(decrease) in minority discount would result in (decrease)/ increase in fair value by Nil (2022: Nil)

B. Financial Assets at FVTPL

	2023	2022
	RMB'000	*RMB'000*
Non-current		
Equity investment *(Note ii)*	**2,000**	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 2023 and 2022. The fair value of the Profit Guarantee as at 31 December 2023 was estimated by applying the income approach at a discount rate of 12% (2022: 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 (2022: 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 2023	Range/Amount 2022	Sensitivity of fair value to the input
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 (2022: Nil)
		Expected recovery rate	**0%**	0%	10% increase in expected recovery rate would result in increase in fair value by RMB282,750,000 (2022: RMB282,750,000)

(ii) Equity investment

The balance as at 31 December 2023 and 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 nil (2022: RMB1,000,000) 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	0.32x	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 RMB106,000 (2022: RMB115,000)
		Discount for lack of marketability ("**DLOM**")	15.7%	The higher DLOM, the lower the fair value.	5% increase/decrease in DLOM would result in decrease/increase in fair value by RMB21,000 (2022: RMB20,000)

13 INVENTORIES

	2023	2022
	RMB'000	*RMB'000*
Raw materials	**22,838**	22,615
Work in progress	**217**	113
Finished goods	**25,580**	27,192
	48,635	49,920

The cost of inventories included in cost of sales during the year ended 31 December 2023 amounted to RMB571,045,000 (2022: RMB450,198,000).

During the year ended 31 December 2023, the Group did not make or reverse any provision for inventories (2022: Nil).

14 TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Non-current		
Deposits	**–**	60
Current		
Trade receivables, net (a)	**193,767**	120,568
Other receivables, net (b)	**27,759**	25,041
Prepayments (c)	**140,890**	95,057
Deposits, net (d)	**895**	2,951
	363,311	243,617
	363,311	243,677

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

	2023	2022
	RMB'000	*RMB'000*
RMB	**264,163**	173,285
USD	**99,074**	70,321
HKD	**74**	71
	363,311	243,677

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 (2022: 0 to 360 days). The ageing analysis of the trade receivables from the date of sales is as follows:

	2023	2022
	RMB'000	*RMB'000*
Up to 3 months	**142,311**	58,871
3 to 6 months	**15,715**	14,193
6 to 12 months	**25,849**	31,808
Over 12 months	**18,833**	26,297
	202,708	131,169
Loss allowance for impairment	**(8,941)**	(10,601)
	193,767	120,568

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 48% (2022: 40%) of the Group's revenue for the year. They accounted for 67% (2022: 20%) of the gross trade receivable balances as at 31 December 2023.

As at 31 December 2023, trade receivables with gross carrying amount of approximately RMB72,426,000 (2022: RMB29,423,000) 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.

	2023	2022
	RMB'000	*RMB'000*
Up to 3 months	**138,644**	57,621
3 to 6 months	**15,602**	13,897
6 to 12 months	**25,598**	31,139
Over 12 months	**13,923**	17,911
	193,767	120,568

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 2023, loss allowances of approximately RMB8,941,000 were made against the gross amount of trade receivables (2022: RMB10,601,000).

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

	RMB'000
At 1 January 2022	4,200
Impairment losses recognised	6,401
At 31 December 2022 and 1 January 2023	10,601
Reversal of impairment losses recognised	(1,660)
At 31 December 2023	8,941

(b) Other receivables, net

	2023	2022
	RMB'000	*RMB'000*
Government grants receivable	**23,447**	21,974
Amount due from third parties *(Note)*	**748**	2,111
Other tax receivables	**2,474**	–
Others	**1,090**	956
	27,759	25,041

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 2022	2,982
Impairment losses recognised	(1,352)
Exchange adjustment	194
At 31 December 2022 and 1 January 2023	1,824
Impairment losses recognised	1,452
Exchange adjustment	33
At 31 December 2023	3,309

(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 2022	70
Impairment losses recognised	13
Exchange adjustment	–
At 31 December 2022 and 1 January 2023	83
Reversal of impairment losses recognised	(83)
Exchange adjustment	–
At 31 December 2023	–

15 TRADE AND OTHER PAYABLES

	2023 *RMB'000*	2022 *RMB'000*
Trade payables (a)	**121,182**	68,821
Notes payable (b)	**77,750**	17,173
	198,932	85,994
Other payables:		
Deposit received from customers	**1,876**	2,966
Other taxes payable	**815**	2,597
Accrued salaries and wages	**3,439**	2,850
Accrued interest	**495**	487
Accrued expenses and others	**26,411**	8,858
	231,968	103,752

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

	2023 *RMB'000*	2022 *RMB'000*
RMB	**231,268**	102,713
HKD	**455**	797
USD	**245**	242
	231,968	103,752

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:

	2023	2022
	RMB'000	*RMB'000*
Up to 3 months	**98,918**	42,844
3 to 6 months	**9,549**	9,028
6 to 12 months	**1,129**	14,312
Over 12 months	**11,586**	2,637
	121,182	68,821

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 % (2022: 0% to 0.06%) of the face value of the notes, with maturity dates from 12 January 2024 to 22 June 2024 (2022: from 22 January 2023 to 9 June 2023).

As at 31 December 2023, note payables were secured by pledged bank deposits of the Group. As at 31 December 2022, note payables 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

	2023	2022
	RMB'000	*RMB'000*
Current	**–**	36,328

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 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).

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.

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 payable by the Company to noteholder accrued up to the date of such early redemption.

17 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 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 2024		
	Liability component	**Equity component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 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 and 1 January 2023	79,084	7,176	86,260
Interest expense	7,907	–	7,907
Repayment	(4,925)	–	(4,925)
Foreign exchange movements	1,169	–	1,169
At 31 December 2023	83,235	7,176	90,411

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

	2023	2022
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – secured	**304,544**	386,450
Sales and leaseback liabilities	**6,570**	16,720
	311,114	403,170
Current		
Bank borrowings – secured	**280,909**	86,232
Bank borrowings – unsecured	**19,800**	9,158
Sales and leaseback liabilities	**10,150**	9,500
	310,859	104,890

Bank borrowings of approximately RMB575,653,000 (2022: approximately RMB472,682,000) are secured by the Group's land use rights (Note 11), property, plant and equipment (Note 10), investment property and pledged bank deposits. Bank borrowing of RMB9,800,000 (2022: nil) is secured by the property, plant and equipment of the Group's supplier. The remaining balance of approximately RMB19,800,000 (2022: approximately RMB9,158,000) is unsecured.

As at 31 December 2023, the Group's plant and machinery with an aggregate net carrying amount of RMB5,745,000 (2022: RMB6,958,000) 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 2023 was 4.82% (2022: 4.31%).

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

	2023	2022
	RMB'000	*RMB'000*
On demand or within one year	**300,709**	95,390
More than one year, but not exceeding two years	**28,120**	150,900
More than two years, but not exceeding five years	**150,551**	92,650
More than five years	**125,873**	142,900
	605,253	481,840

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

	2023	2022
	RMB'000	*RMB'000*
On demand or within one year	**10,150**	9,500
More than one year, but not exceeding two years	**6,570**	10,150
More than two years, but not exceeding five years	**–**	6,570
	16,720	26,220

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

	2023	2022
	RMB'000	*RMB'000*
Fixed-rate bank borrowings	**408,290**	269,158
Floating-rate bank borrowings	**213,683**	238,902
	621,973	508,060

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

	2023	2022
	RMB'000	*RMB'000*
USD	**49,363**	64,131
RMB	**572,610**	443,929
	621,973	508,060

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 2023 and 2022	
	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 2022, 31 December 2022, 1 January 2023 and 31 December 2023	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 years ended 31 December 2023 and 2022.

20 PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2023 and 2022, prepayments for construction in progress, and plant and equipment represent 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 People's Republic of China (the "PRC"), our Group is principally engaged in the research and development, manufacturing and sale of aerosol products for household and auto care, air fresheners, personal care products and insecticides and wholesales of personal care products and production related materials. 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. Our Group also timely launched the brand "GINVIK" through our subordinate company Sinopharm Junyue Aerosol Group Co. Ltd.（國藥景岳氣霧劑有限公司）which included e-commerce as a sale channel.

We also continue to explore the wholesales business to sell personal care products and production related materials in the PRC during the Reporting Period.

During the Reporting Period, adhering to the development concept of "innovation, green and harmonious", the Group continued to strengthen the cooperation relationship with strategic customers. On the basis of maintaining the existing sales channels, the Group continued to develop new sales channels to actively expand the PRC market through increasing investment in e-commerce companies with sales channels of e-commerce, at the same time actively developed high value-added products to enhance the bargaining power of the Group's products. In addition, benefiting from favorable factors such as the exchange rate of RMB against United States dollars ("USD") remaining at a low level and the resumption of import and export, the Group's CMS business increased significantly by approximately 56.0%, as well as the OBM business and the wholesale business that commenced since last year, both which recorded a steady increase of approximately 7.3% and approximately 7.6%, respectively.

For the Reporting Period, the revenue and net profit of the Group were approximately RMB705.8 million and RMB43.6 million respectively, representing an increase of approximately 32.0% and 97.3% respectively over 2022. Basic earnings per share was approximately RMB9 cents (2022: RMB5 cents).

The Group's total comprehensive income for the year attributable to the owners of the Company was approximately RMB39.1 million for the Reporting Period, compared to the total comprehensive expenses of approximately RMB5.4 million for the prior year. The increase is primarily attributable to the combine effect of the strong operating profit for the Reporting Period and other comprehensive expenses of approximately RMB4.5 million from currency translation differences (2022: other comprehensive expenses of approximately RMB27.4 million).

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB420.6 million (2022: RMB269.6 million) representing an increase of approximately 56.0% as compared with last year.

During the Reporting Period, adhering to the development concept of "innovation, green and harmonious", the Group continued to strengthen the cooperation relationship with strategic customers, actively expand the PRC market, actively develop high value-added products, enhance the bargaining power of the Group's products, and actively expand more international markets. At the same time, benefiting from favorable factors such as the exchange rate of RMB against USD remaining at a low level and the resumption of import and export, the Group's CMS business increased significantly as compared with last year.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB75.2 million (2022: RMB70.1 million), representing an increase of approximately 7.3% as compared with last year.

The Group adhered to the development concept of "innovative, green and harmonious", adjusted strategies, actively expanded the PRC market, actively developed high value-added products, and improved the bargaining power 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 2023 as compared with last year.

Wholesale business

During the Reporting Period, the Group continued the wholesale business of personal care products and stepped further to explore the wholesale of production related materials 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 2023 was approximately RMB209.9 million (2022: RMB195.0 million) representing an increase of approximately 7.6% as compared with last year.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB572.6 million (2022: RMB451.3 million), representing an increase of approximately 26.9% when compared to the last year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB133.1 million (2022: RMB83.4 million), representing an increase of approximately 59.7% as compared to that of the prior year. The gross profit margin was approximately 18.9% (2022: 15.6%), such increase of approximately 3.3% was primarily due to the steady recovery of CMS business with a relatively higher gross profit margin, depreciation of the exchange rate of RMB against USD and the decrease in raw material prices.

Net profit

The Group's net profit for the Reporting Period was approximately RMB43.6 million (2022: RMB22.1 million), representing an increase of approximately 97.3% when compared to the prior year. The net profit margin of the Group increased from 4.1% in 2022 to 6.2% in 2023. Such result was primarily due to improvement in gross profit margin ratio during the Reporting Period.

Other comprehensive expenses for the year

The Group's other comprehensive expenses for the Reporting Period was approximately RMB4.5 million (2022: other comprehensive expenses RMB27.4 million), representing a decrease of approximately 83.7% when compared to the prior year. The decrease was mainly due 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 RMB27.8 million (2022: RMB20.6 million), representing an increase of approximately 35.0% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries, allowance and bonus and transportation and travelling expenses during the Reporting Period.

Administrative and other operating expenses

Administrative and other operating 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 and other operating expenses was approximately RMB58.3 million (2022: RMB56.0 million), representing an increase of approximately 4.1% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries and benefit expenses and research and development costs.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB10.6 million (2022: net finance costs RMB14.1 million), representing a decrease of approximately RMB3.5 million as compared to that of the prior year. The decrease was primarily due to certain high interest rate loans being replaced by lower interest rate loans and higher amounts of interest expenses being capitalised in construction-in-progress as compared to that of the prior year.

Income tax expense

The income tax expense of the Group for the Reporting Period was approximately RMB4.9 million, representing an increase of approximately RMB2.3 million as compared with approximately RMB2.7 million in 2022. Effective income tax rate for the current period was approximately 10.2%, which was lower as compared with approximately 10.9% over 2022. The lower effective income tax rate was primarily due to the effect of different tax rates of the subsidiaries for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

The Group's property, plant and equipment was approximately RMB635.5 million as at 31 December 2023 compared to approximately RMB515.7 million as at 31 December 2022. Such increase was mainly due to the addition of property, plant and equipment of approximately RMB119.1 million combined with the depreciation provided of approximately RMB11.3 million during the year ended 31 December 2023. Details and breakdown of the property, plant and equipment were set out in note 10 to the consolidated 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 2023, the Group's prepayments for construction in progress and plant and equipment was approximately RMB134.9 million (2022: RMB118.0 million). The increase was due to certain advances made under construction contracts and purchases contracts related to development of production plants in the PRC during the Reporting Period.

Inventories

As at 31 December 2023, the inventories decreased by 2.6% to approximately RMB48.6 million (2022: approximately RMB49.9 million). This was mainly due to the Group continually improved the inventory control, resulting in a decrease in finished goods at the end of the period.

Trade receivables

As at 31 December 2023, trade receivables of approximately RMB72.4 million were past due, representing an increase of approximately 146.3% as compared to the amount of RMB29.4 million as at 31 December 2022. The amount of the impairment provision was approximately RMB8.9 million as at 31 December 2023 (2022: RMB10.6 million).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2023 (2022: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the total assets of the Group amounted to approximately RMB1,389.0 million (2022: RMB1,150.2 million), and net current liabilities of approximately RMB149.5 million (2022: net current assets: RMB109.5 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 191%, which was higher than that of approximately 171% over 2022. The increase was primarily due to the increment of bank and other borrowings during the year.

BORROWINGS

As at 31 December 2023, bank and other borrowings of the Group amounted to approximately RMB310.9 million (2022: RMB104.9 million) with full maturity until 2024.

CAPITAL STRUCTURE

During the Reporting Period, there was no change in the Company's share capital.

CONTRACTUAL OBLIGATIONS

As at 31 December 2023, the Group had capital commitments of approximately RMB264.7 million in respect of property, plant and equipment (2022: RMB153.6 million). The Group had not rented out the investment property since the end of lease rental during the year ended 31 December 2022. As at 31 December 2023, the Group did not have any future aggregate minimum lease rental receivables (2022: Nil).

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any significant contingent liabilities (2022: 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 2023, the Group had employed a total of 423 employees (2022: 383). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The total staff costs (including fees, salaries and other allowance for both Directors and other staff) for the Reporting Period were approximately RMB43.8 million (2022: approximately RMB39.2 million). 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). The Group will review the remuneration policy and related packages on a regular basis.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investments during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures 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. There has been no material development since the publication of the announcement of the Company 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 issue 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 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 2024, the Group will continue to strengthen supply chain construction, control procurement costs and inventory, and enhance the research and development capabilities of the Group to ensure that the research and development of high value-added products recognised by the market can be more efficient and accurate. We will improve the bargaining power of the Group's products and the market prospects of the products, and strive to maintain and expand its market share to continue to consolidate and strengthen the Group's CMS business and OBM business. Moreover, we will not only continuously develop the wholesale business, but also explore other business development opportunities. In addition, the product lines will be expanded through products such as medical, edible aerosol products, cosmetics researched and developed by its subsidiary, Sinopharm Junyue Aerosol Group Co. Ltd., and sales channels will be increased by its e-commerce subsidiary, so as to lay a solid foundation for the sustainable growth of sales revenue in the future. The Chairman and the management of the Group will closely monitor changes in the domestic and international situations and market trends, and adjust strategies in a timely manner in order to achieve better results for the Group.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after the Reporting Period and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions set out in the section headed "Part 1 – Mandatory disclosure requirements" and the applicable code provisions set out in the section headed "Part 2 – Principles of good corporate governance, code provisions and recommended best practices" of Corporate Governance Code (the "CG Code") as set out in Appendix 14 (which has been re-numbered as Appendix C1 with effect from 31 December 2023) to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for the following:

Chairman and Chief Executive

Pursuant to Code provision C.2.1 of the 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 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 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 (which has been re-numbered as Appendix C3 with effect from 31 December 2023) 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 of the Company (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 (which has been re-numbered as Appendix C1 with effect from 31 December 2023) 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 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 three meetings to review the interim, annual financial results and reports, financial reporting and the report on the Company's internal control and risk management review and process and change of auditor of the Company.

The Audit Committee has reviewed together with the management and the Group'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 WM CPA 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, WM CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the Reporting Period. The work performed by WM CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by WM CPA Limited on this preliminary announcement.

REMUNERATION COMMITTEE

The Company established the remuneration committee of the Company (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 (which has been re-numbered as Appendix C1 with effect from 31 December 2023) 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 and on the remuneration package of the Directors and senior management. The remuneration policy for the Directors and senior management was based on their experience, level, responsibility and general market conditions.

The terms of reference setting out the Remuneration Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

The Remuneration Committee currently comprises of four members, being three independent non-executive Directors, namely, Mr. Chan Yin Tsung (being the chairman of the Remuneration Committee), Ms. Yau Kit Kuen Jean, Mr. Ruan Lianfa, and one executive Director, Mr. Yu.

During the Reporting Period, there were two meetings held to review and make recommendations on the remuneration packages of individual executive Directors and senior management and the Director's fee of independent non-executive Directors.

NOMINATION COMMITTEE

The Company established the nomination committee of the Company (the "Nomination Committee") on 16 September 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 (which has been re-numbered as Appendix C1 with effect from 31 December 2023) 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 currently comprises of four members, being three independent non-executive Directors, namely, Ms. Yau Kit Kuen Jean (being the chairlady of the Nomination Committee), Mr. Chan Yin Tsung, Mr. Ruan Lianfa and one executive Director, Mr. Yu.

During the Reporting Period, the Nomination Committee has held two meetings to review the structure, size, composition and diversity of the Board, review the independence of the independent non-executive Directors, consider the qualifications of the retiring Directors standing for election at the 2023 annual general meeting of the Company, review the board diversity policy of the Company and review the Directors Nomination Procedures.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed 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 of association of the Company, or the law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the 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 (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, 25 March 2024

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.